

Supreme Court Confers Broader District Court Discretion in Determining Enhanced Damages

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In a unanimous decision issued on June 13, 2016, the U.S. Supreme Court, in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, relaxed the standard for awards of enhanced damages under 35 U.S.C. § 284. In so ruling, the Court rejected the U.S. Court of Appeals for the Federal Circuit's *en banc* holding in *In re Seagate Technology*, 497 F.3d 1360 (Fed. Cir. 2007), which required clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent and that this objectively defined risk was either known or so obvious that it should have been known to the accused infringer. The Court's decision, authored by Chief Justice Roberts, harmonizes § 284 jurisprudence with that concerning attorney fee awards under 35 U.S.C. § 285, granting district courts increased discretion in the award of damages. As a result of the ruling, patent owners will be empowered to seek enhanced damages in circumstances in which such awards would have been barred by the *Seagate* test.

Procedural Background

The opinion decides two cases consolidated for review before the Court: *Halo Electronics, Inc. v. Pulse Electronics*, 769 F.3d 1371 (Fed. Cir. 2014), and *Stryker Corporation v. Zimmer, Inc.*, 782 F.3d 649 (Fed. Cir. 2014).

Halo Electronics

In the first case, *Halo Electronics*, a jury found that by importing and inducing others to import infringing products, respondents were liable for infringement. In response to respondent's post-trial motion, the district court concluded that enhanced damages under 35 U.S.C. § 284 were not warranted because respondents relied on an obviousness defense that was not objectively baseless.

On appeal, the Federal Circuit affirmed the district court's denial of enhanced damages, noting that because respondents raised an objectively reasonable defense at trial, petitioner could not satisfy the objective-baselessness prong of the § 284 willfulness analysis. In so doing, the Federal Circuit rejected petitioner's arguments that respondents' failure to establish an objectively reasonable defense until the patent litigation had begun, despite being aware of the patent, should merit enhanced damages under § 284.

Stryker Corporation

In the second case, *Stryker Corporation*, a jury found for petitioner that the respondent had willfully infringed petitioner's patent. The district court denied respondent's post-trial motion to vacate the enhanced damages under 35 U.S.C. § 284.

On appeal, the Federal Circuit reversed the district court's finding of enhanced damages, noting that the district court failed to objectively assess respondent's defenses. There the Federal Circuit held that, despite the jury's finding to the contrary, respondents' defenses were not objectively unreasonable and therefore § 284 enhanced damages were not available.

The Supreme Court consolidated the two cases and granted *certiorari* to consider whether the Federal Circuit erred by applying its test for awarding enhanced damages under 35 U.S.C. § 284 — requiring a showing of willful infringement based on proof that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent and this objectively defined risk was either known or so obvious that it should have been known to the accused infringer.

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The Supreme Court's Decision

The Standard for an Award of Enhanced Damages Is Relaxed to Allow District Court Discretion

Chief Justice Roberts, writing for the unanimous Court, held first that the award of enhanced damages under 35 U.S.C. § 284 should be left to the district court's discretion. Roberts relied on the text of § 284, noting that the statutory language contains no explicit limit or condition from which the Federal Circuit's rigid *Seagate* test could be drawn. Further, the Court emphasized the statute's use of the word "may" which, in the Court's judgment, "clearly connotes discretion."

The Court also reassured litigants that "discretion is not a whim." Although the Court recognized that under its newly announced rule there is no precise rule or formula for awarding damages under § 284, it noted that district courts should exercise their discretion in light of the considerations underlying the grant of that discretion. Indeed, the Court directed district courts to 180 years of enhanced damages awards for guidance as to the correct application of § 284. Enhanced damages, the Court noted, "are not to be meted out in a typical infringement case, but are instead designed as a 'punitive' or 'vindictive' sanction for egregious infringement behavior."

While the Court acknowledged that the *Seagate* test reflected, in many respects, a sound recognition that enhanced damages generally are to be awarded only in egregious cases, it ultimately held the test to be too strict. Citing *Octane Fitness*, the Supreme Court's earlier decision relaxing the standard for the award of attorneys' fees under § 285, the Court held that the *Seagate* two-part test was "unduly rigid" and "impermissibly encumber[ed]" the statutory grant of discretion to district courts.

The principle problem with the *Seagate* test, emphasized the Court, was that it required a finding of objective recklessness in every case before district courts could award enhanced damages. This threshold requirement, reasoned the Court, excluded from discretionary punishment many of the most culpable offenders. As an example, the Court noted the case of the "wanton and malicious pirate" who intentionally infringes another's patent — with no doubts about its validity or any notion of a defense — for no purpose other than to steal the patentee's business. Under *Seagate*, the Court explained, this pirate cannot be punished without a showing that the behavior was objectively reckless, despite the deliberate wrongdoing at play. In contrast, however, the new interpretation of § 284 allows district courts to punish the full range of culpable behavior.

Accordingly, the Supreme Court held that district courts are to exercise their discretion in determining whether to award enhanced damages under § 284. While courts are to continue

to take into account the particular circumstances of each case in deciding whether to award enhanced damages, and in what amount, the Court held that § 284 permits district courts to exercise their discretion in a manner "free from the inelastic constraints of the *Seagate* test." However, the Court warned, enhanced damages generally are to be reserved for egregious cases typified by willful misconduct and "[c]onsistent with nearly two centuries of enhanced damages ... patent law."

New Standard of Proof and Standard of Review Likewise Favor District Court Discretion

Consistent with its holding in *Octane Fitness* and *Highmark*, the Court likewise adjusted the standard of proof necessary to establish enhanced damages and the appellate court standard of review to favor increased district court discretion. First, the Court relaxed the standard of proof necessary to prove enhanced damages under § 284 from clear and convincing evidence to a preponderance of the evidence. As in *Octane Fitness*, the Court noted that the statute provides no basis for imposing a heightened standard of proof. Accordingly, the default standard of proof for patent-infringement litigation, preponderance of the evidence, was restored.

Second, the Court changed the standard of review on a decision for enhanced damages to an abuse of discretion standard. This change harmonized appellate review of § 284 with the standard of review announced in *Octane Fitness* for § 285. The Court noted that § 284 commits the determination of whether enhanced damages are appropriate to the discretion of the district court and, as a result, should be reviewed for abuse of discretion.

Concurrence Emphasizes Limits on District Court Discretion

In a concurring opinion authored by Justice Stephen Breyer and joined by Justice Anthony Kennedy and Justice Samuel Alito, the three justices expressed their opinion that the majority opinion should not be read to unduly broaden the application of § 284. Justice Breyer noted three points of significance: (i) the Court's references to "willful misconduct" do not mean that a court may award enhanced damages simply because the evidence shows that the infringer knew about the patent without more; (ii) failure to obtain advice of counsel cannot be used to prove willful infringement; and (iii) § 284 is not to serve to compensate patentees for infringement-related costs or litigation expenses because § 284 provides for these adjustments prior to any enhancement.

Implications for Patent Litigants

Although the impact of the *Halo* decision on the award of enhanced damages under § 284 and the reversal rate of those awards remains to be seen, the ruling is a clear rejection of the Federal Circuit's strict *Seagate* two-part test. The Court's decision

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is likely to have at least the following implications for patent litigants:

- By relaxing the framework for an award of enhanced damages under § 284, lowering the standard of proof necessary and giving district courts the discretion to determine whether to grant such an award, litigants can expect enhanced damages to be awarded in a wider variety of circumstances than under the *Seagate* standard. In particular, district courts will now be empowered to award enhanced damages notwithstanding the fact that a willful infringer was able to muster an objectively reasonable defense in an infringement suit.
- While the Supreme Court's decision unquestionably alters and relaxes the standard for proving entitlement to enhanced

damages, the Supreme Court also took pains to emphasize that enhanced damages are not called for in the "typical" case, but rather should be reserved for matters of "egregious" conduct. The concurring opinion underscores this caution, urging that district courts should be judicious in the use of their newly conferred discretion so as not to put a chilling effect on good faith conduct.

- By altering the standard of review to insulate district courts with an abuse of discretion standard, litigants should expect that appellate review of enhanced damages determinations will be highly deferential going forward. This increased deference to the district court has the potential to alter the litigation and settlement calculus.

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