

Test for enhanced damages

THE CASE:

Halo Electronics v Pulse Electronics
The Supreme Court of the US
13 June 2016

The recent Supreme Court of the US ruling will open the floodgates on allegations of wilful infringement

In *Halo Electronics v Pulse Electronics*,¹ the court unanimously upended the law on enhanced damages for wilful patent infringement set forth by the Federal Circuit in *In re Seagate Technology, LLC*.²

Specifically, the court held that the two-part *Seagate* test was “unduly rigid” and “impermissibly encumbers” the Patent Act’s grant of discretion to district courts, who “may increase the damages up to three times the amount found or assessed”.^{3, 4} *Seagate* required a patent owner to first prove “by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent,” without regard to “the state of mind of the accused infringer”.⁵ *Seagate* further required that after a finding that the patent owner successfully met the first requirement, he or she must prove “again by clear and convincing evidence – that the risk of infringement ‘was either known or so obvious that it should have been known to the accused infringer’”.⁶ This standard created an almost unattainably high bar for plaintiffs seeking enhanced damages for wilful infringement.

In vacating the Federal Circuit’s judgment decided under the *Seagate* framework, the court held that *Seagate* failed to comply with § 284 because its objective recklessness requirement for every case was too rigid.⁷ The court reasoned that this requirement potentially overlooked the subjectively “wanton and malicious pirate” who may infringe a patent knowing full well he or she is doing so.⁸ The court relied on its opinion in *Octane Fitness, LLC v ICON Health & Fitness, Inc*, in which it overruled the Federal Circuit’s requirement for both an objective and a subjective finding of litigation-related misconduct in determining whether a case was “exceptional” under § 285.⁹ The court held that Congress had not made any special requirement for both objective and subjective findings in the statute and, therefore, such a rigid test was inapplicable.

The court further determined that Congress

could not have intended for an infringer to be able to make a reasonableness defence if he or she had never acted on the basis of that defence when choosing to infringe the patent. Instead, “culpability is generally measured against the knowledge of the actor at the time of the challenged conduct.” The court further held that *Seagate* is inconsistent with § 284 because it requires a clear and convincing evidentiary standard. Similar to its holding in *Octane Fitness*, the court held that the statute made no reference to a heightened evidentiary standard.¹⁰

The court further criticised the Federal Circuit’s trifurcated standard of review of a district court’s determination to enhance damages under § 284–(1) the objective recklessness finding was reviewed *de novo*; (2) the subjective knowledge finding was reviewed for substantial evidence; and (3) the finding on whether to grant enhanced damages was reviewed for abuse of discretion. SCOTUS overturned this trifurcation based on its holding that there is “no explicit limit or condition” in § 284 and the statute’s use of “the word ‘may’ clearly connotes a discretion”. Because § 284 grants discretion over enhanced damages to the district court, its decisions should be reviewed for abuse of discretion alone. The reviewing court should only determine if the district court abused its discretion in finding a “balance between the protection of patent rights against the interest in technological innovation.” As the court explained, “no precise rule or formula” exists for determining an award of enhanced damages for wilful infringement. Instead, district courts should exercise discretion.

Justice Breyer’s concurring opinion warns that a simple finding of wilful misconduct does not *per se* mean that enhanced damages apply. Indeed, Justice Breyer reiterates that enhanced damages are *only* appropriate for “egregious cases” because they are a “punitive sanction for engaging in conduct that is either deliberate or wanton”, cautioning district courts to apply enhanced damages only in those egregious

circumstances.¹¹ Even with these warnings, *Halo Electronics v Pulse Electronics* turns back time and will open the floodgates on allegations of wilful infringement.

Footnotes

1. *Halo Elec v Pulse Elec*, 579 US ___, 2016 WL 3221515 (slip op) (13 June 2016). <http://1.usa.gov/1Xjrmey> (Last visited 14 June 2016).
2. See *In re Seagate Technology, LLC*, 497 F3d 1360 (Fed Cir 2007).
3. *Halo Elec*, 2016 WL 3221515.
4. See 35 USC § 284.
5. *Halo Elec*, 2016 WL 3221515 at *5 (quoting *Seagate*, 497 F3d at 1371).
6. Id. (quoting *Seagate*, 497 F3d at 1371).
7. See id at *8.
8. Id at *8.
9. Id (citing *Octane Fitness, LLC v ICON Health & Fitness, Inc*, 134 S Ct 1749, 1756 (2014)).
10. Id (citing *Octane Fitness*, 134 S Ct at 1758).
11. See id at *12 (internal quotations omitted).

Authors



Christopher Shield is a trial lawyer in Bracewell’s Houston office.

Jonathan Spivey is a partner in Bracewell’s litigation practice.

LaTasha Snipes and Drew Taggart are both associates in Bracewell’s Houston office.