

Intellectual Property Alert

June 15, 2016

If you read one thing ...

- The Supreme Court discarded the Federal Circuit's heightened *Seagate* standard for awarding enhanced damages under the Patent Act.
- The new standard increases the chance of an award of enhanced (trebled) damages in patent infringement cases, although such awards remain generally reserved for "egregious" cases.



Supreme Court Clarifies Enhanced Damages Standard for Patent Cases

This week, the Supreme Court in *Halo Electronics v. Pulse Electronics* (and a companion case, *Stryker Corp. v. Zimmer Inc.*) lowered the standard for enhanced, or trebled, damages for willful infringement in patent cases. In Chief Justice Roberts's unanimous decision, the Court rejected the Federal Circuit's rigid framework for awards of enhanced damages and instead instructed district courts to "take into account the particular circumstances of each case in deciding whether to award damages, and in what amount." Although the new standard will make it easier for patentees to obtain enhanced damages awards and to defend them on appeal, the majority opinion (along with Justice Breyer's concurrence) emphasizes that enhanced damages should generally be reserved only for "egregious cases typified by willful misconduct."

Under 35 U.S.C. § 284, district courts have discretion to "increase the damages up to three times the amount found or assessed," and that discretion has historically been exercised in cases involving "willful" patent infringement. The Federal Circuit's 2007 decision in *In re Seagate Technology, LLC* adopted a rigid two-part test for satisfying Section 284, which required the patentee to prove that the infringer was both (1) "objectively reckless" (*i.e.*, that there was an "objectively high likelihood that its actions constituted infringement of a valid patent") and (2) subjectively aware of its infringement.

The Supreme Court, however, rejected the *Seagate* test as inconsistent with Section 284 because the test is "unduly rigid" and "excludes from discretionary punishment many of the most culpable offenders." The Court took particular issue with the "objectively reckless" requirement, which potentially protected even those who intentionally infringe a patent without any doubts about its validity or any notion of a defense. The Court stated that the "objectively reckless" element allowed an infringer to escape enhanced damages if the infringer mustered a "reasonable (even though unsuccessful) defense" at trial,

“even if he did not act on the basis of the defense or was not even aware of it” at the time of infringement. Instead, the Court emphasized that willful infringement alone may warrant enhanced damages in an appropriate case.

The Court also clarified the enhanced damages standard in two additional respects: First, a showing of enhanced damages is governed by a “preponderance of the evidence” standard, not a “clear and convincing” standard; and second, the Federal Circuit should review enhanced damages awards only for abuse of discretion rather than *Seagate’s* tripartite framework.

Although enhanced damage awards now lie within the discretion of the district court and will be reviewed deferentially on appeal deferentially, the Court made clear that “discretion is not whim.” The Court did not provide a “precise rule or formula” for awarding enhanced damages, but it explained that the district court’s discretion should generally be exercised in light of the considerations underlying the grant of discretion—namely, that enhanced damages may not be meted out in a typical case, but instead are reserved as a “punitive” or “vindictive” sanction for “egregious” infringement behavior. Justice Breyer’s concurrence (joined by Justices Alito and Kennedy), reiterated that enhanced damages are appropriate “only in egregious cases.”

Accordingly, while the Court has made it easier for district courts to award enhanced damages and harder for the Federal Circuit to reverse such awards, the unanimous *Halo* opinion shows that such awards generally will still be appropriate only in rare circumstances involving truly “egregious cases of culpable behavior.” It thus remains to be seen whether the increased latitude for district courts will actually translate into significantly more enhanced damages awards.

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