

Keywords: enhanced damages, 35 U.S.C. § 284

General: A district court’s decision regarding enhanced damages under 35 U.S.C. § 284 should be reviewed for abuse of discretion and not under the framework previously set forth in *In re Seagate*

Halo Electronics, Inc. v. Pulse Electronics, Inc.,
Supreme Court of the United States
Nos. 14-1513, -1520
Decided: June 13, 2016

I. Background

Prior to this case, enhanced damages under 35 U.S.C. § 284 were determined by the two-part test set forth in *In re Seagate Technology, LLC* of whether an infringement was willful. Under *Seagate*, a patent owner must first demonstrate “by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” A second step requires the patent owner to show 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.” The first step, objective recklessness, is reviewed *de novo*, while the second step, subjective knowledge, is reviewed for substantial evidence. The ultimate decision of whether to award enhanced damages is reviewed for abuse of discretion.

In the present case, Halo Electronics, Inc. (“Halo”) appeals from the Federal Circuit’s decision to affirm the district court’s non-award of enhanced damages under § 284. Halo alleges that Pulse Electronics, Inc. (“Pulse”) infringed patents for electronic packages containing transformers designed to be mounted to the surface of circuit boards. In 2002, after Halo sent Pulse two letters offering to license Halo’s patents, Pulse concluded that Halo’s patents were invalid and continued to sell the allegedly infringing products. In 2007, Halo successfully sued Pulse for patent infringement. The jury found that there was a high probability the infringement had been done willfully. The district court, however, declined to award enhanced damages under § 284, because Pulse presented a defense at trial that was not objectively baseless. Thus, Halo failed to meet the first step, objective recklessness, of *Seagate*. The Federal Circuit subsequently affirmed.

Halo Electronics, Inc. v. Pulse Electronics, Inc. was decided alongside *Stryker Corporation v. Zimmer, Inc.* In the second case, Stryker Corporation (“Stryker”) similarly appeals from a decision in which the Federal Circuit held that Stryker failed to meet the first step of *Seagate*. Stryker owns patents related to a pulsed lavage device used to clean tissue during surgery, and Zimmer, Inc. (“Zimmer”) competes in the same market. In 2010, Stryker sued Zimmer for patent infringement, and the jury found that Zimmer had willfully infringed. The district court trebled the jury award of \$70 million under § 284 after finding that treble damages were appropriate given the flagrancy and scope of Zimmer’s infringement. The Federal Circuit, however, found that enhanced damages were unavailable, because Zimmer presented reasonable defenses at trial. Thus, Stryker also failed to meet the first step of *Seagate*.

II. Issue

Did the Federal Circuit err in applying the *Seagate* framework to deny enhanced damages under § 284?

III. Discussion

Yes. The Supreme Court held that the Federal Circuit incorrectly created and applied the *Seagate* test to determine the availability of enhanced damages under § 284. The Court concluded that the *Seagate* test “is unduly rigid” and “impermissibly encumbers the statutory grant of discretion to district courts.” In rejecting the *Seagate* framework, the Court held that a district court decision regarding enhanced damages should simply be reviewed on appeal for abuse of discretion. The Court asserted that the “Federal Circuit should review such exercises of discretion in light of the longstanding considerations” underlying the grant of that discretion.

Regarding the first step of *Seagate*, the Court held that the threshold of objective recklessness “excludes from discretionary punishment many of the most culpable offenders.” The Court noted that the subjective willfulness of a patent infringer “may warrant enhanced damages, without regard to whether the infringement was objectively reckless.” Under the objective recklessness standard, the infringer must only assert a reasonable defense, i.e. raise a substantial question as to the validity or noninfringement of the patent, at trial to escape enhanced damages under *Seagate*. Therefore, an accused infringer may assert the arguable defense even if he was unaware of the defense at the time he acted. The Court also emphasized that the purpose of § 284 is not to compensate the patentee, but instead to punish accused infringers.

The Court similarly found *Seagate* to be inconsistent with § 284 for requiring clear and convincing evidence to prove recklessness. The Court held that § 284 “imposes no specific evidentiary burden, much less such a high one” and noted that Congress included higher burdens of proof in other provisions of the Patent Act, but not in § 284, as additional reasoning as to why the heightened evidentiary standard to prove recklessness in *Seagate* was improper.

The Court concluded by responding to the accused infringers’ policy concerns that “allowing district courts unlimited discretion to award treble damages in infringement cases will impede innovation as companies steer well clear of any possible interference with patent rights.” The Court asserted that although patent law reflects a careful balance between innovation and refinement through imitation, these policy concerns “cannot justify imposing an artificial construct such as the *Seagate* test on the discretion conferred under § 284.”

IV. Conclusion

A district court’s decision regarding enhanced damages under § 284 simply requires abuse of discretion review by the Federal Circuit. Other standards of review previously set forth in *In re Seagate* are inapplicable.

V. Concurrence

Justice Breyer wrote separately to identify the limits imposed by § 284. First, the concurrence emphasized that while enhanced damages under § 284 are reserved for willful conduct, this does not mean that willful conduct *must* warrant a punitive sanction. Second, Breyer reiterated that failure of an infringer to obtain the advice of counsel may not be used to prove that the accused infringer willfully infringed. Third, Breyer explained why enhanced damages under § 284 may not serve to compensate patentees for infringement-related costs or litigation expenses. Breyer describes these limits of § 284 to bring awareness to the notion that enhanced damages may be used as a threat. Patentees sometimes send letters to tens of thousands of people asking for a license or settlement on a patent that may not be warranted. This could have the effect of discouraging lawful activity and thereby frustrating, instead of promoting the “Progress of Science and useful Arts.” U.S. Const., Art. I, § 8, cl. 8. This fact “argues, not for abandonment of enhanced damages, but for their careful application, to ensure that they only target cases of egregious misconduct.”