

REPORT

**U.S. SUPREME COURT RELAXES STANDARD FOR ASSESSING
LIABILITY FOR ENHANCED PATENT DAMAGES****June 16, 2016**

On June 13, 2016, the U.S. Supreme Court decided two cases in which the Court considered the standard for enhanced damages based on willful infringement pursuant to 35 U.S.C. § 284. In each of the cases, *Halo Electronics, Inc. v. Pulse Electronics, Inc.* and *Stryker Corp. v. Zimmer, Inc.*, enhanced damages were denied based on application of the test set forth in *In re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007)(*en banc*), which required clear and convincing evidence that (1) the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent; and (2) the objectively high risk was either known or so obvious that it should have been known to the accused infringer. In the *Halo* and *Stryker* decision, a unanimous U.S. Supreme Court rejected the *In re Seagate* test as being too rigid, and emphasized that U.S. District Courts have discretion to award enhanced damages in "egregious" cases.

I. THE CASES

In *Halo Electronics*, Halo sued Pulse Electronics asserting infringement of three patents relating to surface mount electronic packages that contain transformers for mounting on a printed circuit board. A jury found that the patents were directly infringed, that the asserted claims were not invalid for obviousness and that the infringement was willful. The U.S. District Court judge disagreed and concluded that the

standard for willful infringement was not satisfied because Pulse reasonably relied on an obviousness defense during the litigation that "was not objectively baseless, or a sham." This finding was affirmed by the Federal Circuit.

In *Stryker*, the U.S. District Court found on summary judgment that Zimmer was liable of infringement of two patents directed to devices that deliver pressurized irrigation for certain medical therapies. At trial, a jury found that Zimmer was liable for infringement of a third patent and that the asserted claims from all three patents were valid. The jury also found that the infringement was willful. The judge determined that an award of treble damages was appropriate given, among other things, "the one-sidedness of the case and the flagrancy and scope of Zimmer's infringement." The Federal Circuit affirmed the finding of infringement, but, applying *de novo* review, determined that Zimmer had presented reasonable defenses in the litigation that precluded a finding of willfulness.

The patent owners in *Halo* and *Stryker* sought review in the U.S. Supreme Court, arguing that the *In re Seagate* test impermissibly restricted the discretion of U.S. District Courts to enhance damages under § 284 if infringement is found to be willful. They also asserted that the *Seagate* two-pronged test was too rigid and permitted infringers who act in bad faith before a lawsuit is filed by unfairly using a claimed

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invention to avoid a finding of willfulness if they can present a non-frivolous defense during a litigation.

II. THE SUPREME COURT'S DECISION

The Supreme Court granted certiorari and consolidated the cases for consideration of the following:

Has the Federal Circuit improperly abrogated the plain meaning of 35 U.S.C. § 284 by forbidding any award of enhanced damages unless there is a finding of willfulness under a rigid, two-part test, when this Court recently rejected an analogous framework imposed on 35 U.S.C. § 285, the statute providing for attorneys' fee awards in exceptional cases?

The Supreme Court agreed with the patent owners and held that the two-part *Seagate* test is not consistent with 35 U.S.C. § 284. The Court recognized that, "consistent with the history of enhanced damages under the Patent Act," such damages can be recovered "in a case of willful or bad-faith infringement." The Court determined that the two-pronged *In re Seagate* test was too restrictive, primarily because it "requires a finding of objective recklessness in every case before district courts may award enhanced damages." According to the Court, this requirement could potentially excuse a "wanton and malicious pirate" who has "no purpose other than to steal the patentee's business." The Court stated that "[t]he subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless." The Court also pointed out that the culpability of the infringer should be measured at the time of the challenged conduct, and that an award of enhanced damages should not hinge on "the

ability of the infringer to muster a reasonable (even though unsuccessful) defense at the infringement trial."

The Court thus concluded that "[s]ection 284 permits district courts to exercise their discretion in a manner free from the inelastic constraints of the *Seagate* test." The only guidance provided by the Court regarding the exercise of this discretion was the recognition that enhanced damages "should generally be reserved for egregious cases typified by willful misconduct." The Court further determined that (i) enhanced damages should be evaluated based on a preponderance of the evidence standard, rather than a clear and convincing evidence standard, and (ii) a district court's decision to award enhanced damages will be reviewed on appeal for abuse of discretion.

Justice Breyer wrote a concurring opinion, joined by Justices Kennedy and Alito, to clarify his understanding of several points in the Court's decision. In particular, Justice Breyer echoed concerns raised by several *amici curiae* that lowering the standard for willful infringement could increase the burden on companies that routinely receive threatening letters from patent owners, particularly non-practicing entities or "Patent Trolls." Thus, he emphasized that the enhanced damages must be applied carefully, "to ensure that they only target cases of egregious misconduct."

In this regard, Justice Breyer noted that "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 *and nothing more*." He also stressed that the Court's holding and interpretation of § 284 does not weaken the rule articulated in 35 U.S.C. § 298, which provides that "failure of an infringer to obtain the advice of counsel . . . may not be used to prove that the accused infringer willfully infringed the

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patent." Thus, he emphasized that "[a]n owner of a small firm, or a scientist, engineer or technician working there, might, without being 'wanton' or 'reckless' reasonably determine that its product does not infringe a particular patent, or that that patent is probably invalid."

III. RECOMMENDATIONS

As noted in the concurring opinion, the Supreme Court's decision may create an increased risk that an accused infringer may be found liable for enhanced damages under § 284. At a minimum, given that District Court judges will have greater discretion to award enhanced damages, and given that such awards will be reviewed only for an abuse of discretion, the potential for such an award is much more difficult to predict. Thus, although not required or necessary in every instance, obtaining an expert opinion of a U.S. attorney that a patent is not infringed and/or is invalid is one potential way an accused infringer may be able to demonstrate that its actions were reasonable and not undertaken in bad faith. Under any scenario, a party accused of or concerned about potential infringement of a patent that it has knowledge of should at least take some steps, even through its own independent reasonable evaluation, to show that it does not infringe any of the patent claims or that the claims are invalid.

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