

Supreme Court Reverses Heightened Standard to Treble Damages in Patent Cases

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In a decision where numerous amici warned that reversal would only embolden patent trolls if the Supreme Court lessened the burden to impose treble damages under § 284 of the Patent Act, the Supreme Court did just that. Noting that federal district courts have developed sound legal principles to guide their discretion over nearly two centuries of the Patent Act, the Supreme Court reversed the

Federal Circuit and struck down the two-part test that circuit had adopted in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), Monday in *Halo Electronics, Inc. v. Pulse Electronics*. Amici predicted this could result in an uptick in filings by so-called patent trolls, in an environment where patent litigation filings in the first quarter of 2016 dropped to their lowest level since 2011. Under § 284 of the Patent Act, courts “may increase the damages up to three times the amount found or assessed.” As Chief Justice Roberts summed it up, writing for a unanimous court, “Enhanced damages are as old as U.S. patent law.” From this premise, the Court began to review the Federal Circuit’s two-part test adopted in *Seagate*, which required the patent owner to show 1) “by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent” and 2) 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.” Citing Supreme Court precedent as far back as 1854, Chief Justice Roberts noted that the Supreme Court has always required a high bar to treble damages in patent cases, limiting trebled awards to those cases “where the injury is wanton or malicious . . . not to recompense the plaintiff, but to punish the defendant.” With the exception of pre-law-and-equity-merger cases, Chief Justice Roberts cited a host of pre-*Seagate* cases stating just how high the burden for enhanced damages is. However, the Court could not reconcile this standard with the bar set in *Seagate*. Under the *Seagate* two-factor test, if an accused infringer “raises a substantial question as to the validity or non-infringement of the patent,” the first factor—objective reasonableness—would be decided in favor of the infringer. This was true “even if the defendant was unaware of the arguable defense when he acted.” And, under *Seagate*, even if the high standard was met in the district court, an award of enhanced damages was subject to trifurcated appellate review: reviewing the objective reasonableness factor de novo, the subjective knowledge factor for substantial evidence, and the overall decision for abuse of discretion. This was simply too high a bar for the Supreme Court and not supported by the Patent Act or Supreme Court precedent. The appeal was decided along with *Stryker Corp.*, 782 F.3d 649, 653 (Fed. Cir. 2015), where the patent infringer was alleged to have “all-but instructed its design team to copy [the patent-holder]’s products.” Still, the Federal Circuit reversed an award of enhanced damages under *Seagate* because it found the patent infringer had asserted reasonable defenses at trial. The Supreme Court held the word “may” in § 284 of the Patent Act denotes a clear discretion to the federal district court, even though “discretion is not whim.” Although the Supreme Court refused to set out a clear test for federal district courts under § 284, it re-emphasized that enhanced damage awards are to be meted out only as a “punitive or vindictive sanction for egregious behavior.” The Court continued to provide that this egregious behavior has been described as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or “characteristic of a pirate.” In doing so, the Court noted that its recent decision in *Octane Fitness, LLC v. ICON Health & Fitness Inc.* (in which it similarly held that the Federal Circuit’s rule for awarding attorneys’ fees in patent cases under § 285 was impermissibly rigid) “points in the same direction” by relying on the trial judge to identify cases that are egregious without having to fit them into a rigid framework. For these reasons, the Supreme Court recommitted the determination of § 284 enhanced damages to the discretion of the federal district courts. The Supreme Court also

dismissed any notion that the federal district courts must be guided by anything other than a preponderance of the evidence in such situations. Finally, the Supreme Court removed the tripartite framework for the review of enhanced damages under § 284, instead reinstating the standard of abuse of discretion. In a brief concurrence, Justice Breyer wrote to, among other things, specifically reassert that § 298 of the Patent Act provides that an accused infringer's failure to obtain the advice of counsel "may not be used to prove that the accused infringer willfully infringed." Justice Breyer's concern, joined by Justices Kennedy and Alito, was to remind federal district courts that Congress specifically excluded a lack of consulting counsel from evidence that may be used to enhance patent damages under § 284. This is particularly important for startups facing a patent infringement lawsuit. Only time will tell if *Halo* has long-term consequences, but for now, discretion wins the day. Whether that discretion leads to more litigation to redefine its bounds remains to be determined.

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