June 14, 2016 — Yesterday, the Supreme Court issued an unanimous decision in companion cases *Halo Electronics, Inc. v. Pulse Electronics, Inc.* and *Stryker Corp. v. Zimmer, Inc.* which rejected the Federal Circuit’s rigid, two-part test for willful infringement and awarding enhanced damages in patent cases under 35 U.S.C. § 284. The decision provides district courts with more discretion to award enhanced damages to patent owners. Although the Supreme Court decision provides district courts with more discretion, the Supreme Court repeatedly instructed that a district court’s discretion is limited and its exercise should be “limited to egregious cases of misconduct beyond typical infringement.”

**35 U.S.C. § 284 and the Federal Circuit’s Seagate Test**

Enhanced damages have existed in patent law since the Patent Act of 1793. In the Patent Act of 1836, Congress changed the award of increased damages from mandatory to discretionary. In 1854, the Supreme Court interpreted the 1836 Patent Act’s enhanced damages provisions applicable when the infringer acted “wantonly or maliciously” for the purpose of “punishing the defendant,” but not when the infringer acted “in ignorance or good faith.” Courts of Appeals from the early 1900s also “characterized enhanced damages as justified where the infringer acted deliberately or willfully.” The law from these cases was carried through to the Patent Act of 1952, which provides the current language for § 284 at issue in the *Halo* and *Stryker* decisions, which the Supreme Court previously described as applying “in a case of willful or bad-faith infringement.”

In *In re Seagate Technology, LLC*, 497 F.3d 1360 (2007) (*en banc*) the Federal Circuit developed a two-part test for evaluating whether damages may be increased under § 284. Following *Seagate*, a patentee seeking enhanced damages needed to first “show 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 “[t]he state of mind of the accused infringer.” Objective recklessness, however, will not be found if the accused infringer raised a substantial question to the validity or noninfringement at trial. After establishing objective recklessness, the patentee then must show that the risk of infringement was either known or so obvious that it should have been known to the accused infringer.

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3. *Id.*, at 1371.
5. *Seagate*, 497 F. 3d, at 1371.
Under Federal Circuit precedent, an award of enhanced damages is subject to trifurcated appellate review. The objective recklessness step is reviewed de novo; the subjective knowledge step is reviewed for substantial evidence, and the ultimate determination is reviewed for abuse of discretion.⁶

_Halo Electronics, Inc. v. Pulse Electronics, Inc. and Stryker Corp. v. Zimmer, Inc._

Both _Halo_ and _Stryker_ challenged the Federal Circuit’s _Seagate_ standard following jury trials in which a jury found willful infringement. In _Halo_, the district court declined to award enhanced damages under § 284. The district court found that Pulse presented a not objectively baseless trial defense and, therefore, Halo failed to establish the objectively recklessness under the first step of _Seagate_.

In _Stryker_, the district court awarded enhanced damages and trebled the amount of damages. The Federal Circuit vacated the award of treble damages because it concluded that Zimmer had asserted reasonable defenses at trial.

_The Supreme Court Rejects the _Seagate_ Two-Part Test, Burden of Proof Standard, and Standard of Appellate Review_

In a decision authored by Chief Justice Roberts, the Supreme Court started with the plain language of 35 U.S.C. § 284 and noted that the statute had no explicit limitation or condition attached to awards of enhanced damages. Quoting its 2014 _Octane Fitness_ decision that interpreted 35 U.S.C. § 285 (a discretionary statute relating to the award of attorney’s fees), the Supreme Court held that there is “no precise rule or formula’ for awarding damages under § 284.” The use of the word “may” in the statute connotes discretion, but the Supreme Court explained that years of precedent narrow the circumstances when a district court may exercise discretion to “egregious cases of culpable behavior,” such as where the “conduct warranting enhanced damages has been … willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate.”⁷

The Supreme Court again quoted from its 2014 _Octane Fitness_ in holding that the _Seagate_ test was “unduly rigid, and it impermissibly encumbers the statutory grant of discretion to district courts.”⁸ According to the Supreme Court, the objective recklessness prong of the _Seagate_ test was its “principal problem.”⁹ Requiring objective recklessness before awarding enhanced damages would exclude “many of the most culpable offenders” of patents.¹⁰ The Supreme Court described a hypothetical pirate that deliberately infringed without regard to any defense or doubts about the patent’s validity and wrote “it was not clear why an independent showing of objective recklessness … should be a prerequisite to enhanced damages.”

Permitting a deliberate infringer to escape enhanced damages simply based on the ability to muster a reasonable defense at trial, even if the infringer was unaware of the defense before it acted, also troubled the Supreme Court. Rather than an after-the-fact look at the infringer’s defenses, the Supreme Court explained that culpability should be “measured against the knowledge of the actor at the time of the challenged conduct.”¹¹

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⁶ See Bard Peripheral Vascular, Inc. v. W. L. Gore & Assoc., Inc., 682 F. 3d 1003, 1005, 1008 (Fed. Cir. 2012);
⁸ Octane Fitness LLC v. ICON Health & Fitness Inc., 572 U.S. __ (2014) (slip op. at 7).
⁹ Halo, __ U.S. ___, (2016) (slip op. at 9).
¹⁰ Id.
¹¹ Id., slip op. at 10.
After rejecting the Seagate two-part test, the Supreme Court reiterated the discretionary nature of enhanced damages and repeated that enhanced damages should “generally be reserved for egregious cases typified by willful misconduct.”12

Next, the Supreme Court found the Seagate requirement of clear and convincing evidence to prove recklessness “inconsistent with § 284.”13 Again, the Supreme Court cited its Octane Fitness decision as instructive. In Octane Fitness, the Supreme Court reversed a clear and convincing evidentiary burden that the Federal Circuit had required for attorneys’ fees under § 285 because the statute did not set a heightened standard and “patent-infringement has always been governed by the preponderance of the evidence standard.”14 Thus, the preponderance of evidence standard now applies to enhanced damages under § 284.

Finally, the Supreme Court rejected “any rigid formula for awarding enhanced damages under § 284 and the Federal Circuit’s framework for reviewing such awards.” Relying on its 2014 Highmark Inc. v. Allcare Health Management System, Inc.15 decision, the Supreme Court instructed the Federal Circuit to review enhanced damages awards for “an abuse of discretion.”16

The majority opinion concluded with yet another reminder of the limits that two centuries of case law “channel the exercise of discretion, limiting the award of enhanced damages to egregious cases of misconduct beyond the typical infringement.”17

A concurring opinion authored by Justice Breyer18 also emphasized the limitations on a district court’s discretion, which Justice Breyer understood are “generally appropriate … only in egregious cases.”19

In sum, under Halo and Stryker, enhanced damages may be awarded in egregious cases of misconduct going beyond typical infringement. Enhanced damages proof is governed by the preponderance of the evidence standard. Decisions relating to the award, or lack thereof, of enhanced damages under § 284 will be reviewed by the Federal Circuit for abuse of discretion.

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12 Id., slip op. at 11.
13 Id., slip op. at 12.
14 Id.
17 Id., slip op. at 13.
18 Justices Kennedy and Alito joined the concurring opinion.