

CLIENT ALERT

Supreme Court Changes Standard for Obtaining Enhanced Damages in Patent Cases

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Halo Electronics, Inc. v. Pulse Electronics, Inc., No. 14-1513; *Stryker Corp. v. Zimmer Inc.*, No. 14-1520 (June 13, 2016).

In a pair of closely watched patent cases, the Supreme Court yesterday lowered the requirements for proving enhanced damages under Section 284 of the Patent Act, which authorizes the courts to “increase the damages up to three times the amount found or assessed.”

In a 2007 case, *In re Seagate*, the Federal Circuit had held that enhanced damages required a clear and convincing showing that the alleged infringer acted in a manner that was both objectively and subjectively reckless or unreasonable. The Federal Circuit later interpreted *Seagate* to mean that enhanced damages were unavailable, even where a jury found a high probability of willful infringement, if the alleged infringer’s defense “was not objectively baseless, or a ‘sham.’” Further, the Federal Circuit had adopted a tripartite standard under which it reviewed the objective recklessness prong of enhanced damages *de novo*, the subjective prong for substantial evidence, and the overall decision for an abuse of discretion. Yesterday’s decisions reformulated the underlying test for enhanced damages, simplified the standard of review, and rejected the clear-and-convincing evidence requirement.

Chief Justice Roberts’ opinion for the unanimous Court began by reviewing the history of Section 284 and its predecessors. Under pre-*Seagate* decisions, enhanced damages served principally to punish bad conduct by the infringer. Although there is “‘no precise rule or formula’ for awarding damages under § 284,” the Court noted, prior decisions emphasized the need for “vindictive” or “aggravated” conduct, and early federal appellate decisions likewise imposed enhanced damages “where the infringer acted deliberately or willfully.” Although some courts had provided for enhanced damages so the patentee could recover the costs of litigation, the Court noted “[t]hat concern dissipated with the enactment in 1952 of 35 U.S.C. § 285, which authorized district courts to award reasonable attorneys’ fees to prevailing parties in ‘exceptional cases.’”

Citing its 2014 decision in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*—which broadened district courts’ discretion to award attorneys’ fees under § 285—the Court rejected the two-part *Seagate* standard as “unduly rigid” and “impermissibly encumber[ing]” the district courts’ statutory discretion. The Court explained that the “principal

problem” with the *Seagate* standard was its objective recklessness component. The Court noted that there could be “deliberate wrongdoing” such as the “wanton and malicious pirate’ who intentionally infringes another’s patent—with no doubts about its validity or any notion of a defense—for no purpose other than to steal the patentee’s business.” In such circumstances, the Court continued, it was “not clear why an independent showing of objective recklessness—by clear and convincing evidence, no less—should be a prerequisite to enhanced damages.”

The Court explained that “culpability is generally measured against the knowledge of the actor at the time of the challenged conduct.” The Court has held that “a person is reckless if he acts ‘knowing or having reason to know of facts which would lead a reasonable man to realize’ his actions are unreasonably risky.” Nothing in this holding suggests “look[ing] to facts that the defendant neither knew nor had reason to know at the time he acted.” A contrary rule would allow an infringer to escape liability based on a defense that the infringer “did not act on . . . or was not even aware of” at the time of infringement—i.e., based “solely on the strength of his attorney’s ingenuity” in developing such a defense.

Noting that Section 284 provided no specific evidentiary burden, and that nothing in the historical practice warranted a heightened burden of proof, the Court also rejected *Seagate*’s requirement that the need for enhanced damages be shown by clear and convincing evidence. Finally, the Court rejected the Federal Circuit’s tripartite standard for appellate review, directing that the Federal Circuit “review [the district courts’] exercises of discretion in light of the longstanding considerations we have identified as having guided both Congress and the courts” over the last “two centuries of enhanced damages awards.”

Justice Breyer filed a concurring opinion, joined by Justices Kennedy and Alito, emphasizing the importance of uniformity in applying Section 285 and the “limited” role that enhanced damages play in achieving the Patent Act’s broader objectives of encouraging the development of, dissemination of knowledge about, and permitting others to benefit from useful inventions. In particular, the concurring justices specifically noted that mere pre-infringement knowledge of a patent without more was not the sort of conduct that the new standard was intended to address.

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