

Halo v. Pulse (2016): Supreme Court Relaxes Standard for Obtaining Enhanced Damages For Patent Infringement

Patent owners will more likely seek enhanced damages; accused infringers no longer insulated by “attorney’s ingenuity” after the fact.

Summary

The Federal Circuit’s 2007 *Seagate* decision raised the bar for patentees seeking enhanced damages for patent infringement under 35 U.S.C. § 284 by imposing a two-step test, requiring satisfaction of both an objective and a subjective prong.¹ The test imposed the standard of clear and convincing evidence for each of the two prongs.

The US Supreme Court, in its June 14, 2016 *Halo* decision, rejected the Federal Circuit’s *Seagate* test, holding that it was “unduly rigid,” and that district courts should “exercise their discretion in a manner free from the inelastic constraints of the *Seagate* test.”² The Supreme Court did not replace the *Seagate* test with any particular test of its own, instead instructing district courts to “continue to take into account the particular circumstances of each case” in a manner “consistent with nearly two centuries of enhanced damages under patent law.”³

Historical Background

Enhanced damages are as old as US patent law and were originally mandatory.⁴ In 1836, Congress changed course and made enhanced damages discretionary because a “defendant who acted in ignorance or good faith” should not be subject to the same treatment as a “wanton and malicious pirate.”⁵ Since 1836, the Supreme Court has generally characterized enhanced damages as “vindictive” or “punitive” that a court may “inflict” in a case of “willful or bad-faith infringement” or “when the circumstances of the case appear to require it.”⁶

The Federal Circuit’s *Seagate* Test

In 2007, the Federal Circuit decided *Seagate*. The *Seagate* court fashioned a two-prong test for enhanced damages.

First, “a patentee must 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.”⁷ The court referred to this first prong as establishing “objective recklessness.”⁸ Importantly, this first prong is not met if the infringer makes a reasonable invalidity or non-infringement argument during the case, where a “reasonable” argument is one that is

sufficient to raise a “substantial question.”⁹ This categorical carve-out applies even if the infringer — at the time of action — was unaware of the invalidity or non-infringement argument.¹⁰

Second, after establishing objective recklessness, a patentee must show — again 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.”¹¹

The Supreme Court’s *Halo* Decision

In *Halo*, the Supreme Court discussed decisions from the past 180 years on enhanced damages. The Court explained that those decisions establish that enhanced damages are “designed as a punitive or vindictive sanction for egregious infringement behavior.” *Halo* at 8. The Court further explained that conduct warranting enhanced damages is typically “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or — indeed — characteristic of a pirate.”¹²

In reversing the Federal Circuit, the Supreme Court observed that *Seagate*’s first prong “insulates some of the worst patent infringers from any liability for enhanced damages.”¹³ The Court offered an example of a pirate that intentionally infringed another’s patent to steal business, and had no non-infringement theory or doubts about the patent’s validity at the time the pirate acted.¹⁴ Under *Seagate*’s first prong, that pirate could avoid enhanced damages by ex post facto directing his/her attorney to find prior art and advance an invalidity argument that the pirate never relied on or “was even aware of” when deciding to intentionally infringe.¹⁵ The Supreme Court held that this first prong insulates the infringer from enhanced damages “solely on the strength of his attorney’s ingenuity.”¹⁶ The Court reasoned that such insulation is inappropriate because “culpability is generally measured against the knowledge of the actor at the time of the challenged conduct.”¹⁷

The Supreme Court also reversed *Seagate*’s clear and convincing standard, reasoning that Congress erected a higher standard in other sections of the Patent Act, but did not in section 284. Thus, section 284 and enhanced damages is “governed by a preponderance of the evidence standard.”¹⁸ And “such punishment should generally be reserved for egregious cases typified by willful misconduct.”¹⁹

Implications of the *Halo* Decision

With the now-relaxed standard, patent owners are more likely to seek enhanced damages in patent cases. To enhance the probability of securing enhanced damages, patent owners will be more likely to send notice letters prior to filing suit. Such letters should be carefully drafted to minimize the risk of giving the recipient grounds for filing a declaratory judgement action.

Companies that may be sued for patent infringement can no longer rely on *Seagate*’s now-defunct objective prong. Such companies may want to consider obtaining patent opinion letters that outline reasonable non-infringement or invalidity arguments after receiving a notice letter, or if they otherwise have reason to believe that their products may infringe a patent.

In summary, although the Supreme Court does not intend to promote enhanced damages “in garden-variety cases,” *Halo* certainly lowers the bar.²⁰ By how much remains to be seen and will be addressed by the lower courts in the months and years to come.

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Endnotes

¹ *In re Seagate Tech., LLC*, 497 F. 3d 1360 (Fed. Cir. 2007) (*en banc*).

² *Halo Elec., Inc. v. Pulse Elec., Inc.*, No. 14–1513, slip. Op. at 11 (June 14, 2016).

³ *Id.*

⁴ See Patent Act of 1793, §5, 1 Stat. 322.

⁵ *Seymour v. McCormick*, 16 How. 480, 488 (1854).

⁶ *Halo* at 3, 4 (internal quotes and citations omitted).

⁷ *Seagate* at 1371.

⁸ *Seagate* at 1371.

⁹ *Bard Peripheral Vascular, Inc. v. W. L. Gore & Assoc., Inc.*, 776 F.3d 837, 844 (Fed. Cir. 2015).

¹⁰ See *id.*

¹¹ *Seagate* at 1371.

¹² *Id.*

¹³ *Id.* at 9.

¹⁴ *Id.*

¹⁵ *Id.* at 10.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.* at 12.

¹⁹ *Id.* at 11.

²⁰ *Halo* at 15.