

## SCOTUS Paves the Way for Enhanced Damages with *Halo* Ruling

Byron L. Pickard & Aisha Haley

### Overview

On June 13, 2016, the Supreme Court issued its opinion in *Halo v. Pulse*, overturning the Federal Circuit's long-standing two-step test for willfulness and enhanced damages in patent-infringement cases.<sup>1</sup> The Court's ruling changes the patent-infringement-damage landscape in three important ways. *First*, district courts can now award enhanced damages for willful infringement under 35 U.S.C. § 284 at their discretion, without applying the Federal Circuit's rigid *Seagate* framework.<sup>2</sup> *Second*, enhanced damages are now governed by a preponderance of the evidence standard, not the clear and convincing evidence standard that had previously applied.<sup>3</sup> And *third*, enhanced damages are now reviewed on appeal for abuse of discretion.<sup>4</sup> *Halo* lowers the burden on proof for enhanced damages, and infringement and invalidity opinions of counsel will likely be revived as essential tools in guarding against enhanced damages liability—as was the case pre-*Seagate*.

### The *Seagate* Framework

A district court can enhance damages in a patent-infringement case under 35 U.S.C. § 284, awarding up to three times the damage award found by a jury or the bench. The statute authorizing trebled damages, however, does not provide a test or prescription for when such awards are appropriate. Historically and under Federal Circuit jurisprudence, increased damages could be recovered in cases involving willful or bad-faith infringement.

In its 2007 *Seagate* decision, the Federal Circuit outlined a two-step test that, when satisfied, allowed courts to exercise their discretion to award trebled damages.

Under *Seagate*, *first*, the patentee had to show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. The subjective state of mind of the accused infringer was irrelevant to this “objective recklessness” question. And, objective recklessness could not be found if the infringer, during infringement proceedings, could raise a substantial question as to the validity or noninfringement of the patent. *Second*, the patentee had to prove 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.

If both elements had been satisfied, only then could a district court consider whether to exercise its discretion to enhance damages.

### Enhanced Damages after *Halo*

The Court overturned the *Seagate* framework, holding: (1) *Seagate*'s two-part test improperly required a finding of objective recklessness as a predicate to enhanced damages; (2) enhanced damages are governed by a preponderance of the evidence standard; and (3) awards of enhanced damages are reviewed for abuse of discretion.

---

<sup>1</sup>Halo Electronics v. Pulse Electronics, 579 U.S. \_\_\_\_ (2016).

<sup>2</sup>Id. at 11.

<sup>3</sup>Id. at 12.

<sup>4</sup>Id. at 12-13.

## Objective Recklessness

First, the Court found that *Seagate*'s two-part test improperly required courts to find objective recklessness to award enhanced damages. While the objective-recklessness standard captures some instances of egregious misconduct, it exempts from punishment many of the most culpable offenders, including the "wanton and malicious pirate" intentionally infringing another's patent for no purpose other than to steal the patentee's business.<sup>5</sup>

Under *Seagate*, a court could only force such pirates to pay enhanced damages when the infringement was objectively reckless. But the Supreme Court found this to be an absurd result: "In the context of such deliberate wrongdoing, however, it is not clear why an independent showing of objective recklessness—by clear and convincing evidence, no less—should be a prerequisite to enhanced damages."<sup>6</sup> Indeed, the Court held that "subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages without regard for whether his infringement was objectively reckless."<sup>7</sup>

*Seagate*'s emphasis on objective recklessness protected willful infringers who could muster a reasonable—even if unsuccessful—defense to infringement at trial.<sup>8</sup> But culpability is properly measured against the knowledge of the actor at the time of the challenged conduct.<sup>9</sup> And the Court found that dismissing a claim for willful infringement based on legal theories advanced by the actor's attorney after the fact was at odds with jurisprudence on culpability.<sup>10</sup>

Thus, the Court replaced the *Seagate* framework with a more fact-sensitive, discretionary standard.<sup>11</sup> Courts can award damages under Section 284 in their discretion after taking into account the particular circumstances of each case.<sup>12</sup> And consistent with nearly two centuries of enhanced damages jurisprudence, courts should now enhance damages in egregious cases typified by willful conduct.<sup>13</sup>

## Preponderance of the Evidence Standard

Second, the Court rejected the clear and convincing evidence standard for awards of enhanced damages.<sup>14</sup> Section 284 imposes no specific evidentiary burden, much less a high one.<sup>15</sup> Further, nothing in historical practice suggested enhanced damages in patent cases should be held to a heightened standard.<sup>16</sup> Thus, the Court found that "patent-infringement litigation has always been governed by a preponderance of the evidence standard," and "[e]nhanced damages are no exception."<sup>17</sup>

## Review for Abuse of Discretion

And *third*, the Court rejected the Federal Circuit's tripartite framework for evaluating enhanced damages awards under Section 284 on appeal.<sup>18</sup> The Court held that, similarly to *Octane Fitness* fees, district courts award enhanced damages in their discretion.<sup>19</sup> And as a result, "that decision is to be received on appeal for abuse of discretion."<sup>20</sup>

---

<sup>5</sup>Id. at 9.

<sup>6</sup>Id.

<sup>7</sup>Id. at 10.

<sup>8</sup>Id.

<sup>9</sup>Id.

<sup>10</sup>Id. at 10-11.

<sup>11</sup>Id. at 11.

<sup>12</sup>Id.

<sup>13</sup>Id.

<sup>14</sup>Id. at 12.

<sup>15</sup>Id.

<sup>16</sup>Id.

<sup>17</sup>Id. (internal quotation marks omitted).

<sup>18</sup>Id.

<sup>19</sup>Id. at 12-13.

<sup>20</sup>Id. at 13. (internal quotation marks omitted).

## Practice Tips

*Halo* has dramatically freed district courts to award enhanced damages in patent cases. Accused infringers can expect more patent owners to seek enhanced damages under the new, lower preponderance of the evidence standard. And district courts have license to grant these motions: Courts are no longer bound by *Seagate*'s rigid framework, and willful infringers can be held culpable—even when they advance colorable noninfringement or invalidity defenses at trial.

Under *Halo*'s lowered standard for enhanced damages, opinions of counsel are likely to regain the importance they held in the pre-*Seagate* patent-litigation world. Practitioners should solicit opinions of counsel before engaging in any potentially infringing behavior to best protect against *Halo* damages motions. Culpability will be measured against the knowledge of the alleged infringer at the time of infringement: Opinions of counsel confirming that an activity does not infringe refute a patent owner's assertions at trial that an alleged infringer acted willfully.

For more information, please contact:

Byron L. Pickard, Director  
[BPickard@skgf.com](mailto:BPickard@skgf.com)

Aisha Haley, Associate  
[AHaley@skgf.com](mailto:AHaley@skgf.com)

