

June 16, 2016

## Supreme Court Resurrects Enhanced Damages Awards Under § 284

On Monday, in a significant victory for patent owners, the U.S. Supreme Court swept away the Federal Circuit's "inelastic" framework for assessing enhanced patent damages and found that 35 U.S.C. § 284 means what it says: that a court "may increase the damages [for infringement] up to three times the amount found or assessed." See *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, No. 14-1513 (June 13, 2016), available [here](#). Unlike the Federal Circuit's 2007 *Seagate* decision, which mandated that district courts follow a rigid two-step analysis, *Halo Electronics* confirms that district courts have discretion in awarding enhanced damages, and that those courts are to "take into account the particular circumstances of each case and reserve punishment for egregious cases." Equally important, *Halo* also holds that a patent owner must only prove its entitlement to enhanced damages by a preponderance of the evidence, rejecting *Seagate*'s higher standard of clear and convincing evidence.

In *Seagate*, the Federal Circuit articulated an enhanced damages framework that found little support in the text of § 284. See *In re Seagate*, 497 F.3d 1360, 1375. First, a patent owner was required to show that "the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." Second, the patent owner had to establish that the risk of infringement "was either known or so obvious that it should have been known to the accused infringer." The patent owner was required to prove each step by clear and convincing evidence. To further complicate matters, the Federal Circuit also required a "trifurcated" appellate review process under which each step of this analysis was reviewed under a different standard. In the companion case of *Stryker Corp. v. Zimmer*, U.S. No. 14-1520 (June 13, 2016), addressed in the *Halo Electronics* opinion, the Federal Circuit employed this methodology to vacate an award of treble damages despite evidence that the defendant "all-but instructed its design team to copy Stryker's products," and had chosen a "high-risk/high reward strategy of competing immediately and aggressively with Stryker while opting to worry about the potential legal consequences later." As exemplified by Stryker's case, obtaining enhanced damages under *Seagate* was all but impossible.

*Halo Electronics*, a unanimous decision, expresses few qualms about abandoning the *Seagate* framework entirely. The decision follows and relies on the recent Supreme Court decision in *Octane Fitness* where the court similarly rejected the Federal Circuit's two-part analysis for determining whether a case is "exceptional" for purposes of attorneys' fees awards under § 285. See *Octane Fitness LLC v. ICON Health & Fitness, Inc.*, 134 S.Ct. 1749 (2014). *Octane Fitness* hinged on the simple recognition that a district court's discretion is not unlimited, but rather must be exercised in light of the considerations underlying the grant of discretion. Elaborating on these considerations, the *Halo Electronics* decision surveys 180 years of Supreme Court enhanced damages opinions to conclude that enhanced damages "are not to be meted out in a typical infringement case, but are instead designed as a 'punitive' or 'vindictive' sanction for egregious infringement behavior"—conduct described in earlier cases "as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate." Also citing *Octane Fitness*, the *Halo Electronics* decision holds that § 284 provides no basis for requiring proof by clear and convincing evidence; instead, congruent with the standard for patent infringement, enhanced damages awards only require proof by a preponderance of the evidence.

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While *Halo Electronics* emphasizes that a district court's discretion under § 284 has meaningful limits, in eradicating the severe burden *Seagate* imposed, the opinion is bound to increase availability of enhanced damages awards under § 284. Accordingly, as plaintiffs and defendants evaluate the facts of their cases, an analysis of enhanced damages should now be added into respective litigation strategies, especially where the "particular circumstances" of a case might weigh in favor of treble damages.

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