



Supreme Court rejects Seagate test for enhanced damages in patent cases

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Halo Electronics, Inc v Pulse Electronics, Inc, No. 14-1513 and *Stryker Corp. v Zimmer, Inc*, No. 14-1520, 2016?US LEXIS 3776, US 13 June 2016

Abstract

On 13 June 2016, the United States Supreme Court issued a joint decision in *Halo Electronics, Inc v Pulse Electronics, Inc*, No. 14-1513 and *Stryker Corp. v Zimmer, Inc*, No. 14-1520, slip op. (US 13 June 2016) (collectively, '*Halo*'), unanimously rejecting the United States Court of Appeals for the Federal Circuit's *Seagate* test for enhanced damages in a patent case as 'unduly rigid' and 'inconsistent' with the plain language of 35 U.S.C. § 284.

Legal Context

Under Section 284 of the Patent Act, where there has been a finding of infringement, courts '*may* increase the damages up to three times the amount found or assessed'. 35 U.S.C. § 284 (emphasis added). In *In re Seagate Technology, LLC*, 497 F. 3d 1360, 1371 (2007) ('*Seagate*'), the Federal Circuit set forth a specific test for determining whether enhanced damages under Section 284 are appropriate. Under the *Seagate* test, a patent owner must show by *clear and convincing* evidence: (i) that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent; and (ii) that this objectively defined risk was either known or so obvious that it should have been known to the accused infringer. *Id.* Only if both parts of the test are satisfied may the district court consider whether to award enhanced damages. *Id.* An award of enhanced damages is subject to trifurcated appellate review where the first question of *Seagate* is reviewed de novo, and the second question and ultimate decision of whether to award enhanced damages is reviewed for abuse of discretion (*Halo*, 2016?US LEXIS 3776, at *11).

Facts

In 2007, Petitioner Halo Electronics, Inc ('Halo Electronics'), owner of patents for



electronic packages containing transformers designed to be mounted to the surface of circuit boards, sued Respondents Pulse Electronics, Inc and Pulse Electronics Corp. (collectively, 'Pulse') for patent infringement (*Halo*, 2016?US LEXIS 3776, at *12). A jury ruled in favour of Halo Electronics, finding that Pulse had infringed Halo Electronics' patents and that it was highly probable that Pulse had done so wilfully. However, the district court did not award enhanced damages under Section 284 on the basis that Halo Electronics 'had failed to show objective recklessness under the first step of *Seagate*'. The Federal Circuit affirmed.

In 2010, in a separate action, Petitioners Stryker Corporation, Stryker Puerto Rico, Ltd, and Stryker Sales Corporation (collectively, 'Stryker') sued respondents Zimmer, Inc and Zimmer Surgical, Inc (collectively, 'Zimmer') for patent infringement relating to a pulsed lavage device used to clean tissue during orthopaedic surgery (*Halo*, 2016?US LEXIS 3776, at *12–13). A jury found that Zimmer wilfully infringed Stryker's patents, awarding US\$70 million in lost profits and US\$6.1 million in supplemental damages. The jury further trebled the damages under Section 284, resulting in a total damages award of more than US\$228 million. The Federal Circuit vacated the award of treble damages on the basis that Zimmer had asserted 'reasonable defenses' at trial.

The US Supreme Court granted certiorari in both cases, ultimately vacating the decisions of the US Court of Appeals for the Federal Circuit which had found no enhanced damages, and remanding the cases for further proceedings consistent with the opinion of the court.

Analysis

In *Halo*, the Supreme Court began its analysis by retracing over two centuries of history, including the various Patent Acts dating back to 1793, Supreme Court cases from the late nineteenth century, and Circuit Court cases from the early twentieth century. Notably, the Supreme Court recognized that the provisions of the 1952 Patent Act must be read in light of historical practice:

It is against this backdrop that Congress, in the 1952 codification of the Patent Act, enacted §284. 'The stated purpose of the 1952 revision was 'merely reorganization in language to clarify the statement of the statutes.' This Court accordingly described §284—consistent with the history of enhanced damages under the Patent Act—as providing that 'punitive or increased damages' could be recovered 'in a case of willful or bad-faith infringement'.

Halo, 2016?US LEXIS 3776, at *9–10 (internal citations omitted).

The Supreme Court then focused on the language of Section 282, confirming that it contains 'no express limit or condition' and that the word 'may' 'clearly connotes discretion' on the part of the district court (*Halo*, 2016?US LEXIS 3776, at *14). The Supreme Court cautioned however, that enhanced damages under Section 284 are 'generally reserved for egregious cases of culpable behavior'. (*Halo*, 2016?US LEXIS



3776, at *15). That being said, the court found the *Seagate* test to be ‘unduly rigid’ and ‘impermissibly encumber[ing] the statutory grant of discretion to district courts’. *Id.* (quoting *Octane Fitness, LLC v ICON Health & Fitness, Inc.*, 134?S. Ct. 1749, 1755 (2014)) (emphasis added).

Specifically, the Supreme Court took issue with *Seagate*’s requirement of a finding of ‘objective recklessness’ before a district court may consider enhanced damages (*Halo*, 2016?US LEXIS 3776, at *15–16). The court held that this standard allows an infringer to insulate himself from enhanced damages by simply mustering a reasonable, yet unsuccessful, defence at trial, even where the infringer ‘did not act on the basis of the defense or was even aware of it’. (*Halo*, 2016?US LEXIS 3776, at *17). Thus, even the most culpable infringer may escape enhanced damages ‘solely on the strength of his attorney’s ingenuity’. Rather, ‘[t]he subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless’.

The Supreme Court emphasized that ‘culpability is generally measured against the knowledge of the actor at the time of the challenged conduct’ and Section 284 ‘allows district courts to punish the full range of culpable behavior’ in a manner that is free ‘from the inelastic constraints of the *Seagate* test’. (*Halo*, 2016?US LEXIS 3776, at *17–18). The Supreme Court ‘eschew[ed] any rigid formula for awarding enhanced damages under § 284’. (*Halo*, 2016?US LEXIS 3776, at *20). Further, the Supreme Court rejected the heightened clear and convincing standard required for enhanced damages under *Seagate* as inappropriate and inconsistent with Section 284 (*Halo*, 2016 US LEXIS 3776, at *19–20). Rather, ‘patent-infringement litigation has always been governed by a preponderance of the evidence standard’. (*Halo*, 2016?US LEXIS 3776, at *20). Finally, the Supreme Court also rejected the Federal Circuit’s three part standard for appellate review, holding that a district court’s decision regarding enhanced damages should be wholly reviewed on appeal for abuse of discretion.

Ultimately, the Supreme Court reiterated that while Section 284 gives district courts discretion to award enhanced damages against patent infringers, district courts should be guided by ‘sound legal principles’ developed over many years of application and interpretation of the Patent Act in which enhanced damages are awarded only in ‘egregious cases of misconduct beyond typical infringement’. (*Halo*, 2016?US LEXIS 3776, at *24).

Notably, Justice Breyer’s concurrence, joined by Justices Kennedy and Alito, reiterated that enhanced damages should be carefully applied ‘to ensure that they only target cases of egregious misconduct’, lest the fear of treble damages frustrate the purpose of the Patent Act ‘to promote the progress of science and useful arts’. (*Halo*, 2016?US LEXIS 3776, at *30-31 (Breyer, J., concurring)).

Practical Significance



Under *Halo*, we will likely see more patent owners seeking enhanced damages, and *Halo* certainly increases the odds of patent owners being awarded enhanced damages in a successful patent infringement litigation. However, while the Supreme Court has rejected the rigidity of the *Seagate* test, *Halo* makes clear that it is still the case that enhanced damages should be awarded only in the most egregious circumstances. It remains to be seen whether lower courts will interpret *Halo* in such a way that enhanced damages will be awarded more frequently.

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