BRACEWELL

INSIGHTS

Willful Infringement: "If I could turn back time…"

June 14, 2016

By: ***Drew Taggart***

Unlike Cher, the U.S. Supreme Court can turn back time. In ***Halo Electronics v. Pulse Electronics***,[1] the Court unanimously upended the law on enhanced damages for willful patent infringement set forth in by the Federal Circuit in *In re Seagate Technology, LLC*.[2]

Specifically, the Court held that the two-part *Seagate* test was "unduly rigid" and "impermissibly encumbers" the Patent Act's grant of discretion to district courts, who "may increase the damages up to three times the amount found or assessed."[3] [4]

Seagate required a patent owner to first prove "'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 'the state of mind of the accused infringer.'"[5] *Seagate* further required that after a finding that the patent owner successfully met the first requirement, he or she must prove "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.'"[6] This standard created an almost unattainably high bar for plaintiffs who sought enhanced damages for willful infringement.

In vacating the Federal Circuit's judgment decided under the *Seagate* framework, the Court held that *Seagate* failed to comply with § 284 because its objective recklessness requirement for every case was too rigid.[7] The Court reasoned that this requirement potentially overlooked the subjectively "wanton and malicious pirate" who may infringe a patent knowing full well he or she is doing so.[8] The Court relied on its opinion in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, in which it overruled the Federal Circuit's requirement for both an objective and a subjective finding of litigation-related misconduct in determining whether a case was "exceptional" under § 285.[9] The Court held that Congress had not made any special requirement for both objective and subjective findings in the statute and, therefore, such a rigid test was inapplicable.[10]

The Court further determined that Congress could not have intended for an infringer to be able to make a reasonableness defense if he or she had never acted on the basis of that defense when choosing to infringe the patent.[11] Instead, "culpability is generally measured against the knowledge of the actor at the time of the challenged conduct."[12]

In an effort to completely erase *Seagate*, the Court further held that *Seagate* is inconsistent with §284 because it requires a clear and convincing evidentiary standard.[13] Similar to its holding in *Octane Fitness*, the Court held that the statute made no reference to a heightened evidentiary

standard.[14] The Court held that patent infringement is governed by a preponderance of the evidence standard, and whether or not to grant enhanced damages under §284 is no exception.[15]

The Court further criticized the Federal Circuit's trifurcated standard of review of a district court's determination to enhance damages under §284—(1) the objective recklessness finding was reviewed *de* novo; (2) the subjective knowledge finding was reviewed for substantial evidence; and (3) the finding on whether to grant enhanced damages was reviewed for abuse of discretion.[16] The Supreme Court overturned this trifurcation based on its holding that there is "no explicit limit or condition" in § 284 and the statute's use of "the word 'may' clearly connotes a discretion."[17] Because § 284 grants discretion over enhanced damages to the district court, its decisions should be reviewed for abuse of discretion alone.[18] The reviewing court should only determine if the district court abused its discretion in finding a "balance between the protection of patent rights against the interest in technological innovation."[19] As the Court explained, "no precise rule or formula" exists for determining an award of enhanced damages for willful infringement. Instead, district courts should exercise discretion in light of the particular circumstances of each case because "discretion is not whim."[20] Indeed, the Court cautioned that enhanced damages are not to be granted in a typical infringement case because such damages are designed as a punitive measure for egregious infringement behavior.[21]

Finally, the Court rejected the argument that Congress's passage of the America Invents Act of 2011 and reenactment of § 284 represented a codification of the *Seagate* test.[22] Instead, the Court found the opposite to be true and reasoned that the "language Congress reenacted unambiguously confirmed discretion in the district courts."[23]

Justice Breyer's concurring opinion, joined by Justices Kennedy and Alito, warns that a simple finding of willful misconduct does not *per se* mean that enhanced damages apply.[24] Indeed, Justice Breyer reiterates that enhanced damages are ***only*** appropriate for "egregious cases" because they are a "punitive sanction for engaging in conduct that is either deliberate or wanton" and cautions district courts to apply enhanced damages only in those egregious circumstances.[25] Even with these warnings, *Halo Electronics v. Pulse Electronics* turns back time and will open the floodgates on allegations of willful infringement.

---

[1] *Halo Elec. v. Pulse Elec.*, 579 U.S. ___, 2016 WL 3221515 (slip op.) (June 13, 2016) (*available* ***here***) (last visited June 14, 2016).

[2] *See In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007).

[3] *Halo Elec.*, 2016 WL 3221515.

[4] *See* 35 U.S.C. § 284.

[5] *Halo Elec.*, 2016 WL 3221515 at *5 (quoting *Seagate*, 497 F.3d at 1371).

[6] *Id.* (quoting *Seagate*, 497 F.3d at 1371).

[7] *See id.* at *8.

[8] *Id.* at *8.

[9] *Id.* (citing *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S.Ct. 1749, 1756 (2014)).

[10] *Id.*

[11] *Id.*

[12] *Id.*

[13] *See id.* at 9.

[14] *Id.* (citing *Octane Fitness*, 134 S.Ct. at 1758).

[15] *Id.*

[16] *Id.* at *9.

[17] *See id.* at *7.

[18] *Id.*

[19] *Id.*

[20] *See id.* at *8.

[21] *Id.*

[22] *See id.* at *10.

[23] *See id.*

[24] *See id.* at *12.

[25] *See id.* at *12 (internal quotations omitted).