Enhanced infringement damages in a post-Seagate world

By Brett J. Williamson and Brad Berg

In Halo Electronics Inc. v. Pulse Electronics Inc., the U.S. Supreme Court unanimously overturned the Seagate test for enhanced damages in patent infringement cases under 35 U.S.C. Section 284. 2016 DJDAR 5663 (June 13, 2016). The Halo decision was not surprising — last year the high court overturned a similarly rigid test the U.S. Court of Appeals for the Federal Circuit developed to apply the Patent Act’s analogous fee shifting statute, 35 U.S.C. Section 285. See Octane Fitness LLC v. Icon Health & Fitness Inc., 134 S. Ct. 1749 (2014); Highmark Inc. v. Allcare Health Management System Inc., 134 S. Ct. 1749 (2014). However, the court went further than simply overturning the two-part test established in In re Seagate Technology LLC, 497 F. 3d 1360, 1371 (Fed. Cir. 2007) (en banc). It also lowered the burden of proof and changed the standard of appellate review, ushering in a new era of enhanced damages that will require potential defendants to develop both strategies and tactics to safeguard against the possibility of a trial court judgment trebling “the amount found or assessed” at trial under Section 284.

In his opinion for the court, Chief Justice John Roberts first focused on the rigid, two-part framework outlined in Seagate. The Seagate test required proof by clear and convincing evidence that (1) the “infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent” and (2) that “an ordinary person” would be “mindful of the infringement.” This meant that subjective willfulness alone could not support an enhancement.

In contrast, the Halo court concluded that “willfulness” is generally measured through the trial, rather than being dispositive at the moment of the evidentiary burden, favors the district courts’ discretion in awarding enhanced damages, and that “culpability is generally measured against the knowledge of the actor at the time of the challenged conduct.” The court also looked to the reasoning it employed in Octane Fitness, where the statute at issue involved the separate, but related, concept of awarding attorney fees to the prevailing party in an infringement case. In that decision, the Supreme Court rejected a similar two-part test adopted by the Federal Circuit for determining whether a case was “exceptional” as required by the statute. The court determined that subjective bad faith alone could set a case apart as exceptional regardless of whether the claim asserted was objectively baseless. Similarly, in Halo, the court concluded that subjective willfulness alone may be sufficient for a finding of enhanced damages. In other words, the question of whether to enhance damages will be left to the trial judge to determine, subject to factual findings by the jury, in each particular case, since “Section 284 allows district courts to punish the full range of culpable behavior.”

This focus on “the full range” of behavior signals the Halo court’s intention to further veer from precedent by suggesting that district courts may consider awarding enhanced damages even in cases of egregious conduct that differ from the customary understanding of willful infringement. The court concluded the section of its opinion rejecting the two-prong Seagate test by stating that enhanced damages should “generally be reserved for egregious cases typified by willful misconduct.” In other words, “willfulness” is apparently no longer a necessary predicate to enhancement, but rather only an example of the type of conduct that would allow for enhanced damages (albeit the only example provided by the court). Likewise, the Supreme Court noted that this sort of egregious conduct it has in mind has been described in earlier cases as “willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or — indeed — characteristic of a pirate.” By broadening the definition of an “egregious case,” it appears the Court has adopted the petitioners’ argument that enhanced damages should be allowed for “bad faith or other culpable activity” independent of willful infringement.

In addition to overturning the two-prong test at the heart of Seagate, Halo also lowered the heightened evidentiary burden imposed by the Federal Circuit. As noted above, Seagate required that each of the two prongs be established by clear and convincing evidence. Here again, the court found its earlier Octane Fitness opinion provided a useful guide. In both the case of attorney fees and enhanced damages, the statute is silent as to the evidentiary requirements. As a result, the court reasoned that the standard burden for patent infringement — preponderance of the evidence — should apply in both instances. This conclusion was further supported by the fact that Congress had specifically enacted a higher standard of proof for the recently amended prior commercial use defense under the America Invents Act in 35 U.S.C. Section 273(b). One practical implication of this portion of Halo is that it will undoubtedly increase the likelihood of willfulness remaining an issue through the trial, rather than being dismissed earlier via a motion to dismiss or through summary judgment as has largely been the case since Seagate.

Lastly, Halo rejects the tripartite framework for appellate review mandated by Seagate. Under Seagate, the objective step was subject to de novo review, the subjective step was subject to substantial evidence review, and the ultimate decision of whether to award enhanced damages was subject to abuse of discretion standard. Instead, the Supreme Court held that the most deferential standard of review (reversal only when an abuse of discretion is found) should apply to all elements of an enhanced damages decision. As the court noted, this change follows naturally from its earlier analysis in Octane Fitness of the similarly discretionary language of Section 285. In particular, the use of the word “may” in the statute “clearly connotes discretion.” That discretion is not unlimited, of course, and Halo specifically instructs that “[t]he Federal Circuit should review such exercises of discretion in light of the longstanding considerations we have identified as having guided both Congress and the courts.”

Although it is tempting to argue that this third and final holding in the Halo opinion, just as with the removal of Seagate’s objective prong and the lowering of the evidentiary burden, favors stronger patent rights and greater odds of an award of enhanced damages, extending the more deferential standard of appellate review to all phases of the enhanced damages inquiry may in fact be of some comfort to defendants accused of infringement. The Supreme Court made a point of noting in the opinion that “none of this is to say that enhanced damages must follow a finding of egregious misconduct” and encouraged district courts to “take into account the particular circumstances of each case … free from the inelastic constraints of the Seagate test.” The court opined that the fear implicit in the Seagate test that district courts “may award enhanced damages too readily[,] and distort the balance between the protection of patent rights and the interest in technological innovation” was exaggerated, expressing confidence in “nearly two centuries of exercising discretion in awarding enhanced damages in patent cases.”

How the new Halo standard will be implemented now rests squarely with the district courts. The trends that develop will undoubtedly have a profound impact on patent law for years to come.

Brett Williamson is a partner in O’Melveny & Myers LLP’s Newport Beach and New York offices.

Brad Berg is an associate in the firm’s Newport Beach office.

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