



THINK FORWARD

U.S. Supreme Court Overrules *Seagate*, Making Increased Damages More Possible in Patent Cases

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The U.S. Supreme Court's recent decision in *Halo Electronics v. Pulse Electronics, Inc., and Stryker Corp. v. Zimmer, Inc.* gives district courts greater discretion to award increased damages against those guilty of patent infringement under 35 U.S.C. § 284. The *Halo* decision changes the standard from "objectively reckless" to "subjective willfulness." Under the subjective willfulness standard, the focus is on the actor's knowledge *at the time* of the alleged infringement. Accordingly, an infringer's defenses developed for litigation are no longer available as a shield against enhanced damages, possibly increasing the importance of obtaining competent advice at the time the alleged infringement begins.

In particular, the unanimous decision in *Halo* overruled the two-part test established by the Court of Appeals for the Federal Circuit in *In re Seagate Technology, LLC* in 2007. Under *Seagate*, to establish a right to increased damages, a patent owner had to show that (1) the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent; and (2) the risk of infringement "was either known or so obvious that it should have been known to the accused infringer." A district court could only consider enhanced damages when both of these steps were satisfied by "clear and convincing evidence." Under the *Seagate* standard, if a defendant at trial raised a "substantial question" of validity or noninfringement of the patent, enhanced damages were unavailable, regardless of intent or state of mind at the time of the alleged infringement.

In *Halo*, a district court jury had found that Pulse infringed Halo's electronic circuit board patents, and that there was a high probability it had done so willfully, but the court declined to increase damages after determining Pulse had presented a trial defense that "was not objectively baseless." In *Stryker*, a jury had found that Zimmer willfully infringed Stryker's orthopedic lavage patents, awarded \$76 million in damages and lost profits, and the District Court trebled the award under 35 U.S.C. § 284 to over \$228 million. But the Federal Circuit applied *Seagate* and reversed the award, concluding Zimmer had asserted "reasonable defenses" at trial. The Supreme Court reviewed the cases together.

The Supreme Court cautioned that increased damages "are not to be meted out in a typical infringement case, but are instead designed as a sanction for egregious infringement behavior." The Court then analyzed the history of enhanced damages cases and ruled that *Seagate* was not consistent with § 284. First, the Court concluded the "objectively reckless" test was unduly rigid, because "a patent infringer's subjective willfulness, whether intentional or knowing, may warrant enhanced damages." This shift from objective recklessness to subjective willfulness emphasizes the actor's knowledge *at the time* of the challenged conduct, rather than its ability to muster a clever defense at trial. Second, the Court ruled that "clear and convincing evidence" of willfulness was not required under § 284, only proof by the lower standard of "preponderance of the evidence." Third, the Court ruled that the district court's determinations were to be reviewed under the highly deferential "abuse of discretion" standard.

Halo appears to lower the bar for obtaining increased damages and makes such an award harder to overturn on appeal. Going forward, merely asserting a reasonable defense at trial may not be enough to shield an accused infringer from increased damages. Obtaining qualified advice before undertaking any commercial activity, on the other hand, may help reduce the risk of enhanced damages relating to those activities.

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