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Supreme Court's 'Halo' Decision Upends 'Seagate,' Enhancing Enhanced Damages

In *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 579 U.S. ___ (2016), the Supreme Court unanimously lowered the bar for recovering up to treble damages for patent infringement. Rejecting the "inelastic constraints" of *In re Seagate Tech., LLC,* 497 F.3d 1360 (Fed. Cir. 2007) (*en banc*), as inconsistent with the controlling statutory language, under which courts simply "may increase the damages up to three times the amount found or assessed," 35 U.S.C. 284, the Court made enhanced damages more readily recoverable in patent cases by giving district courts discretion to award enhanced damages in "egregious cases of misconduct beyond typical infringement." It also held that enhanced awards will now require proof only by a preponderance of the evidence and be reviewable only for abuse of discretion.

Writing for the Court, Chief Justice Roberts traced the history of enhanced damages, which are "as old as U.S. patent law." *Halo*, 579 U.S. at __ (slip op. at 2–6). Noting the punitive purpose of enhanced damages, the Court observed, "The sort of conduct warranting enhanced damages has been variously described in our cases as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate." *Id.* at 8. In 2007, however, the Federal Circuit's decision in *Seagate* altered the framework for enhanced damages by requiring a patentee to prove, by no less than 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) the risk of infringement was either known or so obvious that it should have been known to the infringer. An award of enhanced damages was reviewable by the Federal Circuit under multiple standards, depending on the bases for decision. Under *Seagate*, many infringers avoided enhanced damages by presenting "reasonable" infringement defenses that were neither successful at trial nor considered at the time of infringement. *See id.* at 10.

Continuing a modern trend, the Supreme Court in *Halo* rejected the Federal Circuit's *Seagate* decision for interjecting an "unduly rigid" test and "impermissibly encumber[ing] the statutory grant of discretion to district courts." *Id.* at 9. *See Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. ___ (2014) (rejecting rigid test for awarding attorneys' fees); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014) (rejecting rigid test for indefiniteness); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007) (rejecting rigid test for obviousness). While approving *Seagate*'s attempt to limit enhanced damages to egregious cases, the Court concluded the test was too narrow, "insulating some of the worst patent infringers from any liability for enhanced damages." *Halo*, 579 U.S. at __ (slip op. at 9). The Court concluded district courts must instead "take into account the particular circumstances of each case" and be "guided by the sound legal principles developed over nearly two centuries of application and interpretation of the Patent Act." *Id.* at 11, 15. The Court added, however, that enhanced damages "should generally be reserved for egregious cases typified by willful misconduct," *id.* at 11, a point on which Justice Breyer, joined by Justices Kennedy and Alito, wrote separately for emphasis. The concurrence stressed that the role of enhanced damages should be limited so as not to deter lawful activity that furthers the "Progress of Science and useful Arts." *Id.* at 1–5 (Breyer, J., concurring) (citing U.S. Const., Art. I, § 8, cl. 8).

Relying largely on the text of § 284, but also finding instructive its recent decisions in *Octane Fitness and Highmark Inc. v. Allcare Health Mgmt. System, Inc.*, 572 U.S. ___ (2014), the Court also held enhanced damages need be supported only by a preponderance of the evidence and such decisions are reviewable for abuse of discretion only. Significantly, the Court observed that "culpability is generally measured against the knowledge of the actor at the time of the challenged conduct," *Halo*, 579 U.S. at __ (slip op. at 10), thus perhaps dampening future attempts by some patentees to attack litigation conduct.

The Court rejected arguments that the America Invents Act, which provides that "'[t]he failure of an infringer to obtain the advice of counsel' or 'the failure of the infringer to present such evidence to the court or jury may not be used to prove that the accused infringer willfully infringed,'" *id.* at 14 (quoting 35 U.S.C. 298), somehow endorsed *Seagate*. Considering the same statute, Justice Breyer emphasized that "egregious misconduct" must be the relevant touchstone so that accused infringers are not unnecessarily incentivized to obtain opinions of counsel. *Id.* at 1, 2 (Breyer, J., concurring). Justice Breyer continued, however: "I do not say that a lawyer's informed opinion would be unhelpful. To the contrary, consulting counsel may help draw the line between infringing and noninfringing uses." *Id.* at 3.

As for the petitioners in *Halo* itself, the Court vacated the two decisions on appeal (one in which the Federal Circuit had vacated an enhanced damages award and the other in which a district court had declined to make such an award) and remanded for further consideration whether to award enhanced damages. Though it should now be *easier* for patent owners to win enhanced damages, how easy it will be remains to be seen. Indeed, notwithstanding the Court's having upended an *en banc* Federal Circuit decision that had been cited by courts more than 2,500 times in fewer than 10 years, only time will reveal the full aura of *Halo*. In the meantime, because invalidity and noninfringement opinions obtained at or before the time of the alleged infringement may be admissible to avoid findings of willfulness, the Court's decision is likely to increase reliance on such opinions, notwithstanding that the absence of such opinions may not be cited.

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