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*Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 14-1513

A patent infringer is liable for enhanced damages when his infringement is willful. 35 U.S.C. § 284. In *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), the Federal Circuit adopted a two-part test for determining when additional damages would be assessed: the patentee had to prove that the infringer was objectively reckless and, subjectively knew or should have known of the infringement.

Today, in a unanimous opinion authored by Chief Justice Roberts, the Supreme Court held that “Section 284 permits district courts to exercise their discretion in a manner free from the inelastic constraints of the *Seagate* test.”

But the Court substituted its own standard substantially limiting district courts’ discretion to award enhanced damages: “such punishment should generally be reserved for egregious cases typified by willful misconduct.”

The Court wrote approvingly of *Seagate*’s approach—stating that it “reflects, in many respects, a sound recognition that enhanced damages are generally appropriate under § 284 only in egregious cases”—but found *Seagate*’s standard “unduly rigid” by requiring proof of objective recklessness in every case. Such a requirement, the Court held, could have the effect of “exclud[ing] from discretionary punishment many of the most culpable offenders, such as the ‘wanton and malicious pirate’ who intentionally infringes another’s patent—with no doubts about its validity or any notion of a defense—for no purpose other than to steal the patentee’s business.”

As a general standard, the Court explained, awards of enhanced damages

“are not to be meted out in a typical infringement case, but are instead designed as a ‘punitive’ or ‘vindictive’ sanction for egregious infringement behavior. 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.”

Although Section 284 gives district courts discretion to decide whether to award enhanced damages, and how much to award, “through nearly two centuries of discretionary awards and review by appellate tribunals, ‘the channel of discretion ha[s] narrowed,’ so that such damages are generally reserved for egregious cases of culpable behavior.” The Court’s ruling means “enhanced damages” “should not be” “awarded in garden-variety cases.” The principles endorsed in the Court’s opinion “channel the district court’s exercise of discretion, limiting the award of enhanced damages to egregious cases of misconduct beyond typical infringement.” Importantly, because culpability is measured by reference to the “knowledge of the actor at the time of the challenged conduct,” defenses developed after infringement do not insulate conduct from an award of enhanced damages.

In addition, the Court cautioned that a district court is not obligated to award enhanced damages when it finds the requisite “egregious misconduct.” Instead, “[a]s with any exercise of discretion, courts should continue to take into account the particular circumstances of each case in deciding whether to award damages, and in what amount.”

Following *Halo*, therefore, a defendant may contend that damages should be limited to atypical, egregious instances of infringement.

The Court rejected two procedural standards that the Federal Circuit had adopted: the “clear and convincing” standard of proof for *Seagate*’s objective recklessness prong; and the de novo appellate review of the district court’s recklessness determination. It held that the preponderance standard applies to all aspects of the willfulness standard and that appellate review is governed by the abuse-of-discretion standard specified in the Supreme Court’s ruling in *Highmark Inc. v. Allcare Health Management System, Inc.*

Justice Breyer, joined by Justices Kennedy and Alito, filed a concurring opinion describing the limitations on the award of enhanced damages resulting from the standard specified in the Court’s opinion. First, in his view, enhanced damages are not appropriate if “the infringer knew about the patent *and nothing more*.” He emphasized that circumstance “transforms simple knowledge into ... egregious behavior, and that makes all the difference.” And the required circumstances are those that show the defendant’s conduct to be “either ‘deliberate’ or ‘wanton’”—akin to the “wanton and malicious pirate” described in the Court’s opinion.

Second, Justice Breyer stressed that the Court’s decision “does not weaken” Section 298, which provides that failure to obtain advice of counsel may not be used to show willful infringement.

Third, enhanced damages cannot be awarded to compensate patentees for damages or litigation costs.

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