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SUPREME COURT EASES TEST FOR AWARDING ENHANCED DAMAGES FOR WILLFUL PATENT INFRINGEMENT

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In a June 13, 2016 decision, *Halo Electronics, Inc. v. Pulse Electronics Inc.*, the Supreme Court unanimously reversed the Federal Circuit and its test for enhancing damages against defendants who were found to have willfully infringed a patent. The Court lowered not only the requirement for justification for enhancing damages, but also the standard of proof necessary to show the factual predicates. The case reaffirms the value of timely seeking a non-infringement or invalidity opinion of competent patent counsel. The opinion is available [here](#).

Under the patent statute, 35 U.S.C. § 284, "the court may increase damages up to three times the amount found or assessed." The Federal Circuit, *In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (*en banc*), imposed a two-part test for determination of when a district court could increase damages under § 284. First, a patent owner must initially "show by *clear and convincing* evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." (Emphasis added). Second, the patent owner was then required to provide *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." The Federal Circuit later held that the objective evidence for the first step would not be found if, during trial, the accused infringer raised "a 'substantial question' as to the validity or non-infringement of the patent." *Bard Peripheral Vascular, Inc. v. W.L. Gore &*

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Assoc., Inc., 776 F.3d 837, 844 (Fed. Cir. 2015). Thus, the accused infringer could wait until a lawsuit was filed to investigate the invalidity or non-infringement of the patent. The bar existed even if the infringer were unaware of the defense when he acted.

In *Halo*, the jury determined that the defendant had infringed the patent at issue and there was a high probability the defendant had infringed willfully. The district court, however, declined to award enhanced damages under § 284 because the defendant had presented a defense that "was not objectively baseless, or a 'sham'." The Federal Circuit affirmed but the Supreme Court reversed.

Writing for a unanimous Court, Chief Justice Roberts rejected the *Seagate* test. The Court found the principal problem with *Seagate's* two-part test was that it requires a finding of *objective* recklessness before the district court could award damages. This was incorrect, as was the requirement for *clear and convincing* evidence. According to the Court "[t]he subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless." The fact that a reasonable defense was later found at trial was not relevant since "culpability is measured against the knowledge of the actor at the time of the challenged conduct," i.e., when the infringement occurs, not later at trial.

Citing its own case law, the Court clarified that "a person is reckless if he acts '*knowing or having reason to know*' of facts which would lead a reasonable man to realize 'his actions are unreasonably risky'." (Emphasis in original). The evidence required to show this subjective state of mind is merely a preponderance of the evidence.

Requiring only a subjective intent, lowering the standard of proof, and requiring the state of mind to be reached before the lawsuit commenced, greatly lowers the bar to proving willful infringement and increasing damages up to three times actual damages.

Halo goes a long way to increasing the importance of discussing concerns regarding freedom to operate with competent counsel and seeking a written or oral opinion of non-infringement or invalidity from them. In his concurring opinion, Justice Breyer noted that "consulting counsel may help draw the line between infringing and non-infringing uses."

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