



ARE Patent Law Alert: Federal Circuit Applies Supreme Court's Enhanced Damages Standard in Patent Cases Remanded from the Supreme Court

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On June 13, 2016, the United States Supreme Court issued a joint decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.* and *Stryker Corp. v. Zimmer, Inc.*, ("*Halo*"), unanimously rejecting the United States Court of Appeals for the Federal Circuit's *Seagate* test for enhanced damages in patent cases. In both cases, the Court vacated the decisions of the Federal Circuit, which were decided using the *Seagate* test, and remanded the cases for further proceedings consistent with the opinion of the Court. 136 S. Ct. 1923, 1935 (2016).

In *Halo*, the Court focused on the language of 35 U.S.C. § 284, confirming that it contains "no explicit limit or condition" and that the "word 'may' clearly connotes discretion" on the part of the district court. *Id.* at 1931. The Court cautioned, however, that enhanced damages under Section 284 are "generally reserved for egregious cases of culpable behavior." *Id.* at 1932. That being said, the Court found the *Seagate* test to be "**unduly rigid**" and "impermissibly encumber[ing] the statutory grant of discretion to district courts." *Id.* (quoting *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755 (2014)) (emphasis added).

Specifically, the Court took issue with *Seagate*'s requirement of a finding of "objective recklessness" before a district court may consider enhanced damages. *Id.* The Court held that this standard allows an infringer to insulate himself from enhanced damages by simply mustering a reasonable, yet unsuccessful, defense at trial, even where the infringer "did not act on the basis of the defense or was even aware of it." *Id.* at 1933.

The Court "eschew[ed] any rigid formula for awarding enhanced damages under § 284." *Id.* at 1934. Ultimately, the Court reiterated that while § 284 gives district courts discretion to award enhanced damages against patent infringers, district courts should be guided by "sound legal principles" developed over many years of application and interpretation of the Patent Act in which enhanced damages are awarded only in "egregious cases of misconduct beyond typical infringement." *Id.* at 1935.



The Federal Circuit has now begun to apply this new more flexible standard. In the remand of *Halo*, the Federal Circuit vacated the district court's decision not to enhance damages pursuant to § 284. *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, Nos. 2013-1472, 2013-1656, slip op. at 21 (Fed. Cir. Aug. 5, 2016). The Federal Circuit noted that the jury had found it was "highly probable that Pulse's infringement was willful." *Id.* at 20. However, the district court found against enhanced damages because the defendant Pulse presented an obviousness defense that was not objectively baseless. *Id.* In vacating the decision, the Federal Circuit instructed the district court to exercise its discretion in awarding enhanced damages taking into account that: (1) Pulse did not challenge the jury's subjective willfulness finding; and (2) Pulse's obviousness defense, which the district court found was not objectively baseless, had not been developed until after the lawsuit was filed in 2007, meaning that it did not have such a defense at the time the infringement occurred. *Id.*

Similarly, in *Innovention Toys, LLC v. MGA Entertainment, Inc.*, the Federal Circuit in a non-precedential opinion vacated the district court's finding of no enhanced damages. Again, despite a jury finding of subjective willfulness that was not disputed on appeal, no enhanced damages were awarded (this time by the Federal Circuit upon de novo review at the appellate level) because MGA's obviousness defense was not objectively unreasonable. No. 2014-1731, slip op. at 3 (Fed. Cir. Aug. 5, 2016). Noting that the finding of willful misconduct should remain untouched on remand, the Federal Circuit instructed the district court on remand to exercise its discretion to award enhanced damages, "including the emphasis on [the] egregiousness" of MGM's conduct. *Id.* at 4.

We will continue to monitor the Courts for the latest developments on this issue.

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