

INTELLECTUAL PROPERTY LITIGATION | JUNE 13, 2016

## Supreme Court Nixes Two-Part *Seagate* Test for Enhancing Patent Damages and Returns Discretion to District Courts

On June 13, 2016, the Supreme Court unanimously eliminated the rigid two-part *Seagate* test and returned discretion to district courts to enhance damages under 35 U.S.C. § 284 for egregious cases of culpable infringement. *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, No. 14-1513; *Stryker Corp. v. Zimmer, Inc.*, No. 14-1520 (consolidated). We see some immediate impacts as a result of this decision on patent litigation practice going forward, each of which is discussed in greater detail below:

- Renewed importance of pre-litigation opinions of counsel in some matters;
- Expanded discovery requests where enhancement is sought; and
- Increased motivation for forum shopping.

35 U.S.C. § 284 provides simply that “the court may increase the damages up to three times the amount found or assessed.” Nevertheless, in *In re Seagate Technology, LLC*, 497 F.3d 1360 (2007) (en banc) the Federal Circuit erected a two-part barrier for patentees to clear before a district court could exercise its enhancement discretion under the statute. First, a patent owner must “show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted an infringement of a valid patent.” This first part of the test is not met if the infringer, during infringement proceedings, raises a substantial question as to the validity or non-infringement of the patent, regardless of whether the infringer’s prior conduct was egregious. Second, the patentee must demonstrate that the risk of infringement “was either known or so obvious that it should have been known to the accused infringer.” On appeal, the Federal Circuit would review the first step of the test—objective recklessness—*de novo*; the second part—subjective knowledge—for substantial evidence; and the ultimate decision—whether to award enhanced damages—for abuse of discretion.

In each of the *Halo* and *Stryker* cases, a jury found the defendants liable for infringing valid patents and also found that they had each effectively copied plaintiff’s patented product designs. Nevertheless, neither patent owner was awarded enhanced damages under the *Seagate* test, because each defendant had developed objectively reasonable defenses during the litigation (even though each defendant ultimately lost on those defenses).

The Supreme Court held that the *Seagate* test was inconsistent with Section 284, primarily because it requires a finding of objective recklessness in every case before district courts may award enhanced damages. This threshold requirement excludes from discretionary punishment many of the most culpable offenders, such as the “wanton and malicious pirate” who intentionally infringes another’s valid patent for the sole purpose of stealing the patentee’s business. The Supreme Court reasoned that enhanced damages have been left to the sound discretion of district courts for more than 180 years and have been generally reserved as a punitive punishment against the deliberate

or willful infringer. Against that backdrop, Congress enacted the Section 284 revision in the 1952 Patent Act, the “stated purpose” of which “was merely reorganization in language to clarify the statement of the statutes.” As such, the Supreme Court held that Section 284 allows district courts to punish the full range of culpable behavior, except that “such punishment should generally be reserved for egregious cases typified by willful misconduct.”

The Supreme Court additionally held that: (1) enhancement under Section 284 should be governed by a preponderance of the evidence standard, and (2) enhancement decisions should be reviewed on appeal for an abuse of discretion, rather than the tripartite framework developed by the Federal Circuit in *Seagate*.

Justice Breyer, joined by Justices Kennedy and Alito, concurred to emphasize that: (1) enhancement should be reserved for truly egregious behavior, rather than in all cases where a defendant simply has pre-suit knowledge of the asserted patent; and (2) opinions of counsel were not required, especially where inconsistent with a company’s financial condition.

We think that this decision could have important consequences for patent litigation practice going forward.

First, the decision could make pre-litigation negotiations and opinions of counsel much more important. Under *Seagate*, enhanced damages have rarely been a meaningful threat to defendants since reasonable, after-developed litigation defenses could always prevent a willfulness finding. Now, however, district courts will have greater leeway, and defendants may find it useful to have opinions in hand in high-value cases where the patentee has carefully laid out its infringement position prior to the litigation. Reliance on such opinions may be the only valuable defense to an otherwise well-constructed enhancement case.

Second, we foresee broader discovery requests and more aggressive discovery tactics from patentees. While the *Seagate* test already included a subjective element that would theoretically permit discovery of an alleged infringer’s intent, our experience has been that post-*Seagate*, patentees rarely pressed hard to develop that part of the case absent pre-existing knowledge of likely “smoking-gun” evidence. Now, we think patentees will do more to build their willfulness case pre-litigation, and will press harder for discovery on those issues once litigation begins.

Last, we believe this case will only further increase forum shopping motivations. Statistics already demonstrate that patentees prefer certain forums, but this decision gives one more reason why those trends are likely to continue. The Supreme Court’s ruling provides that enhancement will be reviewed entirely for an abuse of discretion, meaning that different judges may be able to develop their own views and approaches to enhancement under Section 284 with a reduced risk of reversal.

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