

The Future of Enhanced Damages After ‘Halo’?

SCOTUS: the Patent Act gives trial judges discretion to assess these awards in “egregious cases.”

BY LEWIS R. CLAYTON

When should a willful patent infringer be required to pay enhanced—essentially punitive—damages? Can enhanced damages be assessed even if the infringer is able to present a reasonable defense at trial? The U.S. Supreme Court’s June 13 decision in *Halo Electronics v. Pulse Electronics*, overruling the en banc Federal Circuit, emphasized that the U.S. Patent Act gives trial judges broad discretion to assess enhanced damages in “egregious cases of misconduct beyond typical infringement”—even when the defendant made an objectively reasonable case that no actionable infringement occurred.

Enhanced damages have always been part of U.S. patent law. The first Patent Act, passed in 1793, required treble damages in any successful case—treating patent infringement the way that antitrust, racketeering and terrorism cases are considered today.

The 1836 version of the Patent Act made enhanced damages discretionary, to protect a defendant who acted in “ignorance or good faith.” That discretion is reflected in



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Section 284 of the current 1952 Patent Act, which empowers the court to “increase the damages up to three times.”

Throughout this history, the statute has been construed to require a showing of willful infringement as a predicate for enhanced damages. In *In re Seagate Technology*, the en banc Federal Circuit announced a new two-part standard for willfulness to govern consideration of enhanced damages.

First, the patent holder was required to show that “the infringer

acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” Therefore, an infringer able to raise a “substantial question” regarding the “validity or noninfringement” of the patent—even if the infringer was completely unaware of this defense when it infringed—could escape liability for enhanced damages. Second, the patentee was required to show that the risk of infringement was known or should have been known to the infringer. Only when these two showings

were made—each by clear and convincing evidence—was the trial court permitted to exercise its discretion to award enhanced damages.

Critics of *Seagate* argued that, because the infringer's subjective state of mind is irrelevant under the first prong of the test, a defendant who aimed to copy a competitor's invention would not be subject to enhanced damages if his counsel raised a "substantial question" at trial. That scenario was presented in *Stryker v. Zimmer* one of the two consolidated Federal Circuit cases the Supreme Court heard in *Halo*.

Stryker Corp. and Zimmer Inc. are fierce competitors in the market for orthopedic pulsed lavage devices, machines used to clean wounds and tissue during surgery. When Stryker introduced a patented portable device, Zimmer's market share plummeted. In response, Zimmer gave an independent contractor a copy of Stryker's product and, in the words of the trial court, "said, 'Make one for us.'" Zimmer did not retain outside patent counsel to assess infringement or consider the validity of Stryker's patents.

Concluding that Zimmer "chose a high-risk/high-reward strategy of competing immediately and aggressively ... opt[ing] to worry about the potential legal consequences later," the trial court trebled \$76 million in compensatory damages, awarding Stryker more than \$228 million.

While affirming compensatory damages, the Federal Circuit vacated the treble damages award under the *Seagate* test, finding that Zimmer's defenses, albeit unsuccessful, were "not objectively unreasonable."

A unanimous Supreme Court reversed: The *Seagate* test, it found, is "unduly rigid," impermissibly limiting the discretion of trial courts. The first prong of the test can "insulate some of the worst patent infringers from any liability for enhanced damages"—"someone who plunders a patent—infringing it without any reason to suppose his conduct is arguably defensible—can nevertheless escape any comeuppance under § 284 solely on the strength of his attorney's ingenuity."

Instead, the decision to award enhanced damages, and in what amount, is committed to the informed discretion of the trial judge, taking into account the "particular circumstances" of the case, the court said. That punishment, however, "should generally be reserved for egregious cases typified by willful misconduct." The Supreme Court remanded for consideration of enhanced damages on that basis.

It is easy to understand the desire to deter blatant copying of a competitor's product without consideration of patent rights. At the

same time, the threat of enhanced damages can chill legitimate, pro-competitive activity and make it easier for owners of weak patents to extract undeserved settlements or license fees.

The concurrence of Justices Stephen Breyer, Anthony Kennedy and Samuel Alito in *Halo* cautioned against the risks of "discouraging lawful innovation," emphasizing the "limited" role of enhanced damages to punish clearly improper conduct. And the concurring justices urged the Federal Circuit to employ its "experience and expertise in patent law" in reviewing enhanced damages awards for abuse of discretion.

How will trial courts identify truly sanctionable conduct? Since *Halo*, some district courts have used pre-*Seagate* precedent that considered a range of factors, including whether the defendant deliberately copied a plaintiff's invention, whether and how thoroughly the defendant investigated infringement and validity issues, the duration of the infringement and the defendant's motivation for infringement.

In the end, as one trial court noted, while these factors are helpful, "the touchstone for awarding enhanced damages after *Halo* is egregiousness" and litigants will have to rely on the good judgment of a trial court.



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