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Halo Elecs., Inc. v. Pulse Elecs., Inc. 136 S. Ct. 1923 (2016)

LENA GHAMRAWI*

BACKGROUND

The Supreme Court issued a combined decision in this ruling, consolidating two patent infringement actions. In the first action, petitioner is Halo Electronics, Inc. (“Halo”), the patent holder for the improved design of electronic surface-mount packages. Respondent is Pulse Electronics, Inc. (“Pulse”), a competitor in the same field. Halo’s electronic packages contain “transformers designed to be mounted to the surface of circuit boards.”¹ In 2002, Halo sent Pulse two letters that offered licenses to Halo’s patents. Pulse declined Halo’s offer after a Pulse engineer determined that “the patents were invalid. Pulse continued to sell its products, even after Halo raised concerns regarding patent infringement. Halo sued Pulse for patent infringement of its electronic surface-mount packages.

In the second action, petitioners are Stryker Corporation, Stryker Puerto Rico, Ltd., and Stryker Sales Corporation (“Stryker”). Respondents are Zimmer, Inc. and Zimmer Surgical Inc. (“Zimmer”). Stryker and Zimmer compete in the orthopedic pulsed lavage devices market. A pulsed lavage device is a surgical utensil that resembles a “combination suction tube and spray gun, used to clean tissue during an operation.”² Stryker sued Zimmer for patent infringement of its operation instrument.

PROCEDURAL HISTORY

In the first action, Halo initiated a suit in 2007, alleging that Pulse infringed its patents for electronic surface-mount packages. Pulse countersued for infringement of its own products. The District Court for the District of Nevada granted summary judgment for Pulse. The court determined that Halo’s patents were not willfully infringed upon and Pulse’s patents were valid. The Court of Appeals for the Federal Circuit affirmed the lower court’s decision. Halo appealed.

In the second action, Stryker sued Zimmer for patent infringement of its pulsed lavage device. The District Court for the Western District of Michigan found that Stryker’s patents were

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1. Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923, 1930 (2016).
2. *Id.* at 1931.

willfully infringed upon by Zimmer and awarded the plaintiff treble damages and attorney's fees, expressing that this case was exceptional. The court of appeals affirmed that Zimmer infringed on Stryker's patents, but vacated the treble damages.

ISSUE

The United States Supreme Court addressed one question: whether the two-part *Seagate* test, used by the federal circuit to determine when a district court may increase damages, is consistent with § 284 of the 1793 Patent Act.³

DECISION

The Supreme Court held that the *Seagate* test, which was being used by the federal circuit, was inconsistent with § 284 of the Patent Act. The Supreme Court vacated and remanded the decision.

REASONING

The Supreme Court began the analysis by explaining how damages should be assessed under § 284 of the Patent Act. Damages may be increased by up to three times in a willful infringement case. The Court elaborated that applying enhanced damages is a mechanism to deter others from this kind of egregious conduct. The Court continued its analysis by examining the history of how enhanced damages have been utilized under § 284. Chief Justice Roberts emphasized that Congress intended enhanced damages to be granted in cases of willful or bad-faith infringement.

The Court next addressed the *Seagate* test, the focus of this decision. In 2007, the two-part *Seagate* test was developed in the federal circuit's decision from *In re Seagate Technology, LLC*.⁴ This is the current test that district courts use for calculating whether enhanced damages apply to patent cases. This test requires that a plaintiff show willfulness to infringe. In order to establish willfulness under the *Seagate* test, the plaintiff must prove with clear and convincing evidence that the: (1) defendants' infringement was objectively reckless, despite objectively knowing that their conduct would likely be an infringement; and that the (2) defendants knew or should have known that there was a risk of infringement.⁵ If both prongs are met, the court can exercise its discretion for whether enhanced damages should be awarded.

In the *Halo* suit, the district court refused to award enhanced damages after applying the *Seagate* test because Halo failed to prove

3. 35 U.S.C. § 284 (2012).

4. 497 F.3d 1360, 1385 (Fed. Cir. 2007).

5. *Halo Elecs., Inc.*, 136 S. Ct. at 1930.

objective recklessness, the first prong. The federal circuit affirmed. In the Stryker suit, the plaintiffs passed the *Seagate* test and the jury found that Zimmer had willfully infringed. The district court found that enhanced damages, totaling two hundred twenty-eight million dollars (\$228M), were appropriate. However, on appeal, the federal circuit vacated the enhanced damages award because Zimmer raised reasonable defenses.

The Court then delved into its issues with the *Seagate* test. Chief Justice Roberts conveyed that the key problem with the *Seagate* test was that it required a finding of objective recklessness before courts could award enhanced damages, which enabled willful offenders to get away unscathed. So, even if a court found a defendant guilty of malicious infringement, it could not award enhanced damages unless the plaintiff proved that the infringement was objectively reckless. The Court's frustration was furthered by the ability of defendants to raise defenses, which insulates infringers even more from incurring enhanced damages. The Court expressed that objective recklessness should not be a prerequisite to receiving enhanced damages.

Finally, the Court gave three reasons why the *Seagate* test was not consistent with § 284 of the Patent Act. First, § 284 allows district courts the flexibility to use their discretion for applying enhanced damages; however, *Seagate's* constraints are too rigid and do not embody the core principles of the Patent Act. Second, *Seagate* requires the clear and convincing evidence standard to prove recklessness. The Court stressed that patent infringement cases have historically been governed by a preponderance of the evidence standard and there was no basis here for applying a heightened standard. Third, the appellate review implemented under *Seagate*, to ensure that district courts do not award excessive awards, is too formulaic. Lastly, the Court reasoned that the district courts did not abuse their discretion because they were equipped to balance the protection of patent rights against technological innovation.

