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Halo Electronics, Inc. v. Pulse Electronics, Inc.: *U.S. Supreme Court Rejects “Unduly Rigid” Seagate Test for Willful Infringement and Enhanced Damages*

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In a unanimous decision delivered yesterday morning in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 579 U.S. ____ (2016), the U.S. Supreme Court overturned the Federal Circuit’s *Seagate* test for granting enhanced damages for willful patent infringement under 35 U.S.C. § 284. In particular, the Supreme Court held:

- The two-part *Seagate* test is “unduly rigid”;
- Willfulness is determined under a “preponderance of the evidence” standard, rather than a “clear and convincing evidence” standard; and
- A trial court’s determinations on willfulness and enhanced damages are reviewed for abuse of discretion.

By overturning the two-part *Seagate* test, the Supreme Court recognized greater discretion for district courts to assess the culpability of parties accused of willful infringement.

In *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), the Federal Circuit held that enhanced damages are only appropriate where a patentee can show by clear and convincing evidence (1) that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, and (2) that the risk of infringement was either known or so obvious that it should have been known to the accused infringer. The Supreme Court recognized that this test provided a significant bar to obtaining enhanced damages, not least because the Federal Circuit also held in *Bard Peripheral Vascular, Inc. v. W. L. Gore & Assoc.* that the first prong of the test is not met if, during the infringement proceedings, the accused infringer was able to raise a substantial question as to validity or noninfringement of the patent—even if the accused infringer was not aware of that question at the time of infringement. According to the court, even a “wanton and malicious pirate” might “escape any comeuppance under § 284 solely on the strength of his attorney’s ingenuity.”

The Supreme Court rejected the *Seagate* test as “unduly rigid.” Echoing other recent Supreme Court decisions such as *Octane Fitness* and *Highmark*, the Court held that the statutory language of Section



284 requires “no precise rule or formula” in making a determination to find willful infringement and to award enhanced damages. To the contrary, Section 284 “permits district courts to exercise their discretion in a manner free from the inelastic constraints of the Seagate test.” Returning more flexibility to the inquiry enables a district court to punish “the full range of culpable behavior,” noted the court.

In addition, as in *Octane Fitness*, the court held that the statute does not supply any basis for requiring proof by clear and convincing evidence. Rather, “patent-infringement litigation has always been governed by a preponderance of the evidence standard,” and there was no reason to require a heightened standard of proof.

Finally, the Federal Circuit’s tripartite framework for appellate review—with the objective recklessness prong reviewed *de novo*, the subjective knowledge prong reviewed for substantial evidence, and the ultimate decision to award enhanced damages reviewed for abuse of discretion—was similarly rejected as too rigid. Following *Octane Fitness* and *Highmark*, the court rejected the multipart standard of review in favor of simple abuse of discretion. Thus, the opinion, delivered by Chief Justice John Roberts, represents a continuation of a trend in which the Supreme Court has reversed the Federal Circuit for articulating bright-line tests where language connoting discretion (“the court may increase the damages”) appears in the Patent Act.

In a concurring opinion, Justice Breyer, joined by Justices Kennedy and Alito, emphasized his view that Section 284 should be used to enhance damages only in “egregious” cases, and not as a matter of course in cases where the defendant was shown merely to have had knowledge of a patent found to be infringed.

Although the practical effects of this decision remain to be seen, one potential effect is that at least in some instances judges and juries may have greater latitude in awarding enhanced damages under the totality of circumstances presented in a particular case than they did under the *Seagate* analysis. In addition, the decision may have implications for the timing of certain portions of the willfulness determination—in some cases pushing the resolution of certain willfulness-related questions from the pleadings and/or summary judgment stages to trial and post-trial proceedings.



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