



ARE Patent Law Alert: Supreme Court Rejects Seagate Test for Enhanced Damages in Patent Cases

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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.*, No. 14-1513 and *Stryker Corp. v. Zimmer, Inc.*, No. 14-1520, slip op. (U.S. June 13, 2016) (collectively, “*Halo*”), unanimously rejecting the United States Court of Appeals for the Federal Circuit’s *Seagate* test for enhanced damages in a patent case. In both cases, the Supreme Court vacated the decisions of the Federal Circuit finding no enhanced damages and remanded the cases for further proceedings consistent with the opinion of the Court.

Under Section 284 of the Patent Act, where there has been a finding of infringement, courts “**may** increase the damages up to three times the amount found or assessed.” 35 U.S.C. § 284 (emphasis added). In *In re Seagate Technology, LLC*, 497 F. 3d 1360, 1371 (2007) (“*Seagate*”), the Federal Circuit set forth a specific test for determining whether enhanced damages under Section 284 are appropriate. Under the old *Seagate* test, a patent owner must show by **clear and convincing** evidence: (i) that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent; and (ii) that this objectively-defined risk was either known or so obvious that it should have been known to the accused infringer. *Id.* Only if both parts of the test are satisfied may the district court consider whether to award enhanced damages. *Id.* An award of enhanced damages is subject to trifurcated appellate review where the first question of *Seagate* is reviewed *de novo*, and the second question and ultimate decision of whether to award enhanced damages is reviewed for abuse of discretion. *Halo*, slip op. at 5-6.

In *Halo*, the Supreme Court focused on the language of Section 282, confirming that it contains “no express limit or condition” and that the word “may” “clearly connotes discretion” on the part of the district court. Slip op. at 8. The Supreme Court cautioned however, that enhanced damages under Section 284 are “generally reserved for egregious cases of culpable behavior.” Slip op. at 9. 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 Supreme Court took issue with *Seagate*'s requirement of a finding of "objective recklessness" before a district court may consider enhanced damages. *Halo*, slip op. at 9. 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 10. Thus, even the most culpable infringer may escape enhanced damages "solely on the strength of his attorney's ingenuity." *Id.* Rather, "[t]he subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless."

The Supreme Court emphasized that "culpability is generally measured against the knowledge of the actor at the time of the challenged conduct" and Section 284 "allows district courts to punish the full range of culpable behavior" in a manner that is free "from the inelastic constraints of the *Seagate* test." *Id.* at 10-11. The Supreme Court "eschew[ed] any rigid formula for awarding enhanced damages under § 284." *Id.* at 12. Further, the Supreme Court rejected the heightened clear and convincing standard required for enhanced damages under *Seagate* as inappropriate and inconsistent with Section 284. *Id.* at 12. Rather, "patent-infringement litigation has always been governed by a preponderance of the evidence standard." *Id.* Finally, the Supreme Court also rejected the Federal Circuit's three part standard for appellate review, holding that a district court's decision regarding enhanced damages should be wholly reviewed on appeal for abuse of discretion. *Id.*

Ultimately, the Supreme Court reiterated that while Section 284 gives district court's 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 15.

Notably, Justice Breyer's concurrence, joined by Justices Kennedy and Alito, reiterated that enhanced damages should be carefully applied "to ensure that they only target cases of egregious misconduct," lest the fear of treble damages frustrate the purpose of the Patent Act "to promote the progress of science and useful arts." *Id.* at 4-5 (Breyer, J., concurring).

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

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