

# Client Alert

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## Supreme Court Abolishes Federal Circuit's Test for Willfulness

By **Bita Rahebi and Esther Kim Chang**

On June 13, 2016, in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 579 U.S. \_\_\_\_ (2016), the Supreme Court unanimously abrogated the Federal Circuit's 2007 decision in *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007). That decision had established the standard for finding willful infringement, which is the predicate for awarding enhanced damages in patent infringement cases.

*Seagate* held that a plaintiff seeking enhanced damages must show that the infringement was willful under a two-pronged inquiry. *Id.* at 1371. First, the patent owner had to "show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Id.* Objective recklessness would not be found if the accused infringer "raise[d] a substantial question as to the validity or noninfringement of the patent" during the infringement proceedings. *Halo Elecs.*, 579 U.S. \_\_\_\_ (slip op., at 5). Second, if it could establish objective recklessness, the patent owner then had to show, again by clear and convincing evidence, that the risk of infringement "was either known or so obvious that it should have been known to the accused infringer." *Seagate*, 497 F.3d at 1371.

The Supreme Court concluded that the Federal Circuit's willfulness test was "unduly rigid" and "impermissibly encumber[ed] the statutory grant of discretion to district courts." *Halo Elecs.*, 579 U.S. \_\_\_\_ (slip op., at 9). The problem with the prior test, according to the high court, was that it "require[d] a finding of objective recklessness in every case" before a court could award enhanced damages. *Id.* The Court reasoned that the language of the statute contained no such explicit limit or condition on when judges could make such awards. *Id.* at 8. Rather, 35 U.S.C. § 284 states only that a "court may increase the damages up to three times the amount found or assessed," and thus gives district courts discretion in awarding enhanced damages.

The Supreme Court also reasoned that the previous test allowed defendants to escape enhanced damages by pointing to a reasonable defense developed only during litigation. Under *Seagate*, the objective recklessness inquiry could be based on the "record developed in the infringement proceeding[s]." 497 F.3d at 1371. According to the Supreme Court, this allowed a person who willfully infringed a patent to escape enhanced damages as long as he could "muster a reasonable (even though unsuccessful) defense at the infringement trial" — "even if he did not act on the basis of the defense or was even aware of it." *Halo Elecs.*, 579 U.S. \_\_\_\_ (slip op., at 10). The proper focus of the inquiry, the Court noted, should be on what the accused infringer knew at the time of the infringement, rather than on defenses later presented at trial. *Id.*

Accordingly, the Supreme Court concluded that, in certain cases, the subjective willfulness of a patent infringer could warrant enhanced damages — without regard to whether his infringement was objectively reckless. *Id.*

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This change allows an award of enhanced damages in certain cases involving deliberate infringement, even though an “independent showing of objective recklessness” may be unavailable or difficult to prove.

Although the decision whether to award enhanced damages is within the district court’s discretion, the Supreme Court cabined that discretion by holding that enhanced damages should be limited “to egregious cases of misconduct beyond typical infringement” and should not be awarded in “garden-variety cases.” *Id.* at 15.

## AMENDED BURDEN OF PROOF

In addition to abandoning the prior test, the Supreme Court rejected the clear and convincing evidence standard required by *Seagate*. The Supreme Court held that enhanced damages need be proven by a preponderance of the evidence. *Id.* at 12.

## AMENDED STANDARD OF APPELLATE REVIEW

The Supreme Court also addressed the standard for appellate review. Under Federal Circuit precedent, an award of enhanced damages was subject to trifurcated appellate review. *Id.* at 5. The first prong of the willfulness test, i.e., objective recklessness, was reviewed *de novo*. *Id.* at 5-6. The second prong, i.e., subjective knowledge, however, was reviewed for substantial evidence. *Id.* at 6. And the ultimate decision to award enhanced damages was reviewed for abuse of discretion. *Id.*

The Supreme Court rejected the Federal Circuit’s three-part framework for appellate review and held that enhanced damages awards should be reviewed on appeal for abuse of discretion. *Id.* at 12-13.

## CONCLUSION

The Supreme Court’s decision in *Halo* allows for an award of enhanced damages in certain cases without establishing objective recklessness, amends the burden of proof for establishing willfulness from a clear and convincing evidence standard to a preponderance of the evidence standard, and makes clear that the district court’s decision whether to award enhanced damages is reviewed for abuse of discretion.

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