

Halo: The Demise of the *Seagate* Test and the Return of Discretion

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Under [§ 284 of the Patent Act](#), “the court may increase the damages up to three times the amount found or assessed.” Although § 284 lacks explicit limitations or conditions on when to award these enhanced damages, the Federal Circuit in [In re Seagate Technology, LLC](#) implemented a two-part test to determine whether a patent holder could recover enhanced damages. First, the *Seagate* test required evaluating whether the infringer was objectively reckless in disregarding the risk of infringing a valid patent. Second, the *Seagate* test involved determining whether the infringer was subjectively aware of the risk of infringement. A court could only award enhanced damages if the patent holder showed, by clear and convincing evidence, that both the objective and subjective prongs of the *Seagate* test were satisfied. The *Seagate* test facilitated findings of no willful infringement as a matter of law where an accused infringer raised an objectively reasonable defense during litigation.

On June 13, 2016, the Supreme Court unanimously rejected the rigid *Seagate* test in [Halo Elecs., Inc. v. Pulse Elecs., Inc.](#), holding that “[t]he *Seagate* test is not consistent with §284.” Following its reasoning in [Octane Fitness, LLC v. ICON Health & Fitness Inc.](#), the Court’s decision in *Halo* restores district court discretion to award enhanced damages under § 284. Finding no “explicit limit or condition” in the text of § 284 and emphasizing that the “‘word ‘may’ clearly connotes discretion[.]” the Court held that the rigidity of the *Seagate* test impermissibly restricted a court’s discretion to award enhanced damages. The primary problem with the *Seagate* test, according to the Court, is “that it requires a finding of objective recklessness[.]” By creating a rigid “objective recklessness” threshold, the *Seagate* test introduced boundaries not otherwise present in § 284.

Furthermore, the Court found that the “objective recklessness” threshold prevented district courts from punishing “many of the most culpable offenders” because presenting any reasonable defense at trial would prevent an award of enhanced damages. Thus, “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.” In eliminating the strict “objective recklessness” threshold, the Court enables a district court to award enhanced damages based on the particular circumstances of a given case.

A number of *amici* voiced concerns that such unfettered discretion will “impede innovation as companies steer well clear of any possible interference with patent rights” and “embolden ‘trolls’.” The Court dismissed these concerns by rearticulating that enhanced damages should be limited to egregious misconduct. The Court did not provide further guidance on how to determine when conduct rises to the level of egregious misconduct, but the Court’s recent decision in [Kirtsaeng, DBA v. John Wiley & Sons, Inc.](#) may prove instructive.

Just three days after its decision in *Halo*, the Court unanimously held that district courts should give “substantial weight” to the objective reasonableness of a party’s position when determining whether to award attorney’s fees under [§ 505 of the Copyright Act](#), which provides that a district court “may . . . award a reasonable attorney’s fee to the prevailing party.” The

Court held that the district court must give due consideration to all relevant circumstances, but that the district court should give substantial weight to the “objective reasonableness of the losing party’s position.” In *Halo*, the Court rejected “objective recklessness” as a prerequisite to awarding enhanced damages. It remains to be seen whether the reasoning in *Kirtsaeng* may be extended to patent law and lead to consideration of the objective reasonableness of an infringer’s defense in assessing whether to award enhanced damages. If the Court had intended objective reasonableness to continue to have an important role in patent cases, one might have expected the Court to address that role in *Halo*, decided only three days earlier.

Some lawmakers do not support an increase in discretion when awarding enhanced damages. After the Supreme Court issued its opinion in *Halo*, Senator Orrin Hatch swiftly expressed his opposition by filing a [“Sense of Congress” amendment \(amendments 4743 to 4685\)](#) on June 16, 2016. Senator Hatch’s amendment states that Congress intended for the *Seagate* test to govern when it enacted the [2011 Leahy-Smith America Invents Act](#). A bill directly addressing enhanced damages has not yet been filed, but future amendments to the Patent Act remain possible. Until Congress passes such a bill, however, district courts are no longer constrained by the *Seagate* test when deciding whether to award enhanced damages for willful infringement.

The immediate effects of eliminating the *Seagate* test have already started to present themselves. Less than one month after the Supreme Court’s decision in *Halo*, Magistrate Judge Love vacated a summary judgment order of no willful infringement which relied on *Seagate*’s “objective recklessness” threshold. *See TransData, Inc. v. Denton Municipal Elec. et al*, 6-10-cv-00557 at *2 (E.D. Tex. June 29, 2016, Order) (Love, M.J.). In vacating the award, Judge Love found that subjective willfulness presents a question of fact that must be determined by the jury. A judge in the Southern District of California also held that subjective willfulness presents an issue of fact for the jury under *Halo*. *See Presidio Components, Inc. v. Am. Tech. Ceramics Corp.*, 3-14-cv-02061, Doc. No. 368 at 27 (S.D. Cal. June 17, 2016, Order) (Huff, J.).

If these early applications of *Halo* are any indication, eliminating *Seagate*’s “objective recklessness” threshold may have made obtaining summary judgment of no willful infringement more difficult. This, in turn, could create a greater need for litigation counsel and their clients to consider the need to defend against willfulness at trial. Faced with a greater need to defend against willfulness, companies that limited or abandoned the practice of seeking formal legal opinions related to infringement may more readily seek such opinions. In turn, companies in possession of such legal opinions will need to consider waiving privilege to present these opinions as a defense to willfulness at trial. While the failure to consult legal counsel or invoking attorney-client privilege cannot create an inference of willfulness under [Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.](#), consulting legal counsel may provide useful evidence of no willfulness.

It remains too early to determine whether the Supreme Court’s ruling in *Halo* will substantively increase the number of instances in which enhanced damages are awarded, but the Court’s decision creates an immediate need to reconsider defenses to allegations of willful infringement in assessing trial strategy.

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