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U.S. Federal Circuit Appeals Court Limits the Extent of Waiver of Opinion Counsel/Client Privilege and Clarifies the Tests for Enhanced Damages and Willful Infringement.

SUMMARY

The U.S. Court of Appeals for the Federal Circuit (“CAFC”) recently clarified several points of law regarding privilege and damages for willful infringement. In summary:

- a) waiver of attorney/client privilege with respect to opinion counsel does not typically extend to a waiver of attorney/client privilege with respect to trial counsel; and
- b) the threshold for enhanced damages is willful infringement. The standard to determine willfulness is “reckless disregard”¹. Willfulness is determined by an objective test requiring the patentee 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.”²

THE ISSUES

In the CAFC’s decision *In re Seagate Technology, LLC*,³ Convolv and MIT (collectively “Convolv”) alleged that Seagate willfully infringed several of Convolv’s patents, and sought damages for such willful infringement. Prior to the lawsuit, Seagate retained opinion counsel to advise whether Seagate infringed Convolv’s patents. The opinion counsel concluded that Seagate’s activities did not infringe Convolv’s patents and that most of the claims were invalid.

The main issues considered by the court were waiver of attorney/client privilege and the threshold for enhanced damages. A common defense to willful infringement is an opinion counsel’s conclusion of non-infringement. The defense requires the defendant to waive privilege of opinion counsel, but, it has been unclear whether such a waiver extends to the privilege of the trial counsel. Seagate informed Convolv that it intended to rely on its opinion counsel’s conclusion of non-infringement, thereby waiving privilege to its communications with opinion counsel. However, Convolv moved to compel Seagate to produce the work created by Seagate’s trial counsel with respect to Seagate’s opinion counsel’s findings.

Also, 35 U.S.C. § 284 allows the court to award enhanced damages (i.e., up to three times the calculated damages) where infringement has been established. However, the statute does not provide guidance on when the court may exercise that discretion. Some decisions suggest that a party acting negligently can be deemed to have willfully infringed a patent.

1. *In re Seagate Technology, LLC*, Misc. Dkt. No. 830 (Fed. Cir. Aug. 20, 2007) at 12.

2. *In re Seagate Technology, LLC*, Misc. Dkt. No. 830 (Fed. Cir. Aug. 20, 2007) at 12.

3. Misc. Dkt. No. 830 (Fed. Cir. Aug. 20, 2007).

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THE DECISION

The CAFC held that the waiver of privilege in relation to opinion counsel does not extend to that of the trial counsel unless the defendant engages in “chicanery.”⁴ The function of opinion counsels differs from that of the trial counsel: opinion counsel provides an “objective assessment for making informed business decisions”⁵, whereas trial counsel “focuses on litigation strategy and evaluates the most successful manner of presenting a case to a judicial maker”⁶.

The CAFC further clarified that the threshold for awarding enhanced damages is willfulness, and that the negligence standard is unacceptably low. Willfulness should be determined by a higher objective test, namely “reckless disregard”⁷. A party willfully infringes a patent if it can be shown “by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.”⁸

PRACTICAL IMPLICATIONS

The decision introduces some significant changes to how enhanced damages and willful infringement are determined. For there to be an award of enhanced damages, there must be a finding of willful infringement. However, a finding of willful infringement will only be made if the infringer showed “reckless disregard” in its infringement of a patent. Further, parties relying on opinion counsel’s favourable opinions to defend against willful infringement allegations do not necessarily waive the trial attorney/client privilege with respect to the work and opinion provided by the opinion counsel.

The decision may have significant impact on any party responding to allegations of patent infringement, even at the earliest stages of the allegations.

If you wish to discuss these matters, please contact: Stephen Perry at 416.920.8170 x107 (perry@perry-currier.com) or Andrew Currier at 416.920.8170 x109 (currier@perry-currier.com).

The foregoing does not constitute legal or other professional advice and is only a general discussion of recent developments. Do not rely on this communication as a substitute for professional advice. If you require professional advice relative to your own circumstances, please contact us.

4. *In re Seagate Technology, LLC*, Misc. Dkt. No. 830 (Fed. Cir. Aug. 20, 2007) at 18.

5. *In re Seagate Technology, LLC*, Misc. Dkt. No. 830 (Fed. Cir. Aug. 20, 2007) at 15.

6. *In re Seagate Technology, LLC*, Misc. Dkt. No. 830 (Fed. Cir. Aug. 20, 2007) at 15.

7. *In re Seagate Technology, LLC*, Misc. Dkt. No. 830 (Fed. Cir. Aug. 20, 2007) at 12.

8. *In re Seagate Technology, LLC*, Misc. Dkt. No. 830 (Fed. Cir. Aug. 20, 2007) at 12.