INTELLECTUAL PROPERTY ALERT

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Federal Patent Court Clarifies Willful Infringement, Waiver of Attorney-Client Privilege

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Businesses have traditionally responded to a notice of claimed infringement by seeking an opinion of noninfringement from a patent lawyer, to avoid the possibility of a finding of willful infringement, which can lead to enhanced damages. Recent cases have created uncertainty about the extent to which the communications with the attorney providing the opinion would be protected by the attorney client privilege.

In its August 20, 2007 decision in *In re Seagate Technology, LLC*, the U.S. Court of Appeals for the Federal Circuit, which hears all patent appeals, has clarified (1) the standard for proving willful infringement and (2) the extent of any attorney-client privilege waiver when a defendant relies on a patent lawyer's opinion to rebut a charge of willfulness.

First, the court adopted a standard that will make it harder for patent owners to prove willful infringement. Under the former standard (the so-called *Underwater Devices* rule), the alleged infringer had an affirmative duty "to seek and obtain competent legal advice before the initiation of any possible infringing activity." In other words, a potential infringer had to ask an independent patent lawyer whether its activities were likely to infringe a valid patent. Failure to do so would support a finding of willfulness, and failure to produce a favorable opinion in court would lead to the inference that no opinion had been sought or that the opinion had been adverse to the infringer.

Seagate overrules this affirmative duty of due care, including the specific duty to obtain an opinion of counsel. Instead, "proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness." More specifically, "a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted patent infringement of a valid patent." Moreover, this risk of infringement must have been either known or "so obvious that it should have been known to the accused infringer." The presence, absence, and contents of opinion letters may still be relevant, but will no longer be decisive.

The second question is what happens to the attorney-client privilege when the alleged infringer does rely on a favorable opinion of counsel to defeat willfulness, an issue that the Federal Circuit began to deal with in its 2006

Echostar opinion. *Seagate* holds that the privilege is waived with respect to all communications with the patent opinion counsel that concern the subject of the opinion. There is no such waiver with respect to communications with trial counsel, however (assuming, of course, that the two sets of counsel are separate and independent from each other).

Finally, the court held that the same waiver principles would apply to work product created by the various lawyers.

The immediate practical implications of *Seagate* include the following:

- The greater difficulty of proving enhanced damages will likely factor into both plaintiffs' and defendants' evaluation of cases for settlement purposes;
- Even if they are no longer conclusive, opinions of outside patent counsel will remain extremely important;
- It is more important than ever that patent opinion counsel be independent, both of the client and of trial counsel.