



Risky Business - Wilful Infringement and the Advice of Counsel Defence

March 8, 2017

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This article is a cautionary tale about dealing with patent infringement risks, and the practice of obtaining legal opinions to evaluate and reduce the risk. First, a little background.

The U.S. doctrine of wilful infringement strikes fear in the hearts of accused infringers. This doctrine allows a U.S. court to triple the damages amount if the court finds that the infringing activity was carried out with the knowledge of the patent. Due to the catastrophic impact of a wilful infringement finding, allegations of wilful infringement became commonplace in U.S. patent litigation since the 1980s. Often, these allegations were made with very little basis in order to exert economic leverage over the defendant for the purpose of extracting a favorable settlement. Around the turn of the century, U.S. courts became concerned about the abuse of patent rights caused by baseless wilful infringement claims. Over a series of decisions, U.S. courts began to limit the application of the doctrine. This process culminated with the *Seagate* decision in 2007. In this decision, the U.S. Court of Appeals for the Federal Circuit laid out a new test for wilful infringement which made it very difficult to prove wilful infringement. This decision had the intended effect of reducing wilful infringement claims. However, concerns soon surfaced that the *Seagate* decision tilted the balance too far in favor of defendants. In the *Halo* decision which came out in 2016, the U.S. Supreme Court repudiated the *Seagate* test and relaxed the requirements for making a successful wilful infringement test. While we are still in the early days of the impact of the *Halo* decision, it appears that wilful infringement claims are making a comeback, although not to the level experienced in the 1980s and 90s.

It has long been accepted that the infringement is not wilful if it is done with the good faith belief that the patent is either invalid or not infringed. The infringer can prove its good faith belief by relying on a non-infringement or invalidity opinion from counsel. This is referred to as the advice of counsel defence to wilful infringement. The popularity of obtaining such opinions has generally risen and fallen together with the rise and fall of wilful infringement claims. One of the impacts of the *Halo* decision may lead to increased use of opinions, although the failure of an infringer to obtain advice of counsel cannot be used to prove wilful infringement.

While the advice of counsel defence is a well-known tool to reduce the risk of wilful infringement claims, it is not without its own risks and must be managed correctly. These risks were highlighted in a recent order of the U.S. District Court in *Krausz v. Smith-Blair*. It is well settled that relying on the advice of counsel defence requires a waiver of attorney-client privilege on any communications relating to the legal opinion between the attorney providing the opinion (the "opinion counsel") and the alleged infringer.

In August 2012, Krausz accused Smith-Blair of wilfully infringing Krausz's U.S. Patent No. 6,293,556 (the '556 Patent). In response to the wilful infringement claim, Smith-Blair relied on the advice of counsel defence based on a legal opinion provided by its opinion counsel, Wood Herron. The legal opinion was produced prior to the lawsuit, and concluded that Smith-Blair's accused product did not infringe the '556 Patent. In January 2013, Smith-Blair retained a different law firm (Smith Anderson) to act as its defence counsel in the litigation (the "trial counsel").

However, the opinion counsel continued to be actively involved in developing and implementing litigation strategy even after the trial counsel was retained. The District Court found that the opinion counsel encroached on the domain of the trial counsel due to its continuing involvement during litigation. As a result, the District Court extended the privilege waiver on communications related to the legal opinion to include communications involving the trial counsel. The privilege waiver was



also extended to include communications between the trial counsel and Smith-Blair in-house counsel related to information that each received from the opinion counsel on the legal opinion. Because Smith-Blair unwittingly blurred the roles of its opinion counsel and trial counsel, Smith-Blair was forced to produce communications with its trial counsel that would have otherwise been privileged and that Smith-Blair did not want the other side to see. While the trial on the merits of this case has not started, it is likely that this unexpected disclosure of what are likely to be sensitive litigation strategy communications will not help Smith-Blair's defence.

With the recent developments on wilful infringement, obtaining a formal non-infringement or invalidity opinion is likely to gain in popularity. When obtaining the opinions and discussing the patent at issue, the management team of the accused infringer and their in-house counsel often assume that all of their communications are privileged and will not be disclosed to the opposing side. However, companies who expect to rely on these opinions should understand that they may have to waive privilege over the opinion and associated communications. They also need to understand that the scope of the waiver is uncertain, which introduces risk of disclosure of sensitive communications regarding strategy for dealing with the claim. The narrow lesson of this case is the value of isolating opinion counsel from trial counsel and from participating in litigation strategy. The broader lesson is that those concerned with possible infringement claims should keep written communication on the merits of the claim to a minimum and not assume that the communications will always be protected by privilege, even when their lawyers are involved.

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