

ALERT



September 2004

Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp., Nos. 01-1357, -1376, 02-1221, -1256 (Fed. Cir. Sept. 13, 2004) (*en banc*)

Interaction Between Willful Infringement Law and Opinions of Counsel

In *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.*, Nos. 01-1357, -1376, 02-1221, -1256 (Fed. Cir. Sept. 13, 2004) (*en banc*), the Federal Circuit sitting *en banc*¹ reconsidered its precedent with respect to the interaction between willful infringement and opinions of counsel. Notably, the Court overruled nearly twenty years of precedent and held that no adverse inference shall arise that an opinion of counsel was or would have been unfavorable if a defendant chooses to withhold such an opinion pursuant to either the attorney-client and/or work-product privileges. The Court further reaffirmed its adherence to a “totality of the circumstances” test for willful infringement.

1. Willful Infringement Law under *Knorr-Bremse*.

Taking the case *en banc*, the Court requested that each of the parties and any interested third party *amici* submit additional briefing on multiple questions relating to the interaction between willful infringement and opinions of counsel. Op. at 2. Specifically, by answering three questions which had general applicability to patent cases,² the Court unequivocally eliminated the adverse inference that had previously arisen when a patent infringement defendant withheld one or more opinions of counsel. In so doing, the Court left some uncertainty with respect to the role of opinions of counsel in cases where willful infringement is asserted.

2. (a) No Adverse Inference When the Attorney-Client Privilege and/or Work-Product Privilege is Invoked By a Defendant.

The Court held that “[w]hen the attorney-client privilege and/or work product privilege is invoked by a defendant in a willful infringement suit, [it is not] appropriate for the trier of fact to draw an adverse inference with respect to willful infringement.” Op. at 10. The Court set forth two reasons for eliminating the adverse inference. First, the Court reasoned that allowing an adverse inference to attach to withheld opinions of counsel could distort the attorney-client relationship by discouraging open and full communication between client and attorney. Op. at 10. Second, citing the Second and Fourth Circuits, the Court reasoned that the courts of appeal have declined to impose adverse inferences on invocation of the attorney-client privilege in other areas of the law, such as trademark law. Op. at 10-11. Accordingly, in conformity with the case law applied in other areas, there will no longer be a negative inference from a defendant’s refusal

to produce an opinion letter of counsel in patent cases. Nonetheless, the Court reiterated that a defendant still had the option to waive the privilege and produce the opinion of counsel. Op. at 11.

(b) No Adverse Inference When the Defendant has not Obtained Legal Advice.

As a corollary to its holding that it was inappropriate to draw an adverse inference from a withheld opinion of counsel, the Court likewise held that it was inappropriate to draw an adverse inference from failure to consult counsel. Op. at 12. In reaching this conclusion, the Court noted the significant burdens and costs associated with full study by counsel of all potentially adverse patents of which the defendant had knowledge. Although the Court maintained that there is “an affirmative duty of due care to avoid infringement of the known patent rights of others,” *id.* (internal quotations omitted), the failure to obtain an exculpatory opinion does not trigger an adverse inference or evidentiary presumption that such an opinion would have been unfavorable. *Id.*

(c) A Substantial Defense to Infringement is not Sufficient to Defeat Liability for Willful Infringement.

The Court lastly held that there is no *per se* rule that a substantial defense to infringement is sufficient to defeat a charge of willful infringement. Instead, such a defense is one of the many factors that a trier of fact must weigh to determine whether a finding of willful infringement is warranted in any particular case. Op. at 15-16.

2. Judge Dyk’s Concurrence-in-Part and Dissent-in-Part.

Judge Dyk joined the majority opinion to the extent that it eliminated an adverse inference of an unfavorable opinion of counsel from a defendant’s failure to either disclose or obtain an opinion of counsel. However, Judge Dyk dissented from the majority opinion to the extent that it could be read as imposing on a potential infringer that has actual notice of another’s patent rights an affirmative duty to exercise due care to determine whether or not he is infringing. Concur/Dissent Op. at 1.

Judge Dyk explained that, in his view, enhancing damages for failure to comply with the due care requirement was contrary to recent Supreme Court precedent. Judge Dyk reasoned that enhanced damages for willful infringement are a form of punitive damages, and punitive damages are awarded to

punish reprehensible conduct. Concur/Dissent Op. at 2. Because a potential infringer’s failure to engage in due care does not alone amount to reprehensible conduct, in his view, the duty of care should not be the preeminent factor applied by Courts in the determination of willfulness and enhanced damages. *Id.* at 4.

Judge Dyk ultimately argued to eliminate the due care requirement in its entirety as a factor in the determination of willfulness and enhancement of damages. *Id.* at 9. In support of his argument, Judge Dyk noted that the duty of care requirement is not supported in the text of the patent damages statute, the legislative history, or Supreme Court opinions. *Id.* at 4. Judge Dyk further stated that there was no benefit to the patent system from imposing a due care requirement in the absence of other reprehensible conduct. *Id.* at 7-8.

3. Practical Effect of *Knorr-Bremse* Decision on Practitioners.

Although *Knorr-Bremse* answers many questions, it raises others. Most notably, the Court’s opinion fails to answer what actions a defendant can take to defend against a claim of willful infringement in lieu of disclosing an opinion of counsel. Second, the decision fails to answer whether a plaintiff is allowed to make any reference to the lack of an opinion of counsel in advocacy of his case, even if such a reference does not produce an adverse inference. Third, the decision fails to answer whether a defendant may invoke the privilege and refuse to disclose an opinion of counsel, but still rely on consultation with counsel as a defense to willful patent infringement.

In sum, the *Knorr-Bremse* decision eliminated the clear rule that allowed an adverse inference to be drawn, but replaced it with a case-by-case “totality of the circumstances” test with no clear elements or limitations. Only future decisions of the Court will fully outline the boundaries and implications of the *Knorr-Bremse* decision.

Given this lack of specificity, practitioners will likely continue to rely (where possible) on a timely-obtained, comprehensive and exculpatory opinion of competent counsel to defend against an allegation of willful patent infringement. Given the questions remaining in this area, the Court is likely to have to revisit the issues of willful infringement and opinions of counsel as the District Courts and patent litigators wrestle with the contours of the doctrine.

¹ Judge Newman authored the opinion for the Court. Judge Dyk filed a concurrence-in-part and a dissent-in-part. Judge Michel took no part in the consideration or decision of the Court.

² The fourth question applied the court’s new rules to the specific facts of *Knorr-Bremse* and will not be addressed here.

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