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SPECIAL
REPORT

EN BANC FEDERAL CIRCUIT RULES AGAINST THE DRAWING OF AN ADVERSE INFERENCE WITH RESPECT TO WILLFUL INFRINGEMENT

October 7, 2004

On September 13, the U.S. Court of Appeals for the Federal Circuit issued its much anticipated *en banc* decision in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corporation.*[1] The decision overrules nearly twenty years of precedent relating to the issue of willful patent infringement. In particular, it holds that an accused infringer's failure to obtain or produce an exculpatory opinion of counsel shall not result in an adverse inference that an opinion of counsel was or would have been unfavorable. The Federal Circuit determined that the adverse inference rule, first set forth in the Court's 1986 *Kloster Speedsteel AB v. Crucible Inc.* decision,[2] "has resulted in inappropriate burdens on the attorney-client relationship." Thus, the U.S. District Court for the Eastern District of Virginia's decision following precedent and applying the rule was vacated and remanded for re-determination of the willful infringement issue without such an adverse inference.

This Special Report presents in Part I the four questions considered by the Federal Circuit and the Court's summary holdings, in Part II some key points of the Federal Circuit's decision, and in Part III some conclusions and recommendations with respect to obtaining and relying upon opinions of counsel in the wake of the Court's decision.

I. The Federal Circuit's Questions And Holdings

Question 1: "When the attorney-client privilege and/or work product privilege is invoked by a defendant in an infringement suit, is it appropriate for the trier of fact to draw an adverse inference with respect to willful infringement?"
Holding: No. "Although the duty to respect the law is undiminished, no adverse inference shall arise from invocation of the attorney-client privilege and/or work product privilege."

Question 2: "When the defendant had not obtained legal advice, is it appropriate to draw an adverse inference with respect to willful infringement?"
Holding: No. "Although there continues to be 'an affirmative duty of due care to avoid infringement of the known patent rights of others,' the failure to obtain an exculpatory opinion of counsel shall no longer provide an adverse inference or evidentiary presumption that such an opinion would have been unfavorable."

Question 3: "If the court concludes that the law should be changed, and the adverse inference withdrawn as applied to this case, what are the consequences for this case?"
Holding: The district court's finding of willful infringement is vacated and remanded for re-determination. "[B]ecause elimination of the adverse inference as drawn by the district court is a material change in the totality of the circumstances, a fresh weighing of the evidence is required to determine whether the defendants committed willful infringement."

Question 4: "Should the existence of a substantial defense to infringement be sufficient to defeat liability for willful infringement even if no legal advice has been secured?"
Holding: No. "Precedent includes this factor with others to be considered among the totality of

[1] __ F.3d ____, Nos. 01-1357, -1376, 02-1221, -1256, 2004 WL 2049342 (Fed. Cir. Sept. 13, 2004).
[2] 793 F.2d 1565 (Fed. Cir. 1986).

circumstances, ... [but] precedent also authorizes the trier of fact to accord each factor the weight warranted by its strength in the particular case."

II. Key Points Of The Federal Circuit's Decision

A. No Special Rule Affecting Attorney-Client Relationships in Patent Cases

The Federal Circuit quoted the Supreme Court's decision in *Upjohn Co. v. United States*,[3] which described the attorney-client privilege as the "'oldest of the privileges for confidential communications known to common law,'" and stressed the public purpose "to encourage full and frank communications between attorneys and their clients and thereby promote broader public interests in the observance of law and the administration of justice." While noting that it had never suggested that opinions of counsel concerning patents are not privileged, the Court stated that permitting an inference that withheld opinions are adverse to the client's actions can distort the attorney-client relationship in derogation of the foundations of that relationship. Moreover, the Federal Circuit noted that courts have declined to impose adverse inferences on invocation of the attorney-client privilege in other contexts, and held that this same reasoning should apply in patent cases.

B. Continued Affirmative Duty of Due Care

Pointing to the "burdens and costs of ... early and full study by counsel of every potentially adverse patent," the Federal Circuit held that it is inappropriate to draw an adverse inference from failure to consult counsel. Nonetheless, the Court also noted, quoting its precedent, that there "continues to be 'an affirmative duty of due care to avoid infringement of the known patent rights of others.'"

C. Consideration of the Totality of the Circumstances

The Federal Circuit re-affirmed the basic tenets of its prior decisions that willfulness is evaluated by examining the infringer's behavior in light of the totality of the circumstances and that "'there are no hard and fast *per se* rules.'" The Court expressly did not decide whether, as part of the totality of the circumstances, a trier of fact "can or should be told whether or not counsel was consulted (albeit without any inference as to the nature of the advice received)," because "[t]hat aspect is not raised by this case...." However, quoting one of its earlier decisions, the Court stated that one relevant factor is "'whether a prudent person would have sound reason to believe that the patent was not infringed or was invalid or unenforceable, and would be so held if litigated.'" Of course, an exculpatory opinion of counsel can help to establish this.

D. Judge Dyk's Dissent

Although joining the majority opinion insofar as it eliminated the adverse inference rule, Circuit Judge Dyk stressed his disagreement with the majority opinion to the extent that it may be read as reaffirming that a potential infringer with actual notice of a patent has an affirmative duty to exercise due care to determine whether or not he is infringing. According to Judge Dyk, the due care requirement is not supported by the patent damages statute, the legislative history, or Supreme Court opinions, and he would "eliminate it as a factor in the willfulness and enhancement analysis."

III. Conclusions And Recommendations

Given that there will no longer be an adverse inference that a non-disclosed or non-obtained opinion was or would have been unfavorable, the Federal Circuit's decision provides a certain degree of latitude with respect to decisions regarding whether or not to obtain opinions of counsel in connection with the exercise of due care with respect to known patents, and whether or not to rely in a litigation on an opinion that was obtained. However, given that the duty of due care remains, and should be satisfied before commencing activity potentially implicating a known patent, affirmative steps still need to be taken to ensure that a sound reason exists to believe that a potentially relevant patent is invalid, unenforceable or not infringed, and would be so held if litigated. Depending on all the circumstances, an opinion of counsel may be necessary or helpful in determining that such sound reason exists.

[3] 449 U.S. 383, 389 (1981).

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Thus, in making decisions regarding whether or not to obtain or rely upon opinions of counsel, we recommend that you continue to:

(1) Ensure that due care is always taken to avoid the known patent rights of others, whether or not an opinion of counsel is obtained in a given situation

(2) Err on the side of caution and obtain a formal written opinion of counsel whenever the threat to your company's or client's business is significant, the infringement and validity issues are close or complicated, or litigation is imminent;

(3) When in doubt, seek advice of counsel regarding the need for a formal written opinion in a given situation; and

(4) In deciding whether to produce and rely upon an opinion of counsel in defense of a willful infringement allegation in litigation, balance (a) the likelihood that the opinion will be needed to successfully defend versus (b) any harm that is likely to result from waiver of privilege, in connection with producing the opinion, that may require production of other documents and testimony relating to the issues encompassed by the opinion.

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