

**Neither Good *Knorr* Bad:  
The Federal Circuit’s Decision to Eliminate the  
“Adverse Inference” in Willful Infringement  
Determinations Does Not Alleviate the Burden on  
Accused Patent Infringers**

*Ryan H. Coletti*\*

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INTRODUCTION

For nearly twenty years, the doctrine of willful infringement in patent law has received criticism for its detrimental effects on attorney-client privilege. The Federal Circuit’s *en banc* decision in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*<sup>1</sup> to eliminate the “adverse inference”—a contributing cause of this discontent—signifies an important recognition by the court that the law of willful infringement has frustrated the core purposes of attorney-client privilege, and has placed accused infringers in an unfair litigation posture for many years. Yet while the court attempts to strike a balance in the equities of patent

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\* J.D. candidate, 2006, Seton Hall University School of Law; B.A., 2003, Haverford College. Special thanks to Professor Frank Pasquale, Austin Berry, Marissa Quigley, and Aili Monahan for their ideas and contributions to this comment.

<sup>1</sup> 383 F.3d 1337 (Fed. Cir. 2004) (*en banc*).

infringement litigation, it should remain mindful that, although it has changed the rules of the game, its holding has not necessarily eliminated the inherent unbalance of willful infringement determinations. The Federal Circuit's decision to eliminate the "adverse inference" was merely a cosmetic change in patent litigation because, to defeat a claim of willful infringement, accused infringers likely will continue to obtain and produce exculpatory opinions, and thereby waive their attorney-client privilege. Contrary to the Federal Circuit's intent in *Knorr-Bremse*, the court has done little to reduce the "inappropriate burdens on the attorney-client relationship";<sup>2</sup> therefore, it must do more to resolve this dilemma.

Adopted by the Federal Circuit in 1986, the "adverse inference"<sup>3</sup> became a potent factor in a court's evaluation of a willful patent infringement claim. When faced with an allegation of willful infringement of another's patent, an alleged infringer would often obtain an opinion from an attorney to evaluate the claim.<sup>4</sup> Before *Knorr-Bremse*, obtaining an opinion was viewed as being "close to compulsory,"<sup>5</sup> because if the dispute proceeded to trial, an accused infringer would rely on the opinion as exculpatory evidence that infringement was not willful. Production of the opinion, however, necessarily resulted in a waiver of the infringer's attorney-client privilege and possibly work-product protection for related documents.<sup>6</sup> Even worse, if an accused infringer did not seek an opinion of counsel, or if the accused infringer obtained an opinion yet did not produce it, courts were free to infer that the infringement was willful and, in its

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<sup>2</sup> *Id.* at 1343.

<sup>3</sup> See *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986), *overruled by* *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc). The Federal Circuit held that the defendant's "silence on the subject, in alleged reliance on the attorney-client privilege, would warrant the conclusion that it either obtained no advice of counsel or did so and was advised that its importation and sale of the accused products would be an infringement of valid U.S. patents." *Id.* The Federal Circuit first used the term "adverse inference," in the context of willful infringement, in *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101, 1110 (Fed. Cir. 1986).

<sup>4</sup> Obtaining an opinion of counsel was a necessity even before the creation of the "adverse inference," because three years prior, in *Underwater Devices, Inc., v. Morrison-Knudsen Co.*, 717 F.2d, 1380 (Fed. Cir. 1983), the Federal Circuit created an "affirmative duty" that forced potential infringers, who acquired actual notice of a patent, "to exercise due care to determine whether or not he is infringing." *Id.* at 1389-90.

<sup>5</sup> *Terra Novo, Inc. v. Golden Gate Prods., Inc.*, No. C-03-2684 MMC EDL, 2004 WL 2254559, at \*2 (N.D. Cal. Oct. 1, 2004).

<sup>6</sup> Jared Goff, Comment, *The Unpredictable Scope of the Waiver Resulting from the Advice-of-Counsel Defense to Willful Patent Infringement*, 1998 B.Y.U. L. REV. 213, 218 (1998).

discretion, award substantially increased damages.<sup>7</sup> This presumption, known as the “adverse inference,” forced an accused infringer to weigh the risks of countering a strong inference of willful infringement—if it did not produce an exculpatory opinion—against the risks of privilege waiver on a party’s efforts to develop a viable infringement defense after having been forced to tip its cards to its adversary in accordance with discovery orders. Privilege waiver was undesirable because alleged infringers risked the disclosure of valuable litigation strategies which may have been embedded in the newly discoverable documents.<sup>8</sup> This dilemma—which some commentators have characterized as a “Catch-22”<sup>9</sup> and “Hobson’s choice”<sup>10</sup>—long put alleged infringers in a frustrating, and arguably “unfair,”<sup>11</sup> position.

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<sup>7</sup> See *Kloster Speedsteel*, 793 F.2d at 1580; see also *Fromson v. Western Litho Plate and Supply Co.*, 853 F.2d 1568, 1572-73 (Fed. Cir. 1988) (“Where the infringer fails to introduce an exculpatory opinion of counsel at trial, a court must be free to infer that either no opinion was obtained or, if an opinion were obtained, it was contrary to the infringer’s desire to initiate or continue its use of the patentee’s invention.”), *overruled by Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc).

<sup>8</sup> See ETHAN HORWITZ & LESTER HORWITZ, *PATENT LITIGATION: PROCEDURE & TACTICS*, *PATENT LAW & PRACTICE* § 9-07[13][a], 9-120.4 (1971 & Supp. 2003). Waiver, understandably, is an unappealing option when “[a] typical document request, with respect to willful infringement, would request the production of the following: ‘any and all opinion from counsel and any and all documents referring to or embodying opinions form counsel relating to infringement and/or non-infringement and/or validity and/or invalidity of U.S. Patent \_\_\_\_\_ and/or any claim thereof.’” *Id.*

<sup>9</sup> Douglas D. Salyers, *The Perils of Practitioners Penning Patent Opinion, Protecting Privilege, Preventing Production, and Other Ponderous Problems*, 619 *PLI/PAT* 955, 976 (2004) (“Defendants that have an opinion of counsel face a Catch-22 in deciding if and when to produce the opinion during discovery. Producing the opinions reveals tactical defenses and legal strategies and opens up the door to complicated waiver of privilege issues. Withholding the opinion leads to a negative inference of willfulness and counsel’s argument that the infringer has something to hide.”). *Id.*

<sup>10</sup> Donald R. Dunner & Richard L. Rainey, *Opinions of Counsel, Privilege in Patent Litigation and Prejudice from Claiming Privilege*, 376 *PLI/PAT* 285, 288 (1993). A “Hobson’s choice” is defined as “the absence of a real alternative.” *RANDOM HOUSE WEBSTER’S UNABRIDGED DICTIONARY* 909 (2d ed. 1998). The term derives from Thomas Hobson, a seventeenth-century English liveryman, who required his customers to rent either the horse that was nearest the stable door or nothing at all. *Id.*

<sup>11</sup> William F. Lee & Lawrence P. Cogswell, III, *Understanding and Addressing the Unfair Dilemma Created by the Doctrine of Willful Patent Infringement*, 41 *HOUS. L. REV.* 393, 434 (2004). The following hypothetical exchange, between a small company manager and a patent attorney, appropriately illustrates the “Catch-22” of an accused infringer:

Imagine you were managing a small company before [the Federal Circuit’s *Knorr-Bremse* decision]. One day a letter arrives, most likely on law firm stationary and sent by registered mail.

The letter informs you of a patent that the owner—whose sole business may be enforcement of patents—insists your company is infringing. The letter presents a choice: Stop what you are doing, or take a royalty-bearing

In this comment, I investigate the effects of the “adverse inference” on patent litigation strategy before and after the Federal Circuit’s recent decision in *Knorr-Bremse*. I begin by exploring the contours of willful infringement claims in patent litigation and the origins of the “adverse inference” as formulated by the Federal Circuit. Later, I examine the effects of the Federal Circuit’s pre-*Knorr-Bremse* decisions on alleged infringers who were compelled to strategize a defense in light of the permissible adverse inference. An examination into the effects of the adverse inference prior to *Knorr-Bremse* will serve as a useful comparison to the state of willful infringement litigation after the Federal Circuit’s decision. Next, I discuss the Federal Circuit’s long-anticipated decision in *Knorr-Bremse*, consider the immediate effects of the holding, and examine whether, and to what extent, the landscape of patent infringement litigation has changed. Unfortunately, the Federal Circuit’s decision in *Knorr-Bremse* will do little to relieve the dilemma faced by

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license (usually accompanied by a steep “sign-up” fee). The letter informs you that if your company continues on its current course, it will be willfully infringing the owner’s patent rights and may be liable for up to treble damages.

You consult with your patent counsel and learn that your company needs to investigate the claim made in this notice letter and may need to negotiate a license. If your company concludes that the patent is invalid or that your activities do not infringe, you may certainly choose to not pay the licensing fee – but you should still obtain an exculpatory opinion from your patent counsel to defend against a charge of willful infringement

“How much,” you wonder aloud, “will such an opinion cost?”

“Well,” replies your counsel, “there is a broad range, but you should think in the range of \$10,000 to \$100,000.”

“Because they sent us a simple letter?” – a letter that you later learn was mailed to you and everyone else in your industry.

“Yes,” she patiently explains. “Under current law, you not only have a duty to avoid infringement, but if you have reason to believe you may be infringing, you also must obtain an exculpatory opinion. The opinion should show that after careful consideration of the patents and your products, counsel concludes that your activities are legal.”

“Do you mean that for the cost of that letter, they can force an entire industry to go through this? Why, this is blackmail!”

“It gets worse,” your counsel says. “If they sue, you have to waive the attorney-client privilege in the opinion, or the judge will all but assume you’re a willful infringer.”

“And,” she continues, “you can expect the patent owner to use the waiver to attempt to obtain discovery of your communications with all the lawyers involved in your defense.”

You shake your head in disbelief.

Paul Devinsky & Stephen Becker, *Ding Dong, The Inference Is Dead: When Knorr-Bremse Killed the Adverse Inference Rule, Accused Patent Infringers Got Their Attorney-Client Privilege Back*, 27 *Legal Times* 43, Oct. 25, 2004, available at <http://www.mwe.com/info/pubs/legaltimes1004.pdf> (last visited Apr. 7, 2005).

accused patent infringers when put on notice of another's patent. I finish, therefore, by offering an alternative approach for the Federal Circuit that would accomplish the goals that the court set out, yet failed, to achieve in *Knorr-Bremse*.

#### I. WILLFUL INFRINGEMENT AND THE "ADVERSE INFERENCE"

The *sine qua non* of patent ownership is the right to exclude others from doing a specific act for a finite period of time.<sup>12</sup> Infringement is a violation of a patentee's right to exclude.<sup>13</sup> Generally, the goal of patent infringement remedies is both to compensate a patentee for losses that result from infringing activity, and to deter future infringement.<sup>14</sup> A patent owner can recover losses through compensatory damages, which are limited to amounts "adequate to compensate for the infringement."<sup>15</sup> Awards of punitive damages, attorney fees, and injunctions are remedies that are designed to deter future infringement.<sup>16</sup> Pursuant to 35 U.S.C. § 284, federal district courts are given the discretionary power to award punitive damages by increasing compensatory "damages up to three times the amount found or assessed." The statute itself provides no criterion to determine when such trebled damages are appropriate.<sup>17</sup> Yet

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<sup>12</sup> 35 U.S.C. § 154(a)(1) (2000) (granting a patent owner "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States"). Under 23 U.S.C. § 154(a)(2), patent owners maintain this monopoly for a limited term "beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States."

<sup>13</sup> 35 U.S.C. § 271(a) (2000) (providing "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, *infringes* the patent") (emphasis added).

<sup>14</sup> See DONALD S. CHISUM ET AL., PRINCIPLES OF PATENT LAW 26 (Robert C. Clark et al. ed., 3d ed. 2004).

<sup>15</sup> 35 U.S.C. § 284 (2000) ("Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court. When the damages are not found by a jury, the court shall assess them."). In addition, a court may award reasonable attorney fees, pursuant to 35 U.S.C. § 285, if it finds that an infringer's willful infringement constitutes an "exceptional case." Although attorney fees are not punitive in nature, the Federal Circuit has employed the same standard for the award of attorney fees as it does for willfulness. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1348 n.4 (Fed. Cir. 2004) (en banc) (Judge Dyk concurring-in-part and dissenting-in-part) (citing *Golight, Inc. v. Wal-Mart Stores, Inc.*, 355 F.3d 1327, 1340 (Fed. Cir. 2004)).

<sup>16</sup> See CHISUM ET AL., *supra* note 14, at 1284.

<sup>17</sup> See *SRI Int'l v. Advanced Tech. Labs.*, 127 F.3d 1462, 1464 (Fed. Cir. 1997) (noting that § 284 "prescribes no standards for such increase"); see also *Jurgens v. CBK*,

it is well established that a finding of willful infringement<sup>18</sup> provides an appropriate basis for such increased damages under this provision.<sup>19</sup>

Enhancement of damages under § 284 is a two-step process.<sup>20</sup> “First, the fact-finder must determine if an accused infringer is guilty of conduct, such as willfulness, upon which increased damages may be based.”<sup>21</sup> If such conduct is found, “the court then exercises its discretion to determine if the damages should be increased given the totality of the

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Ltd., 80 F.3d 1566, 1570 (Fed. Cir. 1996) (noting that § 284 “gives the court discretion to [increase damages] but gives no criteria for doing so”).

<sup>18</sup> As early as 1983, the Federal Circuit in *Underwater Devices Inc. v. Morrison-Knudsen Co., Inc.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983) recognized that it is not inappropriate to award treble damages following a finding of willful infringement. Later, in *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986), *overruled by* *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc), the Federal Circuit stated that “[i]f infringement [is] accidental or innocent, increased damages are not awarded for the infringement. If infringement [is] willful, increased damages ‘may’ be awarded at the discretion of the district court, and the amount of increase may be set in the exercise of that same discretion.” Bad faith may also serve as a basis for enhanced damages. *See Jurgens*, 80 F.3d at 1570. But as the Federal Circuit has noted, the notion of “bad faith” with respect to increased damages under § 284 “is sometimes misunderstood because the term ‘bad faith’ has numerous patent law applications.” *Id.* Because “bad faith” in this context “properly refers to an infringer’s failure to meet his affirmative duty to use due care in avoiding infringement of another’s patent rights,” (citing *Underwater Devices*, 717 F.2d at 1389-90), the court noted, “‘bad faith’ is more correctly called ‘bad faith infringement,’ and it is merely a type of willful infringement.” *Id.* at 1571.

<sup>19</sup> Patent law is not the only area in intellectual property that permits enhancement of damages for willful infringement. *See* Mark A. Lemley & Ragesh K. Tangri, ENDING PATENT LAW’S WILLFULNESS GAME, 18 BERKELEY TECH. L.J. 1085, 1089 & n.5 (2003). Enhanced damages are permitted in copyright law, however, a court may only increase a damage award up to \$150,000. 17 U.S.C. § 504(c)(2) (2000). Under the same provision, a judge also maintains the discretion to remit a damage award to as little as \$200 if the court finds that the “infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright.” *Id.* In trademark law, a plaintiff may elect to recover statutory damages in cases involving counterfeit marks. 15 U.S.C. § 1117(c) (2000). If a court determines that the counterfeiting was willful, it may award up to “\$1,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed.” 15 U.S.C. § 1117(c)(2) (2000).

<sup>20</sup> *See* *Mentor H/S, Inc. v. Med. Device Alliance, Inc.*, 244 F.3d 1365, 1380 (Fed. Cir. 2001); *see also Jurgens*, 80 F.3d at 1570.

<sup>21</sup> *Mentor H/S*, 244 F.3d at 1380. This finding of fact is reviewed on appeal only for clear error. *State Indus. Inc. v. Mor-Flo Indus. Inc.*, 948 F.2d 1573, 1576 (Fed. Cir. 1991) (citing *Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 543 (Fed. Cir. 1990)).

circumstances.”<sup>22</sup> A finding of willfulness in the first step, however, “does not by any means compel an award of enhanced damages.”<sup>23</sup>

A finding of willfulness must be proven by clear and convincing evidence.<sup>24</sup> A party can not be held liable for infringement of a “nonexistent patent.”<sup>25</sup> Yet, for issued patents, “a party cannot be found to have willfully infringed a patent of which the party had no knowledge.”<sup>26</sup> This is because willfulness is “by definition a question of the actor’s *intent*.”<sup>27</sup> Actual notice of another’s patent may be found, for example, where “the patent owner offered the infringer a license, where verbal notice of infringement was accompanied by presentation of a copy of the patent, and where there was notification by a third party.”<sup>28</sup> There is no “universal rule,” however, “that to avoid willfulness one must cease manufacture of a product immediately upon learning of a patent, or upon receipt of a patentee’s charge of infringement, or upon the filing of suit.”<sup>29</sup>

Although the generally accepted view is that willfulness “depends upon the state of mind of the infringer,”<sup>30</sup> there is no fixed degree of culpability required to establish it.<sup>31</sup> The Federal Circuit has noted that “[w]illfulness’ in infringement, as in life, is not an all-or-nothing trait, but [rather] one of degree,” because “infringement may range from unknowing, or accidental, to deliberate, or reckless, disregard of a patentee’s legal rights.”<sup>32</sup> “The law of willful infringement,” the Federal Circuit has noted, “does not search for minimally tolerable behavior, but

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<sup>22</sup> *Mentor H/S*, 244 F.3d at 1380. An award of increased damages “is committed to the sound discretion of the district court, and ‘will not be overturned absent a clear showing of abuse of discretion.’” *State Indus. Inc. v. Mor-Flo Indus. Inc.*, 948 F.2d 1573, 1576 (Fed. Cir. 1991) (citing *Modine Mfg. Co.*, 917 F.2d 538, 543 (Fed. Cir. 1990)).

<sup>23</sup> *State Indus.*, 948 F.2d at 1576. *See also* *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1126 (Fed. Cir. 1987) (“[A] finding of willfulness does not always lead to the award of increased damages and attorney fees.”).

<sup>24</sup> *E.I. DuPont de Nemours & Co. v. Phillips Petroleum Co.*, 849 F.2d 1430, 1439-40 (Fed. Cir. 1988) (citing *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 628 (Fed. Cir. 1985)).

<sup>25</sup> *Gustafson, Inc. v. Intersystems Indus. Prods., Inc.*, 897 F.2d 508, 510 (Fed. Cir. 1990).

<sup>26</sup> *Id.* at 511.

<sup>27</sup> *Id.* at 510.

<sup>28</sup> *See* CHISUM ET AL., *supra* note 14, at 1367. “Circumstantial evidence can be used to prove an infringer’s knowledge of the patent.” HORWITZ & HORWITZ, *supra* note 8, § 9.07[4], 9-74 (citing *Pacific Furniture Mfg. Co. v. Preview Furniture Corp.*, 626 F. Supp. 667, 767 (M.D.N.C. 1985), *aff’d*, 800 F.2d 1111 (Fed. Cir. 1986)).

<sup>29</sup> *Gustafson*, 897 F.2d at 511.

<sup>30</sup> HORWITZ & HORWITZ, *supra* note 8, § 9.07[1], 9-69 (citing *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101, 1109 (Fed. Cir. 1986)).

<sup>31</sup> *See* *Lee & Cogswell*, *supra* note 11 at 397-99.

<sup>32</sup> *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1125-56 (Fed. Cir. 1987).

requires prudent, and ethical, legal and commercial actions.”<sup>33</sup> Consequently, “precedent displays the consistent theme of whether a prudent person would have had sound reason to believe that the patent was not infringed or was invalid or unenforceable, and would be held so if litigated.”<sup>34</sup>

The Federal Circuit, however, has not adopted a strict test to evaluate the presence of willfulness because a trial judge is in an ideal position “to weigh considerations such as the closeness of the case, the tactics of counsel, the conduct of the parties, and any other factors that may contribute to a fair allocation of the burdens of litigation as between winner and loser.”<sup>35</sup> An evaluation of willfulness, therefore, necessitates a consideration of the “totality of the circumstances,”<sup>36</sup> which may include “contributions of several factors.”<sup>37</sup>

In *Bott v. Four Star Corp.*,<sup>38</sup> the Federal Circuit identified three factors to determine whether an infringer had “acted in [such] bad faith as to merit an increase in damages awarded against him,” including “(1) whether the infringer deliberately copied the ideas or design of another, (2) whether the infringer, when he knew of the other’s patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed, and (3) the infringing behavior as a party to the litigation.”<sup>39</sup> In *Read Corp. v. Portec, Inc.*, the Federal Circuit reiterated the *Bott* Factors, and offered six additional factors that a trier of fact may consider as indicia of willfulness in a totality of the circumstances determination.<sup>40</sup> These include: “(4) the defendant’s size and financial condition,” “(5) closeness of the case,” “(6) duration of

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<sup>33</sup> *SRI Int’l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1465 (Fed. Cir. 1997).

<sup>34</sup> *Id.* “The primary consideration [in a willfulness determination] is whether the infringer had *sound reason to believe* that he or she had the right to act in the manner that was later found to be infringing.” *CHISUM ET AL.*, *supra* note 14, at 1365 (emphasis added).

<sup>35</sup> *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 201 (Fed. Cir. 1986). And, in fact, once a trial judge makes a willfulness determination, which “is often accompanied by questions of intent, belief, and credibility,” precedent dictates that appellate review provide “appropriate deference to the special role of the trial court in making such determination. Thus a finding of willful infringement will be sustained unless the reviewing court has a definite and firm conviction that the trier of fact erred.” *SRI Int’l*, 819 F.3d at 1465 (citations omitted).

<sup>36</sup> *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d, 1380, 1390 (Fed. Cir. 1983).

<sup>37</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1342-43 (Fed. Cir. 2004) (en banc) (citations omitted).

<sup>38</sup> 807 F.2d 1567, 1572 (Fed. Cir. 1986), *overruled on other grounds*, *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020 (Fed. Cir. 1992).

<sup>39</sup> *Id.*

<sup>40</sup> *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed. Cir. 1992).



defendant's misconduct," "(7) remedial action by the defendant," "(8) defendant's motivation for harm," and "(9) whether defendant attempted to conceal its misconduct."<sup>41</sup> Obtaining competent legal advice "before infringing or continuing to infringe" is another significant element in a court's totality of the circumstances review.<sup>42</sup> Considered together, these factors "assist the trial court in evaluating the degree of the infringer's culpability and in determining whether to exercise its discretion to award enhanced damages and how much the damages should be increased."<sup>43</sup>

The Federal Circuit was created,<sup>44</sup> in part, in response to the "widespread disregard of patent rights" which Congress felt "was undermining the national innovation incentive."<sup>45</sup> Congress hoped that the introduction of a single appellate court that would maintain the exclusive appellate jurisdiction over most cases involving patent issues would help reduce a number of damaging trends in patent law including "forum shopping in patent litigation, a lack of uniformity in . . . patent laws, and a high invalidity rate amount litigated patents."<sup>46</sup>

Shortly after its formation, the Federal Circuit was quick to address the issue of willful patent infringement in *Underwater Devices Inc. v. Morrison-Knudsen Co. Inc.*<sup>47</sup> when the court established a strong precedent in an attempt to re-invigorate the legal obligation to respect patent rights.<sup>48</sup> The court held that potential patent infringers who have actual notice of another's patent rights, have "an affirmative duty to exercise due care to determine whether or not he is infringing," including "the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity."<sup>49</sup> Commentators have

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<sup>41</sup> *Id.* (citations omitted).

<sup>42</sup> *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101, 1109 (Fed. Cir.1986). "The duty of due care normally requires that a potential infringer obtain competent legal advice before infringing or continuing to infringe." *Ryco, Inc. v. Ag-Bag Corp.*, 857 F.2d 1418, 1428 (Fed. Cir. 1988).

<sup>43</sup> *Read Corp.*, 970 F.2d at 828.

<sup>44</sup> In 1982, the Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (codified as amended in scattered sections of 28 U.S.C.), created the United States Court of Appeals for the Federal Circuit (CAFC), by Consolidating the Court of Customs and Patent Appeals and the Court of Claims.

<sup>45</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004) (en banc).

<sup>46</sup> See CHISUM ET AL., *supra* note 14, at 26.

<sup>47</sup> 717 F.2d 1380 (Fed. Cir. 1983).

<sup>48</sup> See *Knorr-Bremse*, 383 F.3d at 1343.

<sup>49</sup> *Underwater Devices*, 717 F.2d at 1389-90. Also note that prior to the Federal Circuit's rule formulation in *Underwater Devices*, "four U.S. Courts of Appeal had issued opinions that can be interpreted as holding that accused infringers have an affirmative duty to obtain a written opinion of counsel." Matthew D. Powers & Steven C. Carlson, *The Evolution and Impact of the Doctrine of Willful Patent Infringement*, 51 SYRACUSE L. REV. 53, 75 (2001) (citing *Novo Industri A/S v. Travenol Labs., Inc.*, 677

noted that this rule has gone largely unexamined; “the affirmative duty rule is a concept that crept its way into the law, but that has not been subject to critical examination.”<sup>50</sup>

While the presence or absence of willfulness must be evaluated under a “totality of the circumstances” standard,<sup>51</sup> as a practical matter, it can be difficult for an alleged infringer to prove a lack of willfulness because “willfulness is a determination as to a state of mind.”<sup>52</sup> It therefore becomes crucial for an alleged infringer to provide some evidence of his good faith and reasonable belief that he was not infringing. While a lack of competent legal advice did “not mandate a finding of willfulness,”<sup>53</sup> it was generally not enough for an alleged infringer to counter a willful infringement complaint simply by stating that legal counsel was obtained. In order to use the acquisition of legal counsel as a defense to willfulness, in satisfaction of the “affirmative duty” created in *Underwater Devices*, an alleged infringer was required to submit an exculpatory opinion into evidence.<sup>54</sup>

In a willful infringement evaluation, a court does not focus on the legal correctness of an attorney’s opinion.<sup>55</sup> Instead, the court asks whether the “counsel’s opinion [is] thorough enough, as combined with other factors, to instill a belief in the infringer that a court might reasonably hold the patent is invalid, not infringed, or unenforceable.”<sup>56</sup> Other factors that are relevant in this inquiry are:

when the infringer sought counsel’s advice (before or after commencing the infringing activities); the infringer’s knowledge of the attorney’s independence, skill and competence; the infringer’s knowledge of the nature and extent of analysis performed by counsel in providing the opinion; and whether the opinion contains sufficient internal

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F.2d 1202 (7th Cir. 1982); *Milgo Elec. Corp. v. United Bus. Communications*, 623 F.2d 645, 652 (10th Cir. 1980); *Trio Process Corp. v. L. Goldstein’s Son’s, Inc.*, 461 F.2d 66 (3d Cir. 1972); *Coleman Co. v. Holly Mfg. Co.*, 233 F.2d 71 (9th Cir. 1956)).

<sup>50</sup> *Powers & Steven*, *supra* note 49, at 76.

<sup>51</sup> *Central Soya Co. v. Hormel & Co.*, 723 F.2d 1573, 1577 (Fed. Cir. 1983).

<sup>52</sup> *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101, 1109 (Fed. Cir. 1986).

<sup>53</sup> *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 828 (Fed. Cir. 1992).

<sup>54</sup> It is, therefore, generally advisable that counsel opinion “be drafted with the possibility that not only will it be relied on to rebut an allegation of willfulness but that it will also be available to a jury, if one is requested, at the liability stage of the trial.” Hence, “while the opinion should be accurate and reasoned it should not be couched in language which will be seized upon as a basis for the patentee to point out to the jury that the accused infringer admits or concedes this or that issue.” HORWITZ & HORWITZ, *supra* note 8, § 9.07[10][i], 9-112.

<sup>55</sup> *Ortho Pharm. Corp. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992). “Indeed, the question arises only where the counsel was wrong.” *Id.*

<sup>56</sup> *Id.* at 944.

indicia of credibility, including a validity analysis predicated on a review of the file histories, and an infringement analysis that compares and contrasts the potentially infringing method or apparatus with the patented inventions.<sup>57</sup>

Although legal correctness is not a requirement, the thoroughness and competency of an opinion letter is crucial to a defendant's use of an exculpatory opinion to defend against a claim of willfulness, otherwise "it is of little value in showing the good faith belief of the infringer."<sup>58</sup>

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<sup>57</sup> *Thorn Emi N. Am., Inc. v. Micron Tech., Inc.*, 837 F. Supp. 616, 620 (D. Del. 1993).

<sup>58</sup> *Comark Communications, Inc. v. Harris Corp.*, 156 F.3d 1182, 1190 (Fed. Cir. 1998). Although legal correctness is not a requirement for a defendant to form a good faith belief that he is not infringing, or that the accuser's patent is invalid, a court will nevertheless consider "[f]actors that bear on the competency of an opinion letter includ[ing] whether counsel examined the file history of the patent, whether the opinion was oral or written, whether the opinion came from inside or outside counsel, whether the opinion came from a patent attorney, whether the opinion was detailed or merely conclusory, and whether material information was withheld from the attorney." *See CHISUM ET AL.*, *supra* note 14, at 1366. An incompetent exculpatory opinion, judged on these and other factors, can be damaging to an accused infringer if, based on the incompetent opinion, a court determines that a good faith belief could not reasonably have been formed. There are many other pertinent factors a court may find "helpful in establishing indicia of competency and authoritativeness." *HORWITZ & HORWITZ, supra* note 8, § 9.07[10], 9-118. These include:

- the opinion evidences an adequate foundation based on a review of all necessary facts and is not merely conclusory on its face, presenting only a superficial or off-the-cuff analysis.
- the opinion indicates that it is based on a review of the file history of the patent, the prior art of record, and, possibly, additional prior art. Thus, the opinions evidence an adequate foundation.
- the opinion indicated tests, experiments and studies performed in connection with the advice or known otherwise.
- the validity and infringement issues are analyzed in detail, including discussions of the prior art, the accused device, and the claim language.
- the claims are not discussed as a group but are separately analyzed.
- there is separate discussion of infringement under the doctrine of equivalents.
- the opinion sets forth a discussion of the applicable case law.
- the opinion sets forth a discussion of possible inequitable conduct.
- the opinion sets forth the standard of one skilled in the art.
- the opinion indicates that every possible way in which the patent could be infringed has been investigated.
- the opinion's technological premises and facts have been checked for accuracy and care taken to ensure that all relevant information has been set forth in the opinion.
- the opinion is in writing and is not an offhand one.
- the opinion's asserted defenses can be backed up with viable proof at trial.
- whether the opinion is of in-house counsel or outside counsel it can be established that the person rendering the opinion clearly acts independently?

In light of the alleged infringer's affirmative duty to seek competent legal advice, and the practical difficulty of evaluating the subjective intent of an accused infringer who does not waive privilege, the Federal Circuit created a willfulness presumption, known as the "adverse inference,"<sup>59</sup> to ferret out information about the defendant's state of mind.<sup>60</sup> In *Kloster Speedsteel AB v. Crucible Inc.* the court held that an infringer's silence on the subject of competent legal advice warranted the conclusion that no advice was obtained, or if it was obtained, it was negative.<sup>61</sup> Later, in *Fromson v. Western Litho Plate & Supply Co.*, the court reaffirmed its prior holding noting that a "court must be free to

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- the opinion is rendered by U.S. counsel who is proficient in patent matters.
  - while the opinion speaks of probabilities rather than certainties the opinion sets forth a reasonable degree of certainty that warrants the conclusion that there is a legal right to conduct the infringing activity.
  - if the opinion concludes that the patent claims are invalid for obviousness the opinion considers defendant's copying and other secondary objective indicia of unobviousness, which factors precedent require be considered.
  - the opinion conclusion that the patent claims are invalid for obviousness is not based solely on file history prior art on arguments previously put forth by the examiner.
  - the opinion is sought promptly after learning of the possible infringement or is elicited before starting potential infringing activities.
  - the opinion initiated efforts to design around the patent claims.

*Id.* § 9.07[10], 9-118 to 9-119.

<sup>59</sup> See *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986), *overruled by* *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc).

<sup>60</sup> It appears as though the key justification for requiring this behavior, on the part of defendants, was that alleged infringers already had an affirmative duty under *Underwater Devices* to obtain counsel. In other areas of intellectually property, however, such a punitive inference is generally considered inappropriate. For example, in a trademark dilution case, the Second Circuit asserted that an adverse opinion arising out of a refusal to produce an attorney's opinion is not justified. See *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 225-26 (2d Cir.1999) *overruled on other grounds* *Moseley v. Secret Catalogue*, 537 U.S. 418 (2003). The Second Circuit noted that "if refusal to produce an attorney's opinion letter based on claim of the privilege supported an adverse inference, persons would be discouraged from seeking opinions, or lawyers would be discouraged from giving honest opinions. Such a penalty for invocation of the privilege would have seriously harmful consequences." *Id.* The court, however, recognized that patent law is in a sufficiently different position than trademark law because alleged patent infringers maintain a "legal duty to obtain an attorney's opinion." *Id.* at 226.

<sup>61</sup> *Id.* Also note that in dicta, the Federal Circuit in *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 628 (Fed. Cir. 1985) alluded to the possibility of a negative inference. The Federal Circuit did not award increased damages based on the patentee's allegation of willfulness, thus deferring to the trial court's denial, however it noted that "[a] record devoid of opinions of counsel and silent on [the infringer's] reaction to the existence of the [patentee's] patents may indeed lead to negative inferences . . ." See Powers & Carlson, *supra* note 49, at 80.

infer that either no opinion was obtained or, if an opinion were obtained, it was contrary to the infringer's desire to initiate or continue its use of the patentee's invention."<sup>62</sup> The immediate affects of the adverse inference is to make the "presence or absence of an opinion letter" an important element of the trial.<sup>63</sup> While the Federal Circuit's affirmative duty rule, articulated in *Underwater Devices*, imposes obligations on alleged infringers to exercise due care and to obtain legal advice, the ability to impose the "adverse inference" of willful infringement "provides a mechanism to enforce this duty."<sup>64</sup> Consequently, companies looking to avoid discovery by a patentee into their privileged attorney-client communications may be further deterred "from deliberately ignoring allegations of patent infringement and from withholding royalties when a patent is valid and infringed."<sup>65</sup>

## II. THE PRE-*KNORR-BREMSE* EFFECTS OF THE WILLFULNESS DILEMMA ON PATENT PRACTICE

While the "adverse inference" was a logical extension by the Federal Circuit to enforce the "affirmative duty," the presumption generated many unintended consequences on patent infringement litigation. Importantly, the inference has had the effect of "compelling essentially all alleged infringers, regardless of culpability, to surrender their attorney-client privilege."<sup>66</sup> This near-mandatory requirement is said to have created "inappropriate"<sup>67</sup> burdens on attorney-client relationships.

The adverse inference rule provides patent owners with a substantial incentive to allege willful infringement because of the ability

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<sup>62</sup> *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1572-73 (Fed. Cir. 1988), *overruled by* *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc). "Equally certain is that a court may draw certain inferences from an infringement defendant's failure to introduce an exculpatory opinion of counsel at trial." *Odetics, Inc. v. Storage Tech. Corp.*, 919 F. Supp. 911, 942 (E.D. Va. 1996), *vacated*, 116 F.3d 1497 (Fed. Cir. 1997).

<sup>63</sup> Powers & Carlson, *supra* note 49, at 81.

<sup>64</sup> *Id.*

<sup>65</sup> *Id.* at 99.

<sup>66</sup> *Id.* at 83. As one commentator has noted, the adverse inference has created the "curious result . . . where an accused infringer could have obtained an opinion, found it favorable, but chosen not to waive because of other related problems, and then still received an adverse inference." John Hintz, *Court of Appeals Changes Evidentiary Rule Relating to Opinions of Counsel in Patent Cases*, INTELL. PROP. UPDATE (Fish & Neave, New York, N.Y.), Oct. 2004 (on file with author). Consequently, the affirmative duty rule can lead to "false positives" and "false negatives." Powers & Carlson, *supra* note 49, at 190-91.

<sup>67</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004) (en banc).

to obtain an increased award of damages and because of the dilemma it creates for accused infringers.<sup>68</sup> Patent holders rarely hesitate to add a count of willfulness in an infringement suit because the necessary burden of production to support a willful infringement complaint is low.<sup>69</sup> The risk of Rule 11 sanctions, on account of wrongfully adding a count of willful infringement, is very rare “once he or she has satisfactorily alleged a count of patent infringement.”<sup>70</sup> Therefore, it should come as no surprise that patent owners “regularly”<sup>71</sup> allege willful patent infringement because plaintiffs have comparatively little to risk when alleging willfulness and much to gain. If the alleged infringer waives attorney-client privilege, the patentee typically tries to expand the waiver to obtain broad discovery.<sup>72</sup> In many cases, patent owners are “remarkably successful in their quest” to obtain the work product and materials communicated by litigation counsel.<sup>73</sup> If privilege is not waived, the patentee likewise benefits from the inference as a substantial method to increase damages, especially in infringement cases where compensatory damages may be low because it is difficult to evaluate the financial detriment to a patentee.

The combination of the affirmative duty to seek competent counsel and the adverse inference has forced “patent-savvy corporations”<sup>74</sup> into the common routine of using separate third-party counsel to draft the exculpatory opinions.<sup>75</sup> Even before it is written, it is expected that the opinion may be used at trial by the alleged infringer to defend itself against allegations of willful infringement.<sup>76</sup> Consequently, only communications between the alleged infringer and the third-party counsel become discoverable by the plaintiff, allowing the defendant to

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<sup>68</sup> One commentator notes that “a charge of willful infringement has become a routine adjunct to almost every pleading asserting patent infringement.” Jon E. Wright, Comment, *Willful Patent Infringement and Enhanced Damages – Evolution and Analysis*, 10 GEO. MASON L. REV. 97, 97 (2001) (citations omitted).

<sup>69</sup> See Lee & Cogswell, *supra* note 11, at 396.

<sup>70</sup> Powers & Carlson, *supra* note 49, at 84. “A review of caselaw indicates that no attorney has been sanctioned under Rule 11 for adding a count of willful infringement in a complaint once he or she has satisfactorily alleged a count of patent infringement.” *Id.*

<sup>71</sup> Nicholas M. Cannella, et al. *The Demise of the Adverse Inference Rule in Evaluating Willful Infringement?*, Intell. Property Today, \*5, May 2004. (citing amicus briefs prepared for the Federal Circuit’s adjudication on *Knorr-Bremse*) (on file with author).

<sup>72</sup> See Devinsky & Becker, *supra* note 11, at 3.

<sup>73</sup> *Id.*

<sup>74</sup> J. Matthew Buchanan, *Knorr-Bremse: The Federal Circuit Eliminates the Adverse Inference*, Promote the Progress, Sept. 14, 2004, [http://promotetheprogress.com/archives/2004/09/knorrbremse\\_the.html](http://promotetheprogress.com/archives/2004/09/knorrbremse_the.html) (last visited Apr. 7, 2005).

<sup>75</sup> See HORWITZ & HORWITZ, *supra* note 8, § 9.07[10][f], 9-105.

<sup>76</sup> *Id.* § 9.07[10][i], 9-112.

shield its trial counsel from the burden of attorney-client privilege waiver.

The strategy of using outside counsel to write the exculpatory opinion, however, has severe drawbacks. To write an exculpatory opinion, a third-party counsel must pick up the defendant's file and conduct exhaustive research to draft a proper evaluation of the alleged infringer's standing on the willfulness issue.<sup>77</sup> These opinions typically cost at least \$20,000 and depending on the complexity of the case, can frequently cost over \$100,000.<sup>78</sup> Exposure of the third-party opinion can still hurt the trial counsel if, for instance, the third-party counsel discussed in the opinion a particular strategy for litigation.<sup>79</sup> At trial, the exposure of the third-party opinion could inhibit counsel from executing a clear strategy if the exposed opinion prematurely reveals its current strategy or, perhaps even worse, if the strategy within the opinion is contradictory. From a practical standpoint, knowing that their work product may be used at trial and that it could adversely impact the trial counsel's strategy, the third-party counsel may feel "less free to counsel their clients, at least in writing, about the risks of their conduct."<sup>80</sup> Consequently, the adverse inference has had the effect of "restraining the [third-party counsel's] candor in providing advice when the attorney knew that his or her advice was likely to be released in the event of litigation."<sup>81</sup>

Recognizing the negative impact that the adverse inference had on attorney-client relationships, in September 2003, the Federal Circuit seized the opportunity, *sua sponte*, to re-consider the adverse inference in light of the precedent it had established in *Kloster Speedsteel* and

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<sup>77</sup> See CHISUM ET AL., *supra* note 14, at 1366

<sup>78</sup> See Powers & Carlson, *supra* note 49, at 102.

<sup>79</sup> Laura M. Kelley, *The Adverse Inference Rule and Advice of Counsel in Patent Litigation*, Triangle Tech Journal, [http://www.triangletechjournal.com/news/article.html?item\\_id=614](http://www.triangletechjournal.com/news/article.html?item_id=614) (last visited Apr. 7, 2005). The legal theories used at trial may be different than the legal theories discussed in the exculpatory opinion, which may have been prepared years before litigation became an issue. Introducing an inconsistent legal opinion at trial might confuse a jury or cause the defendant to lose credibility. Also, waiver subjects alleged infringer to the production of additional materials. *Id.*

<sup>80</sup> See Powers & Carlson, *supra* note 49, at 191.

<sup>81</sup> Walter C. Linder & William L. Roberts, *Do You Want My Opinion?: What the Knorr-Bremse Case Means for Patent Litigation*, (Faegre & Benson, Minneapolis, Minn.), at [http://www.faegre.com/articles/article\\_1428.aspx](http://www.faegre.com/articles/article_1428.aspx) (last visited Apr. 7, 2005). It is reasonable to assume that an attorney may supplement his lack of candor on paper with clarification to the client orally. Although such communications would likely remain secret, in theory, they could become discoverable upon waiver of attorney-client privilege following the production of the exculpatory opinion.

*Underwater Devices*.<sup>82</sup> The Federal Circuit took, on appeal from the Eastern District of Virginia, a patent infringement suit following the district court's finding that two defendants had willfully infringed a plaintiff's air-disk brake patent. At trial, defendant Haldex stated that it had obtained counsel about the plaintiff's patents, but declined to produce an exculpatory opinion.<sup>83</sup> The other defendant, Dana, stated at trial that it did not consult with counsel because it had relied on Haldex's legal advice.<sup>84</sup> Accordingly, the district court assumed that Haldex's opinions were unfavorable, and that Dana's opinion would have been unfavorable had it obtained one.<sup>85</sup> The court found that the defendants had willfully infringed the plaintiff's patent and awarded attorney fees.<sup>86</sup>

In its order for an *en banc* hearing, the Federal Circuit invited parties to submit briefs directed to the following four issues:

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?
2. When the defendant has not obtained legal advice, is it appropriate to draw an adverse inference with respect to willful infringement?
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?
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?<sup>87</sup>

The Federal Circuit aimed the first question at the heart of the its holding in *Kloster Speedsteel*, where the court held that silence as to whether it sought advice of counsel warranted the conclusion that advice not obtained was bad.<sup>88</sup> The second posited question considered the court's earlier holding in *Underwater Devices*, which established an

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<sup>82</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004) (en banc).

<sup>83</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 133 F. Supp. 2d 843, 857 (E.D.Va. 2001) (partial summary judgment).

<sup>84</sup> *Id.* at 863.

<sup>85</sup> *Id.* at 863-64.

<sup>86</sup> *Id.*

<sup>87</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 344 F.3d 1336, 1336-37 (Fed. Cir. 2003). The court also invited amicus curiae briefs addressing its questions. More than twenty-four amici responded.

<sup>88</sup> *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986), *overruled by Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc).



affirmative duty on the part of the alleged infringer to seek and obtain competent legal advice.<sup>89</sup> Anticipating that one or both answers to the two prior questions of law may alter the Federal Circuit's precedent, the court asked the parties to determine how the instant suit should be affected. Finally, the court's fourth question asked the parties to propose how far the benefit of an elimination of the adverse inference should be extended.

Following the Federal Circuit's decision to reconsider *en banc* these four questions, there was widespread support in the legal community for the elimination of the adverse inference in both circumstances where an alleged infringer fails to waive attorney-client privilege and fails to seek counsel.<sup>90</sup> Amicus briefs argued that "patent cases were the only litigation in which relying on attorney-client privilege could proactively harm a defendant."<sup>91</sup> Practitioners noted that "in the eyes of the community, the adverse inference unfairly disadvantaged the defendants and undermined the relationship between companies and their patent counsel."<sup>92</sup> The inference has been criticized, according to practitioners, because "there are many legitimate reasons for not obtaining or producing a legal opinion at trial . . . many of which are unrelated to the issue of willfulness."<sup>93</sup> "Without the crutch of the adverse inference rule . . . and absent the pressure to release opinions of counsel," it was proposed, "the patent owner's burden to prove willful infringement or to obtain instructive discovery [would] increase[] significantly."<sup>94</sup> The elimination of the adverse inference would require "[p]atent owners [to] have to find evidence of willful actions taken by the accused infringer to meet the totality-of-the-circumstances test – actions such as deliberate copying, concealment or infringing activity,

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<sup>89</sup> *Underwater Devices, Inc., v. Morrison-Knudsen Co.*, 717 F.2d 1389-90 (Fed. Cir. 1983).

<sup>90</sup> More than twenty-four amici responded "almost unanimously" supporting the elimination of the adverse inference. Richard E. Parke, *Summary of the Federal Circuit's Opinion in Knorr-Bremse v. Dana Corp.*, (Frommer Lawrence & Haug, New York, N.Y.), at [http://www.flhlaw.com/news/news\\_47.htm](http://www.flhlaw.com/news/news_47.htm) (last visited Apr. 7, 2005).

<sup>91</sup> Linder & Roberts, *supra* note 81.

<sup>92</sup> *Id.*

<sup>93</sup> Kelley, *supra* note 79. As one commentator noted, [o]ne common reason for wanting to withhold even a favorable opinion is that the arguments counsel wants to make at trial contradict those made in the opinion. For example, an opinion letter might interpret the claims of a patent narrowly in concluding that there is no infringement, while at trial the accused infringer might want to forego that infringement defense because a broader understanding of the patent would render it invalid in light of newly discovered prior art not available to the lawyer who wrote the opinion.

Lemley & Tangri, *supra* note 19, at 1113 n.86.

<sup>94</sup> Devinsky & Becker, *supra* note 11, at 3.

infringement despite only frivolous defenses, and infringement designed to injure a competitor.”<sup>95</sup> Nevertheless, patent attorneys generally agreed that the “purposes and advantages of obtaining a legal opinion of non-infringement [would] not be changed”<sup>96</sup> if the Federal Circuit were to eliminate the adverse inference.

Although the legal community was unified in its belief that the adverse inference should be eliminated, the extent to which patent litigation would actually change was less certain. One commentator noted that “[e]ven without the coercive pressure of the adverse inference, many accused infringers will want to disclose a favorable opinion letter and, accordingly, will have no choice but to waive privilege.”<sup>97</sup> In addition, analysts contended that the elimination of the adverse inference still will not remove the “heart of the problem” that alleged infringers feel compelled to waive privilege.<sup>98</sup>

### III. THE FEDERAL CIRCUIT ELIMINATES THE “ADVERSE INFERENCE” IN *KNORR-BREMSE*

After considerable anticipation, the Federal Circuit’s decision in *Knorr-Bremse* delivered the death knell to the “adverse inference” of willful infringement in patent infringement litigation. While recognizing that ‘special justification’ was always required for judicial departure from stare decisis, the court reasoned that the ‘conceptual underpinnings’ of adverse inference precedent “have significantly diminished in force.”<sup>99</sup>

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<sup>95</sup> *Id.*

<sup>96</sup> Kelley, *supra* note 79.

<sup>97</sup> Lemley & Tangri, *supra* note 19, at 1115.

<sup>98</sup> See Lemley & Tangri, *supra* note 19, 1125.

But eliminating these rules won’t do away with the heart of the problem. That requires reconceptualizing willfulness based on the understanding that it is the copying of an invention, not merely competitive business conduct, that the law is designed to target. A narrower willfulness doctrine with a more limited financial penalty attached to it will more faithfully serve the purposes of patent law, and put an end to a longstanding and dangerous game.

*Id.*

<sup>99</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343-44 (Fed. Cir. 2004) (en banc) (quoting *Arizona v. Rumsey*, 467 U.S. 203, 212 (1984)). By this, perhaps the court meant that the adverse inference was created in a time when patent rights were not well respected. An important contributing factor to this lack of respect was the lack of uniformity in patent jurisprudence prior to the consolidation of subject matter jurisdiction for patent appeals to Federal Circuit. As one commentator noted upon reflection of the legacy of Federal Circuit ten years after its inception, “the goal of establishing consistency in the federal judiciary is becoming a reality. The Federal Circuit has brought uniformity to patent law.” Dennis DeConcini, *Celebrating the Tenth Anniversary of the Court of Appeals for the Federal Circuit*, 14 GEO. MASON U. L. REV. 529, 534 (1992).

Therefore, “a special rule affecting attorney-client relationships in patent cases is not warranted.”<sup>100</sup>

In response to the first question posited, the Federal Circuit stated concisely that “no adverse inference shall arise from invocation of the attorney-client and/or work product privilege.”<sup>101</sup> The court asserted that this change in law was appropriate in order to curtail the adverse inference’s “distort[ion of] the attorney-client relationship.” The court cited the Supreme Court’s discussion in *Upjohn Co. v. United States*,<sup>102</sup> to support the rationale that an unadulterated attorney-client privilege promotes justice. In *Upjohn*, the Supreme Court noted that “full and frank communication between attorneys and their clients” is necessary for attorneys to be fully informed about a client.<sup>103</sup> An attorney who is fully informed is better equipped to provide a client with sound legal advice.<sup>104</sup> Sound legal advice, in turn, invites “broader public interest[] in the observance of law and administration of justice.”<sup>105</sup> A client’s willingness to communicate fully and frankly, therefore, has substantial implications.

The Federal Circuit asserted that a client’s willingness to communicate openly with counsel depends on the individual’s confidence that communications will remain privileged.<sup>106</sup> The Federal Circuit cited Professor Wigmore who noted that clients will “rarely make disclosure[s] which may be used against him.”<sup>107</sup> The court stated that the current state of patent litigation where “the inference that withheld opinion are [necessarily] adverse to the client’s actions”<sup>108</sup> forces accused infringers to waive attorney-client privilege, thus creating an environment where clients anticipate that communications with their attorney will not remain privileged.<sup>109</sup> Hence, the Federal Circuit asserted that the adverse inference is detrimental to attorney-client privilege, and

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<sup>100</sup> *Knorr-Bremse*, 383 F.3d at 1344.

<sup>101</sup> *Id.*

<sup>102</sup> 449 U.S. 383, 389 (1981). (holding that attorney-client privilege applies to communications between a corporation’s lawyers and its employees if the information discussed is relevant to the attorney’s legal advice to the corporation). It is interesting that the Federal Circuit now cites to *Upjohn*, a Supreme Court case decided in 1981, as support for the elimination of the adverse inference that the Federal Circuit created in 1986, in *Kloster Speedsteel*.

<sup>103</sup> *Id.*

<sup>104</sup> *Knorr-Bremse*, 383 F.3d at 1344.

<sup>105</sup> *Id.*

<sup>106</sup> *Id.* at 1345.

<sup>107</sup> *Id.* at 1344 (citing 8 J. WIGMORE, EVIDENCE IN TRIALS AT COMMON LAW § 2291 at 548 (McNaughton rev. 1961)).

<sup>108</sup> *Id.*

<sup>109</sup> *Id.*

the elimination of the adverse inference in this context is appropriate.<sup>110</sup> In circumstances where accused infringers are attempting to determine whether or not they are infringing another's patent, the Federal Circuit insisted that "there should be no risk of liability in disclosures to and from counsel."<sup>111</sup>

In response to the second question—whether an adverse inference is appropriate when a defendant does not obtain legal advice—the Federal Circuit "did not mince words"<sup>112</sup> when it held "the answer, again, is 'no.'"<sup>113</sup> The court stated that "it is inappropriate to draw a similar adverse inference from failure to consult counsel."<sup>114</sup> The Federal Circuit held that "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."<sup>115</sup>

The court noted that the elimination of the adverse inference in this context was not based on any concern for attorney-client privilege.<sup>116</sup> Instead, the court acknowledged that a change in law was appropriate based upon the unintended consequences that have emerged in patent litigation as a result of some of the Federal Circuit's prior decisions.<sup>117</sup> The court noted that the effect of some of its decisions has contributed to the excessive "burdens and costs" associated with obtaining opinions of counsel for "every potentially adverse patent of which the defendant had knowledge."<sup>118</sup> The court recognized that the high standard it imposed on exculpatory opinions to "fully address all potential infringement and validity issues,"<sup>119</sup> from its decision in *Johns Hopkins University v. Cellpro, Inc.*<sup>120</sup> has contributed to these burdens. The court also acknowledged the emergence of "extensive satellite litigation" in patent law has an unintended burden of the current law.<sup>121</sup> The Federal Circuit, therefore, concluded that the "conceptual underpinnings" of the affirmative duty of due care, that the court created in *Underwater Devices* and *Kloster Speedsteel*, had been distorted.<sup>122</sup> Although the court stressed the continued existence of the "duty of care to avoid

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<sup>110</sup> *Id.*

<sup>111</sup> *Id.*

<sup>112</sup> Hintz, *supra* note 66.

<sup>113</sup> *Knorr-Bremse*, 383 F.3d at 1345.

<sup>114</sup> *Id.*

<sup>115</sup> *Id.* at 1345-46.

<sup>116</sup> *Id.* at 1345.

<sup>117</sup> *Id.*

<sup>118</sup> *Id.*

<sup>119</sup> *Id.*

<sup>120</sup> 152 F.3d 1342, 1364 (Fed. Cir. 1998).

<sup>121</sup> *Knorr-Bremse*, 383 F.3d at 1345.

<sup>122</sup> *Id.*

infringement of the known patent rights of others,”<sup>123</sup> the court held that it was “inappropriate to draw a[n] . . . adverse inference from failure to consult counsel.”<sup>124</sup>

The Federal Circuit then turned its attention to the subject matter of question three: Haldex’s and Dana Corp.’s appeal. In light of the court’s decision to eliminate the adverse inference in scenarios illustrated in questions one and two, it chose to vacate the district court’s finding of willful infringement and award of attorney fees.<sup>125</sup> The court noted that the district court had “based its willfulness determination on several [factual findings] in addition to the adverse inference arising from [the infringer’s] assertion of attorney-client privilege.”<sup>126</sup> Therefore, the Federal Circuit thought it was appropriate for the district court to reconsider the willful infringement claim on remand upon “a fresh weighing of the evidence.”<sup>127</sup> The district court must consider the totality of the circumstances without the benefit of a presumption of willful infringement.

Although *Knorr-Bremse* will likely be most remembered for the Federal Circuit’s elimination of the adverse inference, the legacy of the decision, as it pertains to the landscape of patent litigation, may lie in the court’s answer to the fourth question. The court held that the existence of a substantial defense to infringement was not necessarily sufficient to defeat liability for willful infringement if legal advice is not obtained.<sup>128</sup> The court stressed that the question of whether an alleged infringer received legal advice should remain a factor to consider in a court’s totality of the circumstances inquiry.<sup>129</sup> The court noted that it would “decline to adopt a per se rule” because, it felt that this ruling would give “greater flexibility” to triers of fact when considering all of the circumstances.<sup>130</sup> Therefore, despite the court’s assertion that an adverse inference “flowing from the infringer’s failure to obtain or produce an exculpatory opinion of counsel . . . is no longer warranted,”<sup>131</sup> the court’s answer to the fourth question leaves many of the issues, seemingly settled in the first two questions, open again. The court stopped short of eliminating all vestiges of the adverse inference. In many ways, this

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<sup>123</sup> *Id.* (citing *Underwater Devices, Inc., v. Morrison-Knudsen Co.*, 717 F.2d 1389-90 (Fed. Cir. 1983)).

<sup>124</sup> *Knorr-Bremse*, 383 F.2d at 1345.

<sup>125</sup> *Id.* at 1346.

<sup>126</sup> *Id.*

<sup>127</sup> *Id.*

<sup>128</sup> *Id.* at 1347.

<sup>129</sup> *Id.*

<sup>130</sup> *Id.*

<sup>131</sup> *Id.* at 1344.

answer simply reaffirms the existing law because the existence of an advice of counsel, while it no longer permits a presumptively adverse factor, remains an important element in the totality of the circumstances inquiry.

In a concurring-in-part and dissenting-in-part opinion, Circuit Judge Dyk was sensitive to the issues the court's opinion did not resolve. Judge Dyk concurred with the majority's opinion to the extent that it eliminated the adverse inference when attorney-client privilege is not waived and when legal opinion is not obtained.<sup>132</sup> Judge Dyk, however, disagreed with the majority's reaffirmance of the affirmative duty to exercise due care to determine whether or not one is infringing another's patent.<sup>133</sup> Dyk stressed that the due care requirement "has produced nothing of benefit to the patent system."<sup>134</sup> Enhanced damages are useful "in cases where the potential infringer has been guilty of deliberate copying, concealment of infringement, or other reprehensible conduct," Dyk noted, but where reprehensible conduct does not exist, a patentee is adequately protected from infringers via preliminary injunctive relief. Dyk asserted "to stretch the law of punitive damages" in these cases is "unnecessary." Judge Dyk pointed to a list of undesirable consequences that have emerged as a result of the affirmative duty of due care. These include: "a reluctance" on the part of people in the industry "to review patents for fear that the mere knowledge of a patent will lead to a finding of lack of due care"; "a cottage industry of window-dressing legal opinions by third party counsel designed to protect the real decision-making process between litigating counsel and the company's executives"; "the imposition of substantial legal costs on companies seeking to introduce innovative products"; "and an enhanced ability of holders of dubious patents to force competitors' products off of the market through the threat of enhanced damages."<sup>135</sup> Despite the purported elimination of the adverse inference, Judge Dyk concluded that the "majority opinion does not address whether a potential infringer can satisfy the requirement of due care without securing and disclosing an opinion of counsel, or, if such an opinion is not absolutely required,

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<sup>132</sup> *Id.* at 1348 (Dyk, J., concurring-in-part and dissenting-in-part).

<sup>133</sup> *Id.* (Dyk, J., concurring-in-part and dissenting-in-part).

<sup>134</sup> *Id.* at 1351. (Dyk, J., concurring-in-part and dissenting-in-part). Dyk also noted that an enhancement of damages for failure to comply with the due care requirement could not be "squared" with recent Supreme Court cases where it was held that "punitive damages can only be awarded in situations where the conduct is reprehensible." *Id.* (Dyk, J., concurring-in-part and dissenting-in-part).

<sup>135</sup> *Id.* (Dyk, J., concurring-in-part and dissenting-in-part). Judge Dyk noted that amici and other groups, including the Federal Trade Commission and National Academies, have recognized these concerns.

whether an adverse inference can be drawn from the accused infringer's failure to obtain and disclose such an opinion."<sup>136</sup>

#### IV. IMMEDIATE REACTION TO *KNORR-BREMSE*

##### *A. Practitioners React*

Immediately following the *Knorr-Bremse* decision, commentators were generally optimistic about the new change in law. One commentator suggested that "the entire patent bar seemed to heave a sigh of relief," because "no longer [would] patent counsel face the dreaded adverse inference Catch-22."<sup>137</sup> The decision, in one attorney's opinion, "reverses the erosion of the attorney-client privilege we've seen over the past 20 years," and "essentially restores the protection of attorney-client privilege."<sup>138</sup> Another attorney quipped that "[t]he Federal Circuit just dropped a house on the Wicked Witch of the West."<sup>139</sup> In his opinion, "the deck [was] swept clean," due to the elimination of the adverse inference because "[a]ll presumptions are gone, so a defendant is no longer guaranteed to lose."<sup>140</sup>

Law firms also appeared to react positively to the news of the *Knorr-Bremse* decision. In its client newsletter, one firm noted that the inference "used to be the 'thumb on the scale' that weighed heavily against defendants in court."<sup>141</sup> The firm noted that the change in law, however, "may have created a more evenly balanced battleground between plaintiffs and defendants."<sup>142</sup> Another firm commented that the *Knorr-Bremse* decision "frees those accused of willful infringement from the Hobson's choice of waiving privilege . . . in the face of a virtually dispositive adverse inference."<sup>143</sup> Even if a defendant receives a favorable opinion of counsel, after the elimination of the adverse inference, one firm noted, the defendant may choose to keep its opinions secret because otherwise it "effectively opens the barn doors and gives

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<sup>136</sup> *Id.* at 1352 (Dyk, J., concurring-in-part and dissenting-in-part).

<sup>137</sup> Steve Anderson, *Federal Circuit Strikes Down Presumed-Guilty Rule*, 14 CORP. LEGAL TIMES, 156, Nov. 2004. Another article that reported the *Knorr-Bremse* decision was aptly titled "*Ding-Dong, The Inference Is Dead.*" Devinsky & Becker, *supra* note 11.

<sup>138</sup> Anderson, *supra* note 137 (quoting Michael Dzwonczyk, an attorney at Sughrue Mion in Washington, D.C.).

<sup>139</sup> *Fed. Cir. Reverses Precedent on Attorney-Client Privilege*, 11 No. 12 ANDREWS INTELL. PROP. LITIG. REP. 2, Oct. 4, 2004 (quoting Glen Belvis, an attorney at Brinks Hofer Gilson & Lione, in Chicago, Ill.).

<sup>140</sup> *Id.*

<sup>141</sup> Linder & Roberts, *supra* note 81.

<sup>142</sup> *Id.*

<sup>143</sup> Parke, *supra* note 90.

the opposing side the opportunity to seek other privileged documents or email related to the invention in discovery.”<sup>144</sup> Moreover, if an opinion is bad, a defendant should feel more comfortable in its decision to not disclose the opinion. Also, in response to a question that the majority recognized that it had left open, one firm noted that the elimination of the inference may now allow accused infringers to “argue that the mere existence of an opinion, even without its production during discovery, shows good faith, a factor disproving willfulness.”<sup>145</sup>

### *B. Effects on Existing Cases*

Following the *Knorr-Bremse* decision, district courts appeared to be receptive to the change in law. In at least one instance, while responding to a motion to quash a plaintiff’s discovery requests, a district court granted a defendant the option to withdraw an advice-of-counsel defense the defendant had asserted prior to the *Knorr-Bremse* decision. The court in *Terra Novo, Inc., v. Golden Gate Products, Inc.*<sup>146</sup> recognized that “the negative inference,” which existed prior to *Knorr-Bremse*, “rendered the waiver of attorney-client privilege less than voluntary.” The district court was therefore willing to give the defendant the choice of either “fil[ing] a statement of intent not to rely upon the advice of counsel defense against willfulness,” or “submit to the discovery authorized in [the court’s] order.”<sup>147</sup>

As a result of a general willingness by the courts to give defendants the opportunity to benefit from the Federal Circuit’s *Knorr-Bremse*

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<sup>144</sup> Linder & Roberts, *supra* note 81.

<sup>145</sup> Hintz, *supra* note 66.

<sup>146</sup> No. C-03-2684 MMC EDL, 2004 WL 2254559, at \*3 (N.D. Cal. Oct. 1, 2004).

<sup>147</sup> *Id.* This choice really ended up providing the defendant with the best of both worlds. Despite the fact that the court advocated for a narrower waiver following *Knorr-Bremse* (“waiver . . . is only as broad as necessary to assure fair disclosure on the subject matter of the advice”) the discovery authorized by the district court was not terribly restrictive. *Id.* at \*2. The permitted discovery included selected communications between the defendant’s opinion counsel and litigation counsel, and selected work product prepared by the litigation counsel. *Id.* at \*3. However, in another case in the same district as *Terra Novo*, the court found support in *Knorr-Bremse* for its decision to maintain a limited waiver approach following a defendant’s assertion of the advice-of-counsel defense. *Collaboration Properties, Inc. v. Polycom, Inc.*, 2004 WL 2296953, at 3 (N.D. Cal). The district court deemed a limited waiver system appropriate in light of the Federal Circuit’s interest “that full communication and ultimately the public interest in encouraging open and confidential relationships between client and attorney” be promoted. *Id.* at \*3 n.4 (quoting *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1334 (Fed. Cir. 2004) (en banc)). The court apparently believed a broad waiver system would not promote the attorney-client relationship in this context.



decision, defendants will likely take advantage of the change of law.<sup>148</sup> Following *Knorr-Bremse*, however, the Federal Circuit did not intend to disturb every appealed decision related to findings of willful infringement.<sup>149</sup> The Federal Circuit appears willing to provide defendants an opportunity to relitigate an unfavorable finding of willfulness if the trial court's decision was significantly affected by a pre-*Knorr-Bremse* adverse inference. But where the adverse inference was not a significant factor in the willfulness determination, the court is likely to leave the decision undisturbed.

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<sup>148</sup> In at least one instance, however, a defendant was unable to use the change in law to its benefit. In *Applied Medical Resources Corp. v. U.S. Surgical Corp.*, 2005 WL 100925, at \*7 (C.D. Cal. 2005), a patent infringer attempted to avoid an order that would collaterally estop it from relitigating the issue of validity of the plaintiff's patent claim, an issue that had been fully litigated prior to the *Knorr-Bremse* decision. The defendant argued that its inability to take advantage of its rights arising from its waiver of attorney-client privilege "played a central role" in the jury's finding that the plaintiff's patent was valid. *Id.* The district court, however, held that the intervening change in law pertained only to attorney-client privilege and willfulness, and was unrelated to a jury's prior finding of the plaintiff's patent validity. *Id.*

Shortly after its holding in *Knorr-Bremse*, the Federal Circuit also appeared poised to change how it adjudicated appeals pertaining to district court findings of willful infringement. Where a defendant's failure to produce an opinion of counsel significantly influenced a district court's finding of willful infringement, as it did in *Knorr-Bremse*, the Federal Circuit, in *Insituform Techs., Inc. v. Cat Contracting, Inc.*, 385 F.3d 1360, 1377 (Fed. Cir. 2004), vacated the willfulness finding and ordered the district court to reconsider the issue based on "a fresh weighing of the evidence." *Id.* The lack of an opinion of counsel, however, was not the only evidence that weighed against the accused infringer. The Federal Circuit noted that the district court enhanced damages in part due to the defendant's "flagrant display of deliberate misconduct . . . throughout [the] proceeding." *Id.* (quoting *Insituform Techs., Inc. v. Cat Contracting, Inc.*, No. Civ.A.H-90-1690, 1999 WL 33914622, at \*29 (S.D. Tex. Aug. 30, 1999)).

<sup>149</sup> In *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1379-80 (Fed. Cir. 2005), the Federal Circuit left a jury's willfulness determination untouched even though the infringer had not pursued an advice-of-counsel defense. *See* *Fuji Photo Film Co. v. Jazz Photo Corp.*, 249 F. Supp. 2d 434, 456 n.29 (D.N.J. 2003). According to the district court, the jury's willfulness determination was not significantly affected by an adverse inference. *Id.* The district court added "[i]ndeed, no such opinion could exist. While ordinarily the absence of an opinion is of critical significance in any willfulness inquiry, it is of less importance under the circumstances presented here – i.e. where the alleged infringer knew that a particular action would constitute infringement, but claims not to have known that it was taking the action." *Id.* Instead, the district court noted, the jury could properly have based its willfulness determination on a finding of a lack of credibility of the defendant's only proffered evidence aimed to support his claim that he lacked the requisite knowledge to form a willful intent to infringe: his own testimony. *Id.* at 457. Even if the Federal Circuit had vacated the finding of willfulness, however, there would have been no obvious benefit to the defendant because at trial the district court, in its discretion, did not enhance the damages as a result the jury's willfulness determination anyway.

*C. Yet What Was Actually Accomplished?*

The Federal Circuit's *en banc* decision in *Knorr-Bremse* likely will be remembered for the court's elimination of the adverse inference that had weighed heavily on accused patent infringers for nearly twenty years. But what remains unclear is whether the decision, as a practical matter, will create an improvement in the landscape of patent litigation strategy. The majority opinion grounded its decision to eliminate the inference largely in an effort to restore confidence in attorney-client relationships, and to reduce some of the unnecessary burdens imposed on innovators who may be infringing.<sup>150</sup> But despite these laudable intentions, some have questioned whether the elimination of the adverse inference will actually advance these goals.

The majority opinion justified its answer to the second question—to eliminate the adverse inference in the situation where a defendant failed to consult counsel at all—in part on the “burdens and costs” associated with the requirement for “early and full study by counsel of every potentially adverse patent of which the defendant has knowledge.”<sup>151</sup> However, most commentators and law firms insist that despite this holding, an opinion of counsel will still “remain the gold standard among defenses to willfulness.”<sup>152</sup> In what seems to be a win-win situation for law firms, one commentator noted that “*Knorr-Bremse* should not change the corporate best practices in dealing with a known patent which presents a potential infringement problem, i.e., to timely obtain a well reasoned opinion from a competent patent counsel, preferably from an outside counsel.”<sup>153</sup> “Therefore, the *Knorr-Bremse* decision does not alter the advisability of obtaining an opinion of counsel for the purpose of rebutting a charge of willfulness.”<sup>154</sup> This commentator further asserted that *Knorr-Bremse*'s holding “merely makes the absence of an exculpatory opinion a neutral factor for determining willful infringement. Therefore, the *Knorr-Bremse* decision does not alter the advisability of

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<sup>150</sup> See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343-44 (Fed. Cir. 2004) (*en banc*).

<sup>151</sup> *Id.* at 1345.

<sup>152</sup> Robert Scheinfeld & John Spaccorotella, *Federal Circuit's Knorr-Bremse Decision Marks Significant Changes in Willful Infringement Law, But Patent Opinions of Counsel May Remain As Important As Ever* (Baker Botts LLP, New York, N.Y.) Sept. 1, 2004, <http://www.bakerbotts.com/infocenter/publications/detail.aspx?id=63f184c8-bfcb-4829-acc9-e5840b4e66b4> (last visited Apr. 7, 2005).

<sup>153</sup> Steve Z. Szczepanski, *The Effect of Federal Circuit's En Banc Decision in Knorr-Bremse on the Advisability of Obtaining Non-Infringement/Invalidity Opinions*, 12 Metro. Corp. Counsel, no. 11, Nov. 2004, available at [http://www.kelleydrye.com/news/articles\\_publications/0078/\\_res/id=sa\\_File1/Obtaining%20Non-Infringement%20Invalidity%20Opinions.pdf](http://www.kelleydrye.com/news/articles_publications/0078/_res/id=sa_File1/Obtaining%20Non-Infringement%20Invalidity%20Opinions.pdf) (last visited Apr. 7, 2005).

<sup>154</sup> *Id.*

obtaining an opinion of counsel for the purpose of rebutting a charge of willfulness.”<sup>155</sup>

Law firms stand to lose important business if opinions of counsel are no longer regularly obtained by clients. Yet firms are probably offering their clients good advice. As one commentator aptly noted, even though the patentee still carries the burden to prove by clear and convincing evidence that based on the totality of the circumstances the infringement was willful, “evidence that the infringer had relied on and followed a well reasoned and timely opinion of competent patent counsel is likely to be the *best evidence* to rebut the charge [of willful infringement] by establishing a prudent belief that the infringer’s actions were lawful and that the infringer had a good faith belief that he had no liability.”<sup>156</sup> The commentator further asserted that “in most cases, other evidence that the infringer had a prudent belief that what he was doing did not violate patent rights is *not nearly as persuasive*.”<sup>157</sup> And further, “[i]f the client is willing to spend the money on an opinion at all, [the client] will likely go the extra distance to get the outside opinion to protect themselves down the line if they, in fact, do want to waive it.”<sup>158</sup> Therefore, if defendants are still likely to seek opinions of outside counsel anyway, even after the holding in *Knorr-Bremse* to eliminate the adverse inference when no opinion is obtained, then it appears as though the decision actually did little to reduce the burden on defendants. Alleged infringers continue to be burdened both financially, by obtaining attorney opinions, and strategically, because of the necessary waiver of privilege when the opinion is produced as exculpatory evidence.

The majority opinion justified its answer to the first question—to eliminate the adverse inference in situations where a defendant obtains an opinion but chooses not to waive privilege—by emphasizing the “inappropriate burdens” the adverse inference placed “on the attorney-client relationship.”<sup>159</sup> Yet, in the same opinion, the Federal Circuit did

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<sup>155</sup> *Id.*

<sup>156</sup> *Id.* (emphasis added).

<sup>157</sup> *Id.* (emphasis added).

<sup>158</sup> Daniel J. Schwartz & Scott A. Spencer, *Federal Circuit Redefines Willful Infringement Analysis*, (Jenner & Block LLP, Chicago, I.L.) [http://www.jenner.com/files/tbl\\_s20Publications/RelatedDocumentsPDFs1252/796/Federal\\_Circuit\\_Redefines\\_Willful\\_Infringement\\_Analysis.pdf](http://www.jenner.com/files/tbl_s20Publications/RelatedDocumentsPDFs1252/796/Federal_Circuit_Redefines_Willful_Infringement_Analysis.pdf) (last visited Apr. 7, 2005). *But see* Devinsky & Becker, *supra* note 11, at 3 (“Today, if you receive a letter using a patent claim to troll for dollars, you are still well advised to consult with patent counsel. But the outcome of that consultation is far more likely to be calibrated to the seriousness of the allegation and will not result in the automatic recommendation that an exculpatory opinion be obtained as soon as possible.”).

<sup>159</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004) (en banc).

not establish which factors triers of fact should consider in willfulness and damage enhancement inquiries.<sup>160</sup> Instead, the court reasserted that these determinations are to be made “on consideration of the totality of the circumstances,” and noted that such determination “may include contributions of several factors” the court previously delineated in *Read*.<sup>161</sup> In its answer to the fourth question—that the existence of a substantial defense to infringement is not necessarily sufficient to defeat liability for willful infringement—the court reasoned that triers of fact were in a better position “to accord each factor the weight warranted by its strength in the particular case.”<sup>162</sup> This approach, the court suggested, would provide “greater flexibility” for a trier of fact “to fit the decision to all of the circumstances.” The court noted that willful infringement, “as in life, is not an all-or-nothing trait, but one of degree.”<sup>163</sup>

Yet, by leaving this determination open, the court implicitly acknowledged the fact that a lack of privilege waiver by a defendant could still have a substantial effect on a court’s willfulness determination. Therefore, instead of actually eliminating the “inappropriate burden” on defendants, the court appears to have reinforced the burden by still leaving a trier of fact with the responsibility to consider a defendant’s lack of opinion in the “totality of the circumstances” evaluation.

The reaffirmance of this flexible approach alarmed law firms and commentators as well. By providing more flexibility, one law firm article noted, the court “left in place . . . a continuing confusion” surrounding these determinations.<sup>164</sup> Judge Dyk expressed similar criticism for the courts unwillingness to provide clear guidance. Because the majority did not eliminate the affirmative duty of care, Judge Dyk emphasized, the duty of care will remain a critical factor in the willfulness determination.<sup>165</sup> Consequently, Dyk asserted, “no one can seriously doubt that, both in the minds of the jurors (in determining willfulness) and in the decision of the district court (concerning enhancement), the

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<sup>160</sup> *Id.* at 1347.

<sup>161</sup> *Id.* at 1342-43.

<sup>162</sup> *Id.* at 1347.

<sup>163</sup> *Id.* at 1343 (citing *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1125-26 (Fed. Cir. 1987)).

<sup>164</sup> Gregory A. Castanias, *Intellectual Property Commentaries: New Decision Changes Law on Attorney-Client Privilege in Patent Cases* (Jones Day, Washington, D.C.) Sept. 2004, <http://www1.jonesday.com/pubs/detail.asp?pubid=1555&language=English> (last visited Apr. 7, 2005).

<sup>165</sup> See *Knorr-Bremse*, 383 F.3d at 1349 (Dyk, J., concurring-in-part and dissenting-in-part).

duty of care is by far the preeminent factor in the vast majority of cases.”<sup>166</sup>

In summary, the Federal Circuit eliminated the adverse inference in circumstances where a defendant obtains an opinion of counsel but does not produce it, and when a defendant does not seek legal counsel at all. The court justified this change in law on the negative impacts the inference has had on attorney-client relationships, and the excessive burdens and costs that are associated with the opinion practice. Yet, based on the reaction of the legal community, clients that would obtain opinions of counsel in the past, probably still will. This is because, despite the court’s decision to eliminate the presumption, there will still be an incentive to produce the opinion because it will be hard to rebut a claim of willfulness if the underlying infringement ultimately is found to have occurred. Inevitably, there will be scenarios where a defendant’s decision to not produce an opinion, as a result of the *Knorr-Bremse* decision, will work to their advantage. But for the vast majority of cases, an opinion of counsel will remain the best evidence to rebut a claim of willfulness. Therefore, the goals of the majority opinion in *Knorr-Bremse* appear to remain unfulfilled. If this is true, it is reasonable to conclude that *Knorr-Bremse* did not really change very much at all.

#### V. IMPROVEMENT: APPLICATION OF SELECTIVE WAIVER

If accused patent infringers continue to regularly seek opinions of counsel and thereafter waive attorney-client privilege in order to offer an opinion to defeat a willful infringement claim, the “inappropriate burdens on the attorney-client relationship”<sup>167</sup> inevitably remain strong despite the elimination of the adverse inference by the Federal Circuit in *Knorr-Bremse*. Defendants are not likely to change their behavior as a result of the *Knorr-Bremse* holding. The dilemma of alleged patent infringers will continue until the Federal Circuit revisits the premise of exculpatory opinions in patent infringement suits.

If the Federal Circuit permitted defendants to offer an opinion of counsel as exculpatory evidence without necessarily waiving attorney-client privilege, the central goals of *Knorr-Bremse* would be achieved. Such a system would amount to a selective waiver process whereby a defendant would not be forced to comply with overzealous discovery requests by plaintiffs.<sup>168</sup> Selective waiver is generally considered to be unfair because it allows a party to use communications borne out of the

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<sup>166</sup> *Id.* (Dyk, J., concurring-in-part and dissenting-in-part).

<sup>167</sup> *Id.* at 1343.

<sup>168</sup> For an example of a potentially damaging discovery request following waiver of attorney-client privilege see HORWITZ & HORWITZ, *supra* note 8, § 9-07[13][a], 9-120.4.

attorney-client privilege as both a “cloak and dagger.” Although certain new dangers would exist, a selective waiver system would be most equitable in patent infringement litigation. As it currently stands, plaintiffs are able to unfairly exploit accused infringers by forcing competitors to spend large amounts of money on, perhaps gratuitous, exculpatory opinions when the plaintiff obtains a new patent. Plaintiffs are also able to abuse defendants when, simply as matter of routine, they add a claim of willful infringement, thereby forcing defendants into the classic “Hobson’s Choice.” Because the risk of Rule 11 violations are extremely low for plaintiffs, their use of a willfulness allegation amounts to an unfair dagger in an accused infringer’s defense strategy. Despite the Federal Circuit’s efforts, the *Knorr-Bremse* decision has not alleviated the defendant’s quandary. A selective waiver system, however, would help level the playing field.

For all of its benefits, a selective waiver system does present new risks. Such a system may create an environment where lawyers are less candid in written opinions because they will be able to supplement their legal advice through other means. Most important, other communications, such as meetings with a client, would not be discoverable under this system. On its face, therefore, it appears as though a selective waiver system would promote the so-called “window dressing” opinion practice, or perhaps even create a market for the “say-anything-lawyer.” The likelihood that these counterproductive practices will occur, however, is not as substantial as it may appear. District courts currently analyze exculpatory opinions drafted by lawyers very carefully. To be considered competent, an opinion must satisfy many substantive requirements.<sup>169</sup> Significantly, opinions must: be rendered by attorney’s who are “proficient in patent matters”;<sup>170</sup> opinions must “evidence an adequate foundation based on a review of all necessary facts [that] is not merely conclusory on its face, presenting only a superficial or off-the-cuff analysis”;<sup>171</sup> and an “opinion [must] indicate[] that it is based on a review of the file history of the patent, the prior art of record, and, possibly, additional prior art.”<sup>172</sup> Although an attorney will inevitably tailor an opinion in a light most favorable to his client, an attorney must nevertheless write truthfully and exhaustively about potential infringement claims in order to satisfy these substantive exculpatory

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<sup>169</sup> See HORWITZ & HORWITZ, *supra* note 58, § 9.07[10], 9-118 to 9-119, for an exhaustive list of factors a court will consider when evaluating the competency and authoritativeness of an exculpatory opinion.

<sup>170</sup> *Id.*

<sup>171</sup> *Id.*

<sup>172</sup> *Id.*

opinion requirements. Responsible lawyering will continue as long as trial courts remain critical and demanding of attorney opinions.

Plaintiffs will not be burdened unfairly by a selective waiver system. The production of an exculpatory opinion, by itself, does not oblige a trier of fact to find a lack of willfulness. If a court determines, based on a totality of the circumstances review, that a defendant was willful—in spite of the existence of an exculpatory opinion—plaintiffs will nevertheless obtain adequate relief. A selective waiver system will continue to encourage defendants to seek legal opinions, and at the same time, eliminate the unfair dilemma associated with attorney-client privilege waiver.

A selective waiver system does not alleviate the financial burden on defendants to seek advice of counsel. Due to the continued viability of a (however subdued) negative inference, in the totality of the circumstances review, the *Knorr-Bremse* holding did not diminish this burden either. Selective waiver, however, has the potential to accomplish the unrealized goal of the Federal Circuit to reduce the unfair burdens on the attorney-client relationship.

In a curious result, if the Federal Circuit adopted a selective waiver system, the pre-*Knorr-Bremse* “adverse inference,” arguably, would be appropriate. In fact, in a selective waiver system, the original goal of the “adverse inference,”—to permit a trier of fact to make a reasonable assumption about an accused infringer’s subjective understanding regarding the risk of infringement—would be realized. Aside from financial reasons, no longer would defendants stand to lose as much by withholding the attorney’s opinion in discovery. If in selective waiver system the production of the opinion does not result in waiver of attorney-client privilege, an “adverse inference” would further promote responsible behavior on the part of defendants.

Although a defendant may have other legitimate reasons for not producing an opinion, even in a selective waiver system, these risks may be reduced substantially if the opinion is drafted responsibly (i.e. such that the opinion does not offer too much advice such that it would necessarily hinder future litigation strategy, but would nevertheless offer a client proper analysis of his current situation). Hence, under a selective waiver system, the “adverse inference” that existed prior to the Federal Circuit’s decision in *Knorr-Bremse* would be practicable.

#### CONCLUSION

The Federal Circuit’s decision in *Knorr-Bremse* to eliminate the “adverse inference” was unanimously supported by the legal community. Despite this support, however, it appears as though the goals, which

prompted the court's change in law, will not be realized. In the wake of the decision, defendants will likely continue to be burdened by the cost of obtaining opinions of counsel when facing a possible willful infringement charge. Defendants will also likely feel compelled to offer that opinion as evidence of its good faith, thereby waiving attorney-client privilege. The elimination of the "adverse inference" does not reconcile the fact that courts must continue to consider the defendant's conduct based on a "totality of the circumstances" review. The elimination of the inference does not change the fact that, in a "totality of the circumstances" determination, a defendant's best defense against a willfulness claim is an exculpatory opinion.

The Federal Circuit could alleviate this dilemma, I propose, if it adopts a selective waiver system that permits a defendant to offer an opinion of counsel while not requiring waiver of attorney-client privilege. Although this system presents new risks, such a system would help create a more equitable litigation environment in patent infringement suits.





