

Opinions of Counsel in Patent Litigation: The Impact of *Knorr-Bremse*

On September 13, 2004, the Federal Circuit issued its long-awaited *en banc* opinion in *Knorr-Bremse Systeme Fuer Nuetzfahrzeuge GMBH v. Dana Corp., et al.*, – F. 3d – Fed. (Cir. 2004) overruling, in part, twenty years of precedent relating to willful patent infringement.

The Federal Circuit's Twenty-Year "Adverse Inference" Experiment, and the Defendant's Dilemma

By statute, patent infringers may be liable to the patent owner for treble damages, and in "exceptional cases," attorneys fees as well. 35 U.S.C. §§284, 285. Over twenty years ago, the Federal Circuit held that a potential patent infringer must "exercise due care to determine whether or not he is infringing," which often includes "the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity." *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 Fed. Cir. 1983).

Shortly thereafter, in an effort to curb the "flagrant disregard of presumptively valid patents without analysis," the Court held that a defendant's failure to obtain an opinion of counsel, or its decision to withhold any such opinion on privilege grounds, warranted an "adverse inference" that the opinion was unfavorable and "contrary to the infringer's desire to initiate or continue its use of the patentee's invention." *Fronson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1572-73 Fed. Cir. 1988).

The "adverse inference" doctrine did not achieve its intended result. Instead, it created

an unintended, unwarranted dilemma for many patent defendants, because it failed to recognize that patent defendants often have legitimate reasons for withholding exculpatory opinions during a litigation. For example, a patent defendant might conclude that in a particular case, the opinion's benefit does not outweigh the time-consuming, expensive and uncertain motion-practice regarding the breadth and scope of the privilege waiver that disclosure would entail. Similarly, after a defendant evaluates the arguments and issues identified by the plaintiff in litigation, or after it considers the court's *Markman* claim construction ruling, the defendant may decide to withhold an exculpatory opinion for sound tactical reasons. The simplistic "adverse inference" doctrine failed to take such concerns into account, and as a result, allowed courts to conclude, often erroneously, that a defendant's undisclosed opinions were unfavorable.

After two decades, the "adverse inference" doctrine had become one of the most controversial and oft-criticized aspects of the patent law, and a flood of *amicus* briefs followed the Federal Circuit's decision to reconsider the issue *en banc*. Many *amici* urged the Court not only to overrule the adverse inference doctrine, but also to rewrite the willfulness standards entirely, imploring the Court to hold that a substantial defense to infringement defeats liability for willfulness.

The *Knorr-Bremse* Decision

Knorr-Bremse unanimously overruled the "adverse inference" doctrine, holding that "no adverse inference shall arise from invo-

cation of the attorney-client and/or work product privilege." However, the Federal Circuit declined to hold that a substantial defense in litigation is sufficient to defeat a willfulness allegations. Over a dissent by Judge Dyk, the Federal Circuit emphasized that "the duty to respect the law is undiminished" and warned that "existence of a substantial defense to infringement" is not alone "sufficient to defeat liability for willful infringement." Thus, the Federal Circuit reaffirmed that willfulness shall still be determined in view of the "totality of the circumstances" based on a host of factors, including, as before, whether the accused infringer had an exculpatory opinion of counsel.

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Knorr-Bremse's Impact

Knorr-Bremse will undoubtedly have an impact on strategy in jury patent trials, but contrary to some reports, the case does not spell the end of the opinion of counsel defense. To the contrary, because *Knorr-Bremse* held that the “existence of a substantial defense to infringement” is *not* alone sufficient to defeat willfulness, opinions of counsel will continue to play a central role in rebutting willfulness allegations. In fact, *Knorr-Bremse* may actually encourage a greater number of defendants to obtain opinions of counsel, as defendants may elect to withhold an opinion without fear that a jury will be instructed to draw an erroneous “adverse inference” about the advice. The effect of this difference will be amplified in those jurisdictions where the defendant historically has had to choose between such an “adverse inference” and a very broad waiver of the attorney-client privilege. Now the defendant may get the upside of seeking counsel, maintain the privilege with respect to that counsel, thereby preventing a strategically troubling waiver and at the same time avoid the downside that formerly attached to that decision.

In the meantime, patentees litigating willfulness will also be forced to consider more closely how they intend to prove willfulness. The patentee cannot merely rely on an adverse inference instruction where the accused infringer refuses to produce an opinion letter; the patentee, thus, on some occasions may be forced to expend more effort developing its willfulness case.

Knorr-Bremse brings the focus of the willfulness analysis back to a review of the totality of the circumstances. In so doing it removes a doctrine that has in the past impeded accused infringers from seeking patent advice that might have given rise to a dilemma in the course of litigation when the doctrine was applied. ■