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Client Alert

# Federal Circuit Changes Rule for 'Opinion of Counsel' Defense in Patent Litigation

**Intellectual Property Practice Team** **September 17, 2004**

A finding of willful infringement gives a United States district court judge the discretion to award a patentee up to three times the damages suffered from an infringement. Thus, a finding of willful infringement is a major concern for businesses.

To avoid a finding of willfulness, a defendant could offer into evidence at trial that it had obtained and relied on a legal opinion that stated that it was not infringing a valid patent claim. By offering the legal opinion in discovery the defendant waived the attorney-client privilege as to the subject of that opinion. Before a recent Federal Circuit decision, if the defendant failed to offer such a legal opinion into evidence, the judge could instruct the jury that they were permitted to infer that either the infringer did not obtain an opinion or, if an opinion was obtained but not provided to the other side, it was unfavorable. This is called an "adverse inference." Under the law, businesses found themselves struggling with this "opinion of counsel" defense to willful infringement claims because on the one hand, they had to get an opinion to defend against willfulness and on the other hand, if the opinion identified infringement, it could not be used and could, through "adverse inference," assist in proving willfulness.

On Monday, September 13, 2004, the U.S. Court of Appeals for the Federal Circuit changed this and overruled twenty years of precedent. In its en banc decision, the Court issued a landmark ruling on willful infringement in *Knorr-Bremse Sys. Fuer Nutzfahrzeuge Gmbh v. Dana Corp*., 2004 WL 2049342 (Fed. Cir. 2004). The Federal Circuit reconsidered its precedent concerning the issue of whether it is proper to draw an adverse inference. In this case, the Court holds that no adverse inference "flows from an alleged infringer's failure to obtain or produce an exculpatory opinion of counsel."

In granting the request for en banc review, the Federal Circuit asked four questions. The questions and answers, from the opinion follow:

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?

   Answer: No. The Court held that although the duty to respect the law is undiminished, "no adverse inference shall arise from invocation of the attorney-client and/or work product privilege." *Knorr-Bremse Sys. Fuer Nutzfahrzeuge Gmbh v. Dana Corp*., 2004 WL 2049342, at *4 (Fed. Cir. 2004).

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

Answer: No. The Court held that it is inappropriate to draw an adverse inference from a defendant's failure to consult counsel and obtain legal advice as to whether there is 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?

   Answer: A fresh weighing of the evidence is required to determine whether the defendant committed willful infringement. The Court vacated the finding of willful infringement and remanded for redetermination of the issue.

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?

   Answer: No. The Court held, that the "[p]recedent includes this factor with others to be considered among the totality of circumstances, stressing the 'theme of whether a prudent person would have sound reason to believe that the patent was not infringed or was invalid or unenforceable, and would be so held if litigated.' However, precedent also authorizes the trier of fact to accord each factor the weight warranted by its strength in the particular case." Knorr-Bremse Sys. Fuer Nutzfahrzeuge Gmbh v. Dana Corp., 2004 WL 2049342, at *7 (Fed. Cir. 2004) (quoting SRI Int'l, Inc. v. Advanced Tech. Labs. Inc., 127 F.3d 1462, 1465 (Fed. Cir. 1997)). Thus, the Court declined to adopt a per se rule that a substantial defense could automatically defeat a charge of willfulness.

The Federal Circuit's primary reason for overruling its twenty year precedent was a concern that the court-imposed adverse inference distorted the attorney-client relationship. The court removes an impediment to the attorney-client relationship with this case by allowing a potential infringer to seek advice without the concern that its attorney-client communications ultimately can be used against him or her to create an adverse inference. As articulated by the author of the opinion, Judge Newman, "there should be no risk of liability in disclosures to and from counsel in patent matters."

As a result of the *Knorr-Bremse* en banc decision, however, many of the fundamental purposes and benefits of seeking legal opinions have not changed. Legal opinions and investigations continue to be useful analysis tools in determining rights and liabilities. The duty of care to not infringe known patent rights remains. Therefore, a legal opinion can still be introduced as evidence of non-willfulness at trial even though the adverse inference rule is abolished. The *Knorr-Bremse* en banc decision assists businesses because it fosters the open communication necessary in any attorney-client relationship without the concerns that someday there will be a choice between divulging the communication or being subject to an adverse inference that the client acted without due care.

For additional information regarding this Client Alert, please contact ***Robert M. Fuhrer*** at ***703.905.2000*** or ***rfuhrer@pillsburywinthrop.com***; or ***Monica B. Lateef*** at ***703.905.2000*** or ***mlateef@pillsburywinthrop.com***.