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Sent: Monday, September 13, 2004 9:02 PM
To: stephen@dykaslaw.com
Subject: Knorr-Bremse (en banc) Willfulness Damages

In *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, ___ F.3d ___ (Fed. Cir. September 13, 2004)(en banc)(Newman, J.), the court restored a pre-Federal Circuit "totality of the circumstances" test for willful infringement under 35 USC § 284. It "h[e]ld that that no adverse inference that an opinion of counsel was or would have been unfavorable flows from an alleged infringer's failure to obtain or produce an exculpatory opinion of counsel."

The court adopted a "totality of the circumstances" test for willfulness: "Determination of willfulness is made on consideration of the totality of the circumstances, see *Gustafson, Inc. v. Intersystems Indus. Prods., Inc.*, 897 F.2d 508, 510 (Fed. Cir. 1990), and may include contributions of several factors, as compiled, e.g., in *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101, 1110 (Fed. Cir. 1986) and *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed. Cir. 1992). These contributions are evaluated and weighed by the trier of fact ***."

Invoking Privilege Creates no Adverse Inference: The court answered "no" to Question 1 ("When the attorney-client privilege and/or work-product privilege is invoked by a defendant in an infringement suit, is it appropriate for the trier of fact to draw an adverse inference with respect to willful infringement?"). It said that "[a]lthough the duty to respect the law is undiminished, no adverse inference shall arise from invocation of the attorney-client and/or work product privilege."

No Adverse Inference for Failure to Seek Legal Advice: The court answered "no" to Question 2 ("When the defendant had not obtained legal advice, is it appropriate to draw an adverse inference with respect to willful infringement?"). It explained that "[t]he issue here is *** whether there is a legal duty upon a potential infringer to consult with counsel, such that failure to do so will provide an inference or evidentiary presumption that such opinion would have been negative. *** In tandem with our holding that it is inappropriate to draw an adverse inference that undisclosed legal advice for which attorney-client privilege is claimed was

unfavorable, we also hold that it is inappropriate to draw a similar adverse inference from failure to consult counsel. *** . Although there continues to be 'an affirmative duty of due care to avoid infringement of the known patent rights of others,' *L.A. Gear Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 1127 (Fed. Cir. 1993), 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."

Substantial Defense One Factor (but no Per Se Rule): The court answered "no" to Question 4 ("Should the existence of a substantial defense to infringement be sufficient to defeat liability for willful infringement even if no legal advice has been secured?"). It thus rejected a *per se* rule. Yet, "[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,' *SRI Int'l, Inc. v. Advanced Tech. Labs. Inc.*, 127 F.3d 1462, 1465 (Fed. Cir. 1997). However, precedent also authorizes the trier of fact to accord each factor the weight warranted by its strength in the particular case. We deem this approach preferable to abstracting any factor for *per se* treatment, for this greater flexibility enables the trier of fact to fit the decision to all of the circumstances. We thus decline to adopt a *per se* rule."

Judge Dyk's Lone Dissent in Part: The eleven member court (Judge Michel did not sit) was unanimous except for the opinion of Judge Dyk who "join[ed] the majority opinion insofar as it eliminates an adverse inference (that an opinion of counsel would be unfavorable) from the infringer's failure to disclose or obtain an opinion of counsel. [He did] not join the majority opinion to the extent that it may be read as reaffirming that 'where, as here, a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing.' [Majority opinion] (quoting *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389 (Fed. Cir. 1983))."

Regards,

Hal

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