

Dead or Alive: Adverse Inferences After Knorr-Bremse

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Clients will no longer face the Hobson's choice of willful patent infringement or waiver of the attorney-client privilege. In *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, Judge Pauline Newman, writing for the Court of Appeals for the Federal Circuit sitting *en banc*, reversed a rule first enunciated by the Federal Circuit in 1983 in *Underwater Devices, Inc., v. Morrison-Knudsen Co.*, 717 F.2d 1380 (1983), and expanded in 1986 in *Kloster Speedsteel AB v. The Crucible Inc.*, 793 F.2d 1565 (1986). *Underwater Devices* held that when a party accused of patent infringement, or even merely aware of a patent likely to be asserted against it, failed to obtain a competent opinion of counsel that the patent was either not infringed or invalid or unenforceable, an adverse inference arose that any infringement subsequently found by the trier of fact was "willful." Such an inference could be costly because a party found to be a willful infringer is exposed to multiple damages and attorneys' fees. *Kloster Speedsteel* expanded the rule by holding that the adverse inference arose even if the accused had obtained an opinion of counsel but, relying on the attorney-client privilege, declined to produce it to the other side and to the court.

This rule had required an accused to choose between producing an opinion that could lead to disclosure of its litigation plans and tactics, its design-around strate-

gies, its research and development activities, and other sensitive, confidential information or asserting the privilege and suffering an adverse inference that risked substantially enhanced damages and attorneys' fees should it lose.

Under the adverse inference rule, a company accused of infringing, or even on notice that it might be accused of infringing a U.S. patent, was virtually forced to refer the question to its patent lawyers, at a substantial cost in time and money to obtain a "clearance" opinion of counsel. Even if its engineers and other technical employees knowledgeable about the technology encompassed by the patent were quite certain that the patent's claims did not read on the company's products or processes, the company still risked an adverse inference if it did not bring its patent lawyers in on the analysis and get them to bless the non-infringement conclusions of its technical people and clothe that blessing in appropriate form and language.

Various *amici curiae* in *Knorr-Bremse* had pointed out various aspects of the unfairness of the automatic adverse inference rule, including (1) the burden that it placed on small businesses, for whom cost of even the simplest and most straightforward opinion of counsel was oppressive; (2) the rule's empowerment of patentees with patents of questionable validity to extract royalties from small companies unable to afford to challenge that validity and (3) the fact that the rule in effect shifted the burden of proof to the alleged infringer, despite the statutory requirement that willful infringement be proved by the patent holder by clear and convincing evidence.

The *Knorr-Bremse* decision has eradicated one egregious instance in which patent law departed from the main body of American jurisprudence, in which the attorney's duty of confidentiality and the attorney-client privilege in support of that duty is protected from enforced waiver. Most of the *amici* and much of the patent bar have applauded the demise of the adverse inference erected by *Kloster*

Speedsteel when a party invokes the attorney-client privilege to protect the confidentiality of its lawyer's opinion. But is *Underwater Devices* also dead? Or is the adverse inference rule still breathing in a legal principle that the Court left standing? Some commentators, and Judge Dyk, in a thoughtful separate opinion concurring in part and dissenting in part, think the answer is yes.

This is because the Court left in place "an affirmative duty of due care to avoid infringement of the known patent rights of others," while failing to address the practical ramifications of this duty. Several *amici curiae* raised the question of whether a jury could or should be told whether or not counsel was consulted as part of the totality of the circumstances relevant to the question of willful infringement. As is apparently required when faced with practical implications of jurisprudential decision making, the Court punted.

Practically speaking for the punt return teams, this does leave many pitfalls for potential defendants. For instance, while few commentators will challenge the rationality of overturning the adverse inference rule, practitioners will now be asked what a company should do when it is made aware of a potential infringement. "Should we just have our engineers take a look?" "We don't need to call you anymore, right?" Well, not so fast. An engineer in the company may be, and usually is, perfectly qualified to analyze the patent-in-suit and determine if there are potential issues. He may not, however, be particularly able to document that analysis without using legal terms of art, often the wrong way. It is not helpful to replace the Hobson's choice created by the adverse inference rule with the risk of creating good, old fashioned bad evidence by well intentioned, but poorly-informed witnesses. Perhaps more importantly, even without an adverse inference jury instruction, jurors may very well draw an adverse inference on their own following a dramatic cross examination ending in, "you didn't even ask a patent lawyer, did you?" While potential defendants are no longer compelled to obtain opinions of counsel, the open question of just what elements and considerations constitute the totality of the circumstances that can support a willfulness finding certainly favor proceeding with caution.



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Judge Dyk urged that the adjudication of patent disputes be brought more into sync with other areas of law in regard to the whole issue of punitive damages. To Dyk, allowing willfulness and resulting enhanced, punitive damages to be found based on a mere failure to use "due care" to avoid patent infringement is inconsistent with punitive damages jurisprudence as it has been evolving in cases such as *BMW v. Gore*, 517 U.S. 559 (1996) and *State Farm v. Campbell*, 538 U.S. 408 (2003). He noted that the duty of care requirement is not found in the patent damages statute, the legislative history or Supreme Court opinions. He also pointed out from a practical standpoint that the due care requirement does not benefit the patent law system. Any truly reprehensible conduct, such as copying, can and should be subject to punitive damages. That, coupled with appropriate use of preliminary injunctive relief in the case of infringement, he argued, adequately protect patent holders without the need for the due care requirement.

Patent holders and potential infringers both must engage in a fair amount of prediction, subject to uncertainty and ambiguity

pre-litigation, in determining their rights and course of action. An attorney can render a competent non-infringement opinion only after analyzing the patent and its prosecution history and evaluating the client's product or process that might be alleged to infringe it. The resulting opinion can occupy any one of a number of points on a broad spectrum: on one extreme, it can declare unequivocally that the patent is entirely irrelevant to the accused product or process, or on the other, that its claims clearly read on that product or process. In between these extremes, the patent lawyer must weigh possible constructions that a trial court might give the claims of the patent to determine under what constructions they would read on the accused product of process, and how likely those claimed constructions are to be adopted by the court.

While the difficulty of construing claims of a patent has long existed, it has been brought into bold relief by the *Markman* decision,¹ which holds that it is the province of the trial judge to construe the claims of a patent as a matter of law, subject to *de novo* review. The virtual epidemic of appeals that

has ensued the construction of claims by trial courts, and the high percentage of such appeals resulting in reversals of those constructions, inject a note of critical uncertainty into evaluating infringement claims. In situations involving complex and nuanced patents, which may have a wide range of possible applications depending upon how the claims are construed, opinions of counsel will be commensurately complex and nuanced. Trying to explain this complexity and nuance to a jury swayed by the question—if you had an affirmative duty of due care, why didn't you ask your lawyer first?—will be no easy task. Until a majority of the Court comes to the realization along with Judge Dyk that the *Knorr-Bremse* majority left the job incompletely finished, and should now make the due care requirement "a relic of the past," some degree of adverse inference will remain.

ENDNOTE

1. *Markman v. Westview Instruments*, 517 U.S. 370, 116 S. Ct. 1384 (1996). Core elements of the claim construction rules and process are now also under review by the Federal Circuit *en banc* in *Phillips v. AWH Corp.*, 376 F.3d 1382 (Fed. Cir. 2004).