

# Client Alert

A report  
for clients  
and friends  
of the firm      November 2004

## Federal Circuit Holds That in Determining Whether Infringement of a Patent Was Willful, Clients Can Now Assert Their Attorney-Client Privilege Without Risk of An Adverse Inference That a Legal Opinion Was Negative

Upon a finding that infringement of a patent was willful, the defendant may be liable for as much as three times the actual damages, the plaintiff's attorneys' fees, or both. In a precedent-setting decision, the Court of Appeals for the Federal Circuit has ruled that, in determining willfulness, the judge or jury cannot draw any adverse inferences from an alleged infringer's failure to consult counsel on the question of patent infringement. Similarly, the judge or jury cannot draw any adverse inferences from an alleged infringer's decision to withhold a legal opinion as privileged.

### The Case

In *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corporation, Haldex Brake Products Corporation and Haldex Brake Products AB* (Fed. Cir. 2004), the defendants, Dana, Haldex, and Haldex AB appealed the trial court's finding of willful infringement and award of attorneys' fees.

At the trial court, Knorr-Bremse, a manufacturer of air disk brakes for commercial vehicles, alleged that

Dana, Haldex and Haldex AB had infringed its patent on air disk brake technology. Dana, an American corporation, had agreed to collaborate with Haldex AB, a Swedish company, and its American affiliate Haldex, to sell an air disk brake in the United States that would be manufactured by Haldex AB. After receiving notice of Knorr-Bremse's air disk brake patent, Haldex had consulted with counsel on the issue of infringement. Dana itself did not consult with counsel, choosing instead to rely on Haldex. Invoking attorney-client privilege, Haldex refused to produce any of the legal opinions or advice it had received.

The trial court found that Dana, Haldex and Haldex AB each infringed. To arrive at its finding that infringement was willful, the court inferred that the opinion actually obtained by Haldex was unfavorable, and any opinion that Dana might have obtained would have been unfavorable. Taking this adverse inference together with additional factors, the trial court determined that the infringement was indeed willful and awarded Knorr-Bremse attorneys' fees. The defendants appealed the trial court's determination and the damages award to the Federal Circuit.

### Willful Infringement and The Federal Circuit's Analysis

Under current law, a potential infringer who has actual knowledge of another's patent has an affirmative duty of due care to determine whether he is infringing the patent. Consequently, willful infringement may be found when a potential infringer has actual knowledge of the existence of another's patent that may cover an activity of the potential infringer, but continues to engage in the activity without analyzing the patent. In determining willful infringement, the trier-of-fact (the judge or jury, as the case may be) looks at the totality of circumstances and can take several factors under consideration. If willful infringement is found, the judge can award enhanced damages that include attorneys' fees and damages that are up to three times the amount of actual damages.

Because liability for willful infringement can substantially increase any award of damages, it is quite common for a party engaging in an activity that may infringe another's patent to seek legal advice from patent counsel, and obtain a written legal opinion as to whether the patent is valid, enforceable, and infringed by the proposed activity. Both the advice and the opinion are provided to a client by an attorney and shielded from disclosure by attorney-client privilege unless the client elects to remove that shield. Clients often waive the privilege and choose to disclose the advice of counsel (and any written opinion) because the existence of a competent legal opinion can be an important factor that weighs against a finding of willful infringement.

In *Knorr-Bremse*, Haldex declined to waive its attorney-client privilege with respect to any legal advice or opinions it may have received regarding the issue of infringement of Knorr-Bremse's air disk brake patent. Applying then-current Federal Circuit precedent, the trial court had drawn adverse inferences that the legal advice and opinion were or would have been unfavorable to the defendants.

On appeal, the Federal Circuit squarely addressed its "adverse inference" precedent and specifically considered whether it is permissible for the trier-of-fact to draw an adverse inference when a privilege is asserted. The basis of attorney-client privilege is to encourage full and frank communication between attorneys and their clients in order to promote the public interest in justice and observance of the laws. The Federal Circuit concluded that in patent matters, as in other legal matters, there should be no risk arising from disclosures to and from counsel. The Federal Circuit thus held that the invocation of attorney-client privilege in withholding legal advice or opinion can no longer entail an adverse inference that the advice or opinion was or would have been unfavorable.

Of additional interest, the Federal Circuit also addressed the question of whether the existence of a "substantial defense to infringement" is sufficient to defeat liability for willful infringement, even if the infringer had failed to consult with counsel. The Federal Circuit declined to adopt a *per se* rule, but held that the existence of a good defense may be considered along with other factors in making a determination of willful infringement.

## Conclusion

The Federal Circuit's decision in *Knorr-Bremse* is unquestionably significant to our clients. In overruling its "adverse inference" precedent, the Federal Circuit has tried to mitigate the ability of a patent plaintiff to force disclosure of privileged communications to rebut an inference that might lead to an award of treble damages or attorneys' fees. What the decision does not do, however, is eliminate the need to obtain legal advice from qualified patent counsel when a party is on notice of potential patent infringement

liability. Sound advice and supporting written opinions continue to be invaluable for guiding business decisions and activities. Having obtained legal advice and an opinion of non-infringement, invalidity, or unenforceability remains a valuable factor admissible in court, and can help lead against a finding of willful patent infringement in the unfortunate circumstance that patent infringement is found.

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