

## INTELLECTUAL PROPERTY & Life Sciences

# Opinions of Counsel

Federal Circuit addresses issues left unresolved by *Knorr-Bremse*

By Lynda L. Calderone

The 2004 en banc opinion of the Court of Appeals for the Federal Circuit in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.* overruled precedent relating to an adverse evidentiary inference previously relied upon by patentees to prove willful patent infringement, enabling them to seek enhanced damages and attorneys' fees. The adverse evidentiary inference at issue was that when an accused infringer either relied on the attorney-client privilege to avoid producing its opinion of counsel during discovery or merely failed to consult with legal counsel when faced with a potentially infringed patent, the opinion would have been negative. The court also held that willfulness would continue to be assessed under the "totality of circumstances" test, so that a mere good faith belief of noninfringement, a "substantial defense," would not automatically be sufficient to defeat a charge of willfulness, but would be only one factor that would be considered.

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*Knorr-Bremse* left in place a potential infringer's affirmative duty when faced with a patent to act with due care to determine whether it is infringing a valid patent. See, *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983). The Federal Circuit has previously held that this duty includes obtaining competent legal advice before initiating potential infringing activities.

The issues which remained to be evaluated in case law following *Knorr-Bremse*, include, regarding accused infringers, whether opinions of counsel remain advisable; whether to waive attorney-client privilege at trial to rely on an opinion defense; what other actions can be taken under the "totality of circumstances," other than an opinion of counsel to discharge the duty of due care; and whether there are facts that could establish a "good faith belief" or strong defense that would be sufficient to defeat a showing of willfulness. Questions remaining regarding patentees include how to prove willfulness without the adverse inference; whether the presence or absence of an opinion of counsel could be presented at trial without the waiver (and without the adverse inference) to help show bad faith provided sufficient jury

instructions are given; and whether a negative view could be properly drawn by the fact finder when an opinion is proffered and attorney-client privilege is waived.

Recently, a three-judge panel of the Federal Circuit addressed some of these issues. In *Golden Blount, Inc. v. Robert H. Peterson Co.*, Appeal 04-1609, 05-1141, -1202 (Fed. Cir. Feb. 15, 2006), Peterson was accused of infringing various gas fireplace burners under theories of direct infringement as well as contributory and inducement of infringement. The facts adopted by the District Court were that Golden Blount gave notice of infringement to Peterson on Dec. 10, 1999. The defendant sent the notice letter to its counsel on Dec. 17, 1999, along with a copy of instructions and working drawings as well as the information that the product had been on sale since May 1999. Counsel discussed the issue with the defendant who informed counsel that defendant's industry had been making something similar for many years. Counsel said he gave the defendant an oral opinion that, if that were true, there would be no infringement or the claims would be invalid. Counsel did not review the accused device, the file wrapper or prior art.

Follow-up letters were exchanged and the plaintiff requested a response to its accusations again on May 3, 2000. The defendant, in a May 16, 2000, letter, indicated that it had not responded because it disagreed there was infringement and the plaintiff did

not explain infringement in sufficient detail. Then in January 2001, the plaintiff sued. After the lawsuit began, the defendant sought two additional oral opinions, one in February and one in May 2001. The February opinion was based on a picture and drawing of the device. The May opinion considered the file history for the first time, but the attorney still had not seen the accused device. There was testimony that supported the District Court's finding that the latter two opinions were sought only after the litigation began as a specific defense of willfulness for financial reasons, were an illusory shield and not a good faith attempt to avoid infringing a valid patent. All of the opinions were found to be incompetent by the District Court. The infringement was also found to be willful and attorneys' fees were assessed. These findings were affirmed as not clearly erroneous.

The defendant challenged the findings on appeal on the grounds that the District Court drew an improper adverse inference prohibited by *Knorr-Bremse*, stating that it had no duty to seek an opinion of counsel, let alone a competent opinion, so that whether it obtained an opinion should not have been considered in assessing whether it discharged its duty of due care. The defendant also argued that, even without an opinion, it had a good-faith belief that it did not directly infringe and that its instructions to its customers would not induce infringement of its customers. The good faith belief was alleged to be based on the fact that the defendant said it was not regularly selling a two-burner apparatus to distributors and that it thought it was recommending to customers that the burners be installed level with each other instead of one below the other as claimed.

In *Golden Blount*, the court held that the patentee bears the burden to

prove willfulness; the burden cannot be satisfied by simply pointing to the accused infringer's withholding of an opinion or asserting attorney-client privilege based on *Knorr-Bremse*. However, if privilege is not asserted, i.e., it is waived, the patentee can rely on evidence surrounding the opinion of counsel and its incompetence to prove willfulness. The court further found that the District Court did not, as Peterson suggested, improperly infer that if Peterson had obtained a competent opinion it would have been unfavorable. Instead, the District Court was found to have considered the facts and assessed whether the defendant acted in reckless disregard of another's patent rights, because once the opinions were placed at issue, the competence of the opinions and the facts surrounding them were properly evaluated in determining willfulness.

The Federal Circuit further found there was little to no effort by the defendant in assessing whether it infringed a valid patent after receiving notice of that patent. The District Court was also found not to have erred either in giving little weight to the oral opinions (which did not consider the prosecution history or the accused device) or in inferring that there was a cavalier attitude based on the lack of substantive response to the infringement inquiries by the patentee and the fact that a detailed opinion was only sought after suit and only as a basis to avoid willfulness. The remaining findings of the District Court, supporting an absence of a good faith belief by the defendant, were also found not to have been in error. The Federal Circuit noted that the defendant's "assertions that it subjectively did not believe it was infringing are insufficient to rebut the inference of reckless conduct adequately supported by the facts presented."

It is not clear in *Golden Blount* that the defendant would have been

better off had it not waived its attorney-client privilege in that the District Court also found facts demonstrating bad faith behavior that discounted a good faith belief aside from its findings that the opinions were incompetent. However, the decision makes it clear that if a waiver of attorney-client privilege is made, *Knorr-Bremse* cannot be used to stop the patentee from relying on any bad faith facts surrounding the opinion or any incompetence in the opinion as evidence to support a willfulness finding. *Golden Blount* still leaves open the question of whether and how a "good faith belief" of noninfringement could be shown without competent legal advice and how, and if, a defendant can adequately discharge its duty of due care without seeking such advice, particularly where under *Markman v. Westview*, claim construction remains a legal issue involving legal analysis.

The case illustrates that a patentee alleging willful infringement without relying on the adverse inference is best served by seeking all relevant facts in discovery that can be used to demonstrate bad faith and failure to discharge the duty of due care. This case also demonstrates why counsel representing accused infringers should encourage their clients to carefully and thoroughly analyze any patents brought to the infringers' attention, as well as to consider whether it is advisable to continue making a product in question in view of any such patent or to take a license if available. Even after obtaining an opinion, the case further underscores the importance of carefully considering all facts objectively relating to an accused infringer's behavior upon learning of a patent in question before considering whether to rely on any such opinion and waive attorney-client privilege during litigation, including evaluating the competence of any such opinion. ■