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## *Knorr-Bremse*: Elimination of the Adverse Inference

2004-11-04

### ***Introduction***

Businesses accused of patent infringement often face not only the threat of being found liable for infringing the patent, but also the threat that such infringement will be found to have been willful. Willful infringement is determined based on the totality of circumstances, including whether the infringer, after learning of the patent, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed.

The stakes in avoiding a determination of willful infringement can be large. A finding of willful infringement can make a defendant liable for enhanced damages up to three times compensatory damages. It can also make the defendant liable for the plaintiff's attorney fees. These enhanced damages and attorney fees can add tens of millions of dollars to the cost of defeat at trial.

With millions of dollars potentially at stake, it is no wonder that businesses frequently seek outside opinions of counsel to try to help them avoid pursuing an infringing course--or at least avoid being found to have infringed willfully. Even if a favorable opinion from counsel is later found to have been wrong, it can still play a critical role in showing the good faith needed to defeat a claim that the infringement was willful. Indeed, under prior court decisions, a defendant's failure to present such an opinion could be devastating, even when there was no need to use it to prove good faith. According to past decisions by the Court of Appeals for the Federal Circuit, if a defendant failed to present such an exculpatory opinion, a judge or jury could conclude "that either no opinion was obtained or, if an opinion was obtained, it was contrary to the infringer's desire to initiate or continue its use of the patentee's invention." Thus, even in the absence of other evidence of willful infringement, failure to present an exculpatory opinion could make a defendant's course of conduct look either reckless or malicious.

But the "adverse inference" ignored the fact that there may be valid reasons not to present even favorable attorney opinions. Presenting an exculpatory opinion waives the attorney-client privilege and potentially makes a host of attorney-client communications subject to discovery and use at trial. The rule allowing an adverse inference generated special pressure against a decision to keep the attorney-client privilege intact and to rely on non-opinion evidence to establish good faith.

## ***The Knorr-Bremse Decision***

In [\*Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.\*](#), the *en banc* Court of Appeals for the Federal Circuit acknowledged the resulting strain on attorney-client relations and overruled prior decisions supporting the adverse inference. The court did so in addressing four specific questions:

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?
2. When the defendant had not obtained legal advice, is it appropriate to draw an adverse inference with respect to willful infringement?
3. If the court concludes that the law should be changed, and that the adverse inference should be withdrawn, what are the consequences for the *Knorr-Bremse* case?
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?

In response to these questions, the court held that the "adverse inference that an opinion was or would have been unfavorable, flowing from the infringer's failure to obtain or produce an exculpatory opinion of counsel, is no longer warranted." Specifically, the court decided:

1. "[N]o adverse inference shall arise from invocation of the attorney-client and/or work product privilege."
2. Similarly, no adverse inference shall arise from failure to obtain an opinion of counsel.
3. In the *Knorr-Bremse* case itself, withdrawal of the adverse inference meant that the case needed to be remanded to the district court for "a fresh weighing of the evidence."
4. A substantial noninfringement defense does not necessarily establish a lack of willful infringement. Instead, the existence of such a defense is just one factor "to be considered among the totality of circumstances" in deciding whether infringement was willful.

In justifying its rejection of an adverse inference with respect to "withheld opinions," the court observed that such an inference can "distort the attorney-client relationship" by discouraging the open communication that the attorney-client privilege is meant to promote. Regarding the adverse inference where no opinion was obtained, the court acknowledged the "burdens and costs" imposed by the inference's creation of extra pressure for "early and full study by counsel of every potentially adverse patent of which the defendant had knowledge."

The Federal Circuit indicated, however, that the core doctrines of prior willful-infringement law remain intact. There is still "an affirmative duty of due care to avoid infringement of the known patent rights of others." Moreover, willful infringement is still to be determined based on "the totality of the circumstances." And the court declined to answer "whether the trier of fact, particularly a jury, can or should be told whether or not counsel was consulted (albeit without any inference as to the nature of the advice received) as part" of those circumstances.

## ***Conclusion***

Because willful infringement must still be determined according to the "totality of the circumstances," the full implications of eliminating the prior "adverse inference" probably will be determined only case by case and over the course of time. Certainly, in at least some circumstances, the Federal Circuit's decision in *Knorr-Bremse* will reduce the odds that failure to obtain and to disclose a favorable attorney opinion will doom efforts to avoid a determination that infringement was willful. On the other hand, because the decision leaves intact the "affirmative duty" to avoid infringement of known patents, there still will be many circumstances in which the lack of an attorney opinion may decisively affect a determination of willfulness. Consequently, in many circumstances the advisability of obtaining and/or disclosing attorney opinions is likely to remain unchanged.

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