Willful Infringement: Enhanced Privilege and Obscure Remedies

I. INTRODUCTION

Plaintiff Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH (Knorr-Bremse) owns United States Patent No. 5,927,445 (the '445 patent) entitled "Disk Brake for Vehicles Having Insertable Actuator."[1] Knorr-Bremse sued Dana Corporation (Dana), Haldex Brake Products Corporation, and Haldex Brake Products AB (collectively, Haldex) for infringement of its '445 patent by the Mark II brake, which is manufactured by Haldex and imported by Dana.[2] The United States District Court for the Eastern District of Virginia ruled on summary judgment that the defendants infringed and willfully infringed on Knorr-Bremse's '445 patent.[3] Based upon the finding of willful infringement, the court awarded partial attorney fees pursuant to 35 U.S.C. § 285; the defendants appealed.[4]

On appeal to the United States Court of Appeals for the Federal Circuit, Haldex and Dana argued that the court should not have drawn an adverse inference from Haldex's withholding of an opinion of counsel regarding possible infringement, or from Dana's failure to seek an opinion of counsel.[5] After analysis, the Federal Circuit vacated the precedent that an adverse inference should be drawn when a defendant asserts the attorney-client privilege.[6] The court *held* that, in matters of willful infringement, an adverse inference cannot be drawn in response to an assertion of attorney-client privilege, and the failure to seek legal

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1. Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1340 (Fed. Cir. 2004). The '445 patent covers air disk brakes used in heavy commercial vehicles. *See id.* at 1341.

2. *Id.* at 1340-41. The Mark II brake is an air disk brake used in heavy commercial vehicles.

3. *Id.* at 1340 (citations omitted).

4. *Id.* Because there were no sales of the infringing product, no damages were awarded. *Id.* (citations omitted).

5. *Id.*

6. *Id.* at 1347.

advice was to be considered as part of the totality of the circumstances. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1347-48 (Fed. Cir. 2004). The Federal Circuit remanded the case for redetermination of the willful infringement issue and any subsequent remedy.[7]

II. BACKGROUND

In seeking remedies for patent infringement, a plaintiff may offer evidence that the infringer willfully infringed, thereby requiring an award of enhanced damages pursuant to 35 U.S.C. § 284.[8] In addition, courts may award attorney fees if a finding of "willfulness" renders the case "exceptional" under 35 U.S.C. § 285.[9] Past findings of willful infringement have been held to qualify cases as exceptional under § 285, and consequently attorney fees have been awarded.[10]

The Federal Circuit has held that a determination of willful infringement must be made in review of the totality of the circumstances.[11] Furthermore, the court has identified a plurality of factors to determine whether a defendant willfully infringed.[12] In review of the applicable factors, the Federal Circuit has summarized the test for willful infringement as: "whether, under all the circumstances, a reasonable person would prudently conduct himself with any confidence that a court might hold the patent invalid or not infringed."[13]

The objective test applied by the Federal Circuit illustrates the underlying concept fundamental to a finding of willful infringement, which is the infringer's responsibility to act lawfully.[14] The Federal Circuit explicitly stated that when an alleged infringer "has actual notice

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7. *Id.* at 1348.

8. 35 U.S.C. § 284 (2000) provides that "the court may increase the damages up to three times the amount found or assessed." *See* Read Corp. v. Portec, Inc., 970 F.2d 816, 826 (Fed. Cir. 1992) (interpreting § 284 to approve enhanced damages "where the infringer acted in wanton disregard of the patentee's patent rights" (citation omitted)).

9. 35 U.S.C. § 285 provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." *See* Ryco Inc. v. Ag-Bag Corp., 857 F.2d 1418, 1429 (Fed. Cir. 1988) ("Willful infringement may also be a sufficient basis for finding a case 'exceptional' for purposes of awarding attorney fees under 35 U.S.C. § 285.").

10. *See, e.g.*, Modine Mfg. Co. v. The Allen Group, Inc., 917 F.2d 538, 543 (Fed. Cir. 1990).

11. *See* Underwater Devices Inc. v. Morrison-Knudsen Co., 717 F.2d 1380, 1390 (Fed. Cir. 1983).

12. *See, e.g.*, *Read*, 970 F.2d at 826-27; Rolls-Royce Ltd. v. GTE Valeron Corp., 800 F.2d 1101, 1110 (Fed. Cir. 1986).

13. *Ryco*, 857 F.2d at 1428.

14. *See Underwater Devices*, 717 F.2d at 1389; *see also* Kloster Speedsteel AB v. Crucible, Inc., 793 F.2d 1565, 1579 (Fed. Cir. 1986), *cert. denied*, 479 U.S. 1034 (1987).

of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing."[15] The court has noted that the affirmative duty normally includes the duty to seek legal advice, but does not require the defendant to consult an attorney.[16] Thus, while legal opinions have historically been considered in cases of willful infringement, they have not been required to exculpate a defendant.[17]

The Federal Circuit has, however, required the potential infringer to show a good faith belief that he did not infringe on the patent of which he had knowledge.[18] While a substantial defense to infringement has been considered within the totality of the circumstances, it has not been sufficient in and of itself to defeat liability for willful infringement.[19]

In addition, issues regarding the traditional attorney-client privilege have led the Federal Circuit to consider an assertion of the privilege when deciding cases of willful infringement.[20] The United States Supreme Court has noted that "[t]he attorney-client privilege is the oldest of the privileges for confidential communications known to the common law."[21] The Court stressed that the purpose of the privilege is "to encourage full and frank communication between attorneys and their clients and thereby promote broader public interests in the observance of law and administration of justice."[22] Moreover, the Supreme Court has noted that exceptions to the privilege "could contribute to the general erosion of the privilege."[23] Based on the policy set out by the Supreme Court, with the exception of willful infringement cases, lower courts have not imposed an adverse inference based on an assertion of the privilege.[24]

The court first addressed the issue of attorney-client privilege relative to a party's "due care" responsibility in *Kloster Speedsteel AB v. Crucible*.[25] Contrary to the policy recognized by the Supreme Court, the Federal Circuit in *Kloster* held that the infringer's "silence on the subject,

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15. *Underwater Devices*, 717 F.2d at 1389-90.

16. *Read*, 970 F.2d at 828; *Kloster*, 793 F.2d at 1579 ("Though it is an important consideration, not every failure to seek an opinion of competent counsel will mandate an ultimate finding of willfulness.").

17. *See Kloster*, 793 F.2d at 1579.

18. *See* L.A. Gear, Inc. v. Thom McAn Shoe Co., 988 F.2d 1117, 1127 (Fed. Cir. 1993) (finding willful infringement absent "evidence of a good faith belief in non-infringement").

19. Hoechst Celanese Corp. v. BP Chems. Ltd., 78 F.3d 1575, 1583 (Fed. Cir. 1996).

20. *See, e.g.*, *Kloster*, 793 F.2d at 1580.

21. Upjohn Co. v. United States, 449 U.S. 383, 389 (1981).

22. *Id.*

23. Swidler & Berlin v. United States, 524 U.S. 399, 410 (1998).

24. *See* Nabisco Inc. v. PF Brands, Inc., 191 F.3d 208, 225-26 (2d Cir. 1999) (refusing to invoke an adverse inference in a trademark case and distinguishing patent law based on the affirmative duty of care associated with the issue of willful infringement).

25. *See Kloster*, 793 F.2d at 1580.

in alleged reliance on the attorney-client privilege, would warrant the conclusion that it either obtained no advice of counsel or did so and was advised that its importation and sale of the accused products would be an infringement of valid U.S. patents."[26] Hence, the policy of adverse infringement was conceived.

Courts followed this rationale to impose an adverse inference upon assertion of the attorney-client privilege in willful infringement cases.[27] While courts consistently held that the policy fundamental to the attorney-client privilege may otherwise have precluded imposing an adverse inference, they also noted that the affirmative duty relative to patent infringement cases created an exception to the privilege.[28]

III. COURT'S DECISION

In the noted case the Federal Circuit followed Supreme Court policy in its analysis of the adverse inference of attorney-client privilege.[29] The Federal Circuit addressed four questions on appeal regarding willful infringement.[30]

The first question faced by the court was whether it is "appropriate for the trier of fact to draw an adverse inference with respect to willful infringement . . . when the attorney-client privilege and/or work-product privilege is invoked by a defendant in an infringement suit."[31] The Federal Circuit answered that an adverse inference cannot be drawn.[32] The court overruled the precedent established in *Kloster* by holding that an adverse inference cannot be drawn when a party invokes the attorney-client or work-product privilege.[33] The Federal Circuit followed the Supreme Court's rationale in *Upjohn* stating that the attorney-client privilege encourages "full and frank communication between attorneys and their clients," and noted that the absence of the privilege would undermine the integrity of the "administration of justice."[34] Moreover, the Federal Circuit followed the Supreme Court's conclusion that imposing such an adverse inference could lead to "general erosion" of

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26. *Id.*

27. *See, e.g.*, Electro Med. Sys., S.A. v. Cooper Life Scis., Inc., 34 F.3d 1048, 1057 (Fed. Cir. 1994); Am. Med. Sys., Inc. v. Med. Eng'g Corp., 6 F.3d 1523, 1531 (Fed. Cir. 1993); Fromson v. W. Litho. Plate & Supply Co., 853 F.2d 1568, 1572-73 (Fed. Cir. 1988).

28. *Nabisco*, 191 F.3d at 225-26.

29. *See* Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1344-47 (Fed. Cir. 2004).

30. *See id.*

31. *Id.* at 1344.

32. *Id.*

33. *See id.* at 1347.

34. *Id.* at 1344 (quoting Upjohn Co. v. United States, 449 U.S. 383, 389 (1981)).

the privilege.[35] The court noted that other courts have declined to impose such adverse inferences upon assertion of the attorney-client privilege, and extended that rationale to patent law.[36]

The second question the court addressed was whether it is appropriate to draw an adverse inference with respect to willful infringement when the defendant has not obtained legal advice.[37] The Federal Circuit held that courts cannot draw a similar adverse inference from the failure to seek legal advice.[38] The court addressed precedent which suggested an adverse inference from failure to consult an attorney, but explicitly renounced those suggestions.[39] The court in *Johns Hopkins University v. Cellpro, Inc.*[40] held that to avoid liability for willful infringement, an opinion obtained by an alleged infringer must fully address all potential infringement issues. The court in the noted case cautioned that this holding should not undermine the opinions in *Kloster* and *Underwater Devices*, which do not require an opinion to avoid willful infringement.[41] The Federal Circuit concluded that the absence of an exculpatory opinion of counsel cannot justify the inference that an opinion would have been unfavorable.[42]

The third question concerned the legal implications of withdrawing the adverse inference as applied to this case.[43] Through application of its ruling on adverse inference, the Federal Circuit remanded the case for reconsideration of the charge of willful infringement and subsequent remedies.[44] However, the court pointed out that "there are no hard and fast per se rules with respect to willfulness of infringement."[45] Indeed, as the court stated, it is the trial court's responsibility to weigh the totality of the circumstances and determine whether the defendants had a good faith belief that they were not infringing.[46] The Federal Circuit determined that its elimination of adverse inference altered the totality of the

35. *See id.* (citing Swidler & Berlin v. United States, 524 U.S. 399, 410 (1998)).
36. *Id.* at 1345.
37. *Id.*
38. *Id.*
39. *Id.* at 1345-46.
40. 152 F.3d 1342, 1364 (Fed. Cir. 1998).
41. *Knorr-Bremse*, 383 F.3d at 1345-46.
42. *Id.* at 1346.
43. *Id.*
44. *See id.* at 1346-48.
45. *Id.* at 1346 (quoting Rolls-Royce Ltd. v. GTE Valeron Corp., 800 F.2d 1101, 1110 (Fed. Cir. 1986)).
46. *Id.*

circumstances and therefore required the trial court to re-weigh the evidence.[47]

With regard to remedies, the appellants argued that the attorney fees awarded were improper as a matter of punitive damages.[48] The Federal Circuit, however, noted that willful infringement qualifies as an exceptional case under 35 U.S.C. § 285, which allows for the award of "reasonable attorney fees."[49] The court concluded that attorney fees are compensatory and are within the discretion of the court as provided by § 285.[50]

The fourth question the court faced was whether "the existence of a substantial defense to infringement [is] sufficient to defeat liability for willful infringement even if no legal advice has been secured."[51] The Federal Circuit answered that such a defense is not sufficient to defeat a charge of willful infringement.[52] The court pointed out that a substantial defense to infringement was to be considered among the totality of the circumstances.[53] As the Federal Circuit stated, it is incumbent upon the trial court to weigh such circumstances, and a per se rule would therefore be improper.[54]

IV. ANALYSIS

The Federal Circuit determined that an adverse inference cannot be drawn from an assertion of the attorney-client privilege based on the policy underlying the privilege as articulated by the Supreme Court.[55] However, patent infringement cases can be distinguished from other matters based on the affirmative duty not to infringe.[56] Drawing a negative inference from a claim of privilege could be unreasonable based on the premise that one could have a perfectly legitimate motive for asserting the privilege.[57] An alternative argument to consider is the common law rule that "suppression of evidence is an 'admission by

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47. *Id.*
48. *Id.* at 1347.
49. *Id.* (quoting 35 U.S.C. § 285 (2000)).
50. *Id.*
51. *Id.*
52. *Id.*
53. *Id.*
54. *Id.*
55. *Id.* at 1344 (citing Upjohn Co. v. United States, 449 U.S. 383, 389 (1981)).
56. *See* Nabisco Inc. v. PF Brands, Inc., 191 F.3d 208, 225-26 (2d Cir. 1999) (holding that an adverse inference cannot be drawn in trademark cases, but the assertion of the privilege supports an inference that the infringer failed to exercise due care to avoid infringement).
57. *See* CHARLES ALAN WRIGHT & KENNETH W. GRAHAM, JR., FEDERAL PRACTICE & PROCEDURE § 5754 (1992).

conduct' that the evidence would be unfavorable to the person responsible for its unavailability."[58] The Federal Circuit failed to address these considerations and merely glossed over the issue by defaulting to the Supreme Court's general guidelines.

Regardless of the Federal Circuit's position regarding the privilege, drawing an adverse inference in patent infringement cases assumes that the duty of care requires the potential infringer to seek the advice of counsel.[59] Thus, when the potential infringer is otherwise not required to seek legal advice, there is an inherent tension in the legal standards to be applied during a willfulness determination.

Indeed, the court has noted that the duty to avoid infringement "normally entails obtaining advice of legal counsel although the absence of such advice does not mandate a finding of willfulness."[60] Furthermore, the Federal Circuit has noted that the failure to seek legal counsel is merely a factor to be considered under the totality of the circumstances.[61] Thus, the duty does not require the potential infringer to seek legal advice. The absence of such a requirement would therefore undermine the effect of drawing an adverse inference. The Federal Circuit's elimination of an adverse inference therefore squares with its ruling that the alleged infringer is not required to obtain a legal opinion.

Although the Federal Circuit remanded the case, it noted that "literal infringement by the Mark II brake was reasonably clear and did not present close legal or factual questions."[62] It also pointed out that the appellants continued to infringe after the Mark II was adjudged as infringing on the Knorr-Bremse brake.[63] It appears the Federal Circuit was insinuating that the totality of the circumstances weighed against Dana and Haldex, notwithstanding its vacatur of the adverse inference precedent.

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58. *Id.* (quoting STEVEN GOODE, OLIN GUY WELLBORN & M. MICHAEL SHARLOT, GUIDE TO THE TEXAS RULES OF EVIDENCE: CIVIL AND CRIMINAL 355 (1988)).

59. *See Nabisco*, 191 F.3d at 226 (noting that adverse inference is based on patent disputes in which the party asserting the privilege had a duty to obtain legal counsel).

60. Read Corp. v. Portec, Inc., 970 F.2d 816, 828 (Fed. Cir. 1992); *see also* Kloster Speedsteel AB v. Crucible, Inc., 793 F.2d 1565, 1579 (Fed. Cir. 1986) ("Though it is an important consideration, not every failure to seek an opinion of competent counsel will mandate an ultimate finding of willfulness."), *cert. denied*, 479 U.S. 1034 (1987).

61. *See* Studiengesellschaft Kohle, m.b.H v. Dart Indus., Inc., 862 F.2d 1564, 1579 (Fed. Cir. 1988) ("Whether a potential infringer obtains counsel's advice may be an important consideration.").

62. Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1346 (Fed. Cir. 2004).

63. *See id.*

Conversely, the court merely "glossed over" the remedial issues. The Federal Circuit has held that enhanced damages can be awarded based on 35 U.S.C. § 284 and are a form of punitive damages, not compensatory damages.[64] It has also noted that enhanced damages hinge on a finding of willful infringement, therefore warranting punitive damages.[65] Moreover, the Supreme Court and the Federal Circuit have consistently required a finding of reprehensible behavior to justify punitive damages.[66]

If the trial court finds willful infringement based on a totality of the circumstances (without drawing an adverse inference from invocation of the attorney-client privilege), attorney fees may be awarded pursuant to 35 U.S.C. § 285.[67] An award of attorney fees is not a form of punitive damages; it is compensatory.[68] However, attorney fees awarded based on a finding of willful infringement require the same standard for enhancement or punitive damages under § 284.[69] Thus, the standard for the award of attorney fees for willful infringement is reprehensible conduct.[70]

The Federal Circuit, however, chose not to delineate the degree of reprehensibility required to impose attorney fees. It merely decided when enhanced damages and attorney fees, upon a finding of willful infringement, can be awarded under §§ 284 and 285.[71] The problem arises where §§ 284 and 285 do not address the failure to adhere to the due care requirement, the requirement for a finding of willful infringement, or the degree of reprehensibility required.[72] This begs the question as to whether the failure to exercise due care to avoid infringement constitutes conduct reprehensible to the extent that attorney fees may be awarded.

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64. Sensonics, Inc. v. Aerosonic Corp., 81 F.3d 1566, 1574 (Fed. Cir. 1996).

65. *Id.*

66. Int'l Bhd. of Elec. Workers v. Foust, 442 U.S. 42, 48 (1979) ("Punitive damages 'are not compensation for injury. Instead, they are private fines levied by civil juries to punish reprehensible conduct and to deter its future occurrence.'" (quoting Gertz v. Robert Welch, Inc., 418 U.S. 323, 350 (1974)); Reese v. United States, 24 F.3d 228, 231-32 (Fed. Cir. 1994).

67. *See* Ryco Inc. v. Ag-Bag Corp., 857 F.2d 1418, 1429 (Fed. Cir. 1988).

68. *See, e.g.*, Indep. Fed'n of Flight Attendants v. Zipes, 491 U.S. 754, 773 (1989) (Marshall, J., dissenting).

69. *See, e.g.*, Avia Group Int'l, Inc. v. L.A. Gear Cal., Inc., 853 F.2d 1557, 1567 (Fed. Cir. 1988).

70. *See* Golight, Inc. v. Wal-Mart Stores, Inc., 355 F.3d 1327, 1340 (Fed. Cir. 2004) (applying the same standard for willfulness to both enhancement and attorney fees).

71. *See* Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1347 (Fed. Cir. 2004).

72. *See* 35 U.S.C. §§ 284-285 (2000).

The Supreme Court has held that the mere failure to exercise due care does not always give rise to egregious conduct sufficient to award punitive damages.[73] Indeed, the Court in *Gore* noted that an award of punitive damages where the conduct was not sufficiently reprehensible could violate the Due Process Clause.[74] Thus, because the standards for the award of compensatory and punitive damages are the same, an award of attorney fees based solely on the failure to exercise due care (giving rise to willful infringement) could violate the infringer's constitutional rights.

Unfortunately, the Federal Circuit chose not to establish the threshold at which willful infringement will authorize attorney fees. The court has held that infringement, where the infringer *knows* that he is infringing, is reprehensible enough to constitute enhanced (or punitive) damages.[75] However, conscious infringement is clearly a higher standard than the mere failure to exercise due care to avoid infringement. Perhaps the Federal Circuit feels as though such a threshold issue should be addressed by the trial court on a case-by-case basis. However, the courts will most likely face this due process issue in future willful infringement cases because the Federal Circuit has yet to clearly address the matter. Such due process implications, along with the exorbitant costs generally characteristic of patent litigation, will certainly not allow the issue to rest.

On the other hand, the Federal Circuit's ruling clearly puts the "brakes" on the adverse inference rationale. The court's endorsement of the attorney-client privilege follows the traditional deference afforded it throughout history. However, the due care requirement presumably loses some of its "bite" in this case, which might saddle patentees with the ultimate price.

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73. *See* BMW of N. Am., Inc. v. Gore, 517 U.S. 559, 580 (1996).

74. *See id.* at 575.

75. *See* Hoechst Celanese Corp. v. BP Chems. Ltd., 78 F.3d 1575, 1583 (Fed. Cir. 1996) (holding that the extent of deliberateness of the tortious act may warrant the enhancement of damages).

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