

Willfulness, Opinions & Privilege: Knorr-Bremse & The Coming New “Totality of Circumstances” Standard (With 10 Predictions)

The John Marshall Law School
Center for Intellectual Property

48th Annual Conference on Developments in Intellectual Property Law

February 27, 2004

Presented by

Richard P. Beem

Co-Chair, ABA/IPL Committee 605 (Amicus Briefs)
Principal Author of ABA Amicus Brief in *Knorr-Bremse*

Beem Patent Law Firm
53 W. Jackson Blvd., Suite 1352
Chicago, IL 60604
(312) 201-0011
www.beemlaw.com

Willfulness, Opinions & Privilege

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UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

01-1357, -1376, 02-1221, -1256

KNORR-BREMSE GMBH,
Plaintiff-Cross Appellant,

v.

DANA CORPORATION,
Defendant-Appellant.

BRIEF OF THE AMERICAN BAR ASSOCIATION
AS *AMICUS CURIAE*
SUPPORTING NEITHER PARTY

DENNIS W. ARCHER*

President

American Bar Association

750 N. Lake Shore Drive

Chicago, IL 60611

(312) 988-5000

RICHARD P. BEEM

JOSEPH N. WELCH II

Counsel for Amicus Curiae

**Counsel of Record*

Issues In Knorr-Bremse

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 has 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 If the court concludes that the law should be changed, and the adverse inference withdrawn as applied to this case, what are the consequences for this case?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?

Issue Briefed by ABA

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?

ABA Statement of Interest

- Importance of protecting attorney-client relationship
- Confidentiality and candor are central to ABA Model Rules of Professional Conduct
- ABA opposes adverse inference from invocation of attorney-client privilege, see *Fromson v. Western Litho & Plate & Supply Co.*, 853 F.2d 1568 (Fed. Cir. 1988)

Policy Adopted at 2001 ABA Annual Meeting

Opinion of Counsel in Patent Infringement Cases.

The ABA opposes a blanket rule under which the failure of defendant in an action for patent infringement to introduce an opinion of counsel at trial will permit an inference to be drawn that either no opinion was obtained or, if an opinion was obtained, it was contrary to the accused infringer's desire to initiate or continue its use of the patentee's invention.

01A116D ABA Policy and Procedures Handbook p. 363 (2003).

Summary Of ABA Argument In *Knorr-Bremse*

- *Fromson*, in penalizing assertion of the privilege, compromises candor in attorney-client communications
 - *Fromson* promotes “showcase” opinions
 - Clients chilled from giving all the facts to lawyers
 - Lawyers chilled from giving candid advice
- The harmful effects of the *Fromson* inference cannot be remedied by bifurcation or other *ad hoc* limitations.

Erosion Of Privilege:

UNDERWATER — KLOSTER — FROMSON

- Erosion of privilege began with *Underwater Devices Inc. v. Morrison Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983) (failure "to seek and obtain competent legal advice from counsel" may be basis for willful infringement finding).
- Erosion continued with *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986) (defendant's "silence" based on attorney-client privilege "would warrant the conclusion that it either obtained no advice of counsel or did so and was advised" that it infringed).
- Erosion became complete with the adverse inference created by *Fromson*. 853 F.2d 1568, 1572-73.

Hobson's Choice For The Client

- Waive privilege and produce opinion
 - or -
- Assert privilege and be presumed to have no opinion or adverse opinion.
Pfizer Inc. v. Novopharm, 57 U.S.P.Q.2d 1442 (N.D. Ill. 2000).
- Threat of treble damages may coerce waiver.

Hobson's Choice For The Lawyer

- Lawyer must advise client candidly, see ABA Model Rule 2.1, but candid opinion puts client at risk if opinion must be produced or adverse inference suffered.
- Only alternative is to prepare showcase opinion expecting it to be disclosed.

Fromson Compromises Candor

Fromson negates confidentiality and makes clients reluctant to disclose all information in seeking advice. See *A.B. Dick v. Marr*, 95 F. Supp. 83, 101 (S.D.N.Y. 1950).

Fromson discourages lawyers from providing cautionary advice that they know may later be used to their clients' detriment. See *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 226 (2d Cir. 1999).

Adverse Inference ~~⇒ Confidentiality~~ ~~⇒ Candor~~

- Adverse inference undermines confidentiality because clients are unwilling to tell their attorney damaging facts if they must be disclosed later.
- Only with assurance of confidentiality will client entrust attorney with all the facts. *Upjohn v. U.S.*, 449 U.S. 383, 389 (1981).
- Only with assurance of confidentiality will attorney candidly advise the client on liability, damages and other risks. See *In re Sealed Case*, 676 F.2d 793, 809-10 (D.C. Cir. 1982).

Hickman v. Taylor & the problem with forced disclosure of attorney work product:

Were such materials open to opposing counsel on mere demand, much of what is now put down in writing would remain unwritten. An attorney's thoughts, heretofore inviolate, would not be his own. Inefficiency, unfairness and sharp practices would inevitably develop in the giving of legal advice and in the preparation of cases for trial. The effect on the legal profession would be demoralizing. And the interests of the clients and the cause of justice would be poorly served. *Hickman v. Taylor*, 329 U.S. 495, 511 (1947).

Conclusion Of ABA Amicus Brief In *Knorr-Bremse*

The Court should overrule *Fromson* to the extent that it supports the drawing of an inference of willfulness when an accused infringer invokes the attorney-client privilege.

Predicted Changes In Law Of Willfulness, Opinions & Privilege

- #1: Elimination of adverse inference
- #2: New standard for proof of willfulness
- #3: Discovery disputes relating to opinions will continue but with less intensity

Adverse Inference to be Eliminated

Prediction #1

- Attorney-client privilege
- Candor and confidentiality

New Standard For “Non-Willfulness” Prediction #2

Will Be Based On Accused
Infringer’s “Due Care” Under
“Totality of Circumstances”

Burden on Patent Owner ...

... to prove willfulness by clear and convincing evidence

Defendant's Due Care Under New Standard Of "Totality Of Circumstances"

Predictions #4-7

4: Advice of counsel still admissible as evidence of good faith, but

- Will not be required (so who needs "opinions" any more?)
- No penalty for claim of privilege

5: Non-frivolous defense, i.e., Answer satisfying Rule 11, may not be enough

6: "Substantial" defense may not be enough

7: Cavalier disregard ("copy this patent") hard to overcome

Investigation Will Be The Key

Prediction #8

- Lawyers will guide investigation
- Make a record that will be admissible
 - Hearsay? (out of court statement offered for truth)
 - Not business record if in anticipation of litigation
 - But not offered for “truth” of non-infringement, only for fact that recipient received statement

Advice of Counsel Will Become Even More Important Prediction #9

- Counsel to guide investigation of alleged infringement
- Counsel to help client make record of investigation
- First line of defense is investigation
- Second line of defense is reliance on advice (“opinion”) of counsel
- New focus will be on candid advice instead of showcase opinion

Advice of Counsel: Ethical Considerations

Confidentiality and candor are central to the ABA Model Rules of Professional Conduct, which require attorneys to:

1. Protect "information relating to representation of clients" (Rule 1.6),
2. Provide "candid advice" to clients (Rule 2.1),
3. Advance only "meritorious claims and contentions" (Rule 3.1), and
4. Practice "candor" toward the courts (Rule 3.3).

Selected IL Rules of Professional Conduct:

Rule 1.1. Competence

- (a) A lawyer shall provide competent representation to a client. Competent representation requires the legal knowledge, skill, thoroughness, and preparation necessary for the representation.

* * *

Rule 1.4. Communication

* * *

- (b) A lawyer shall explain a matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation.

Rule 1.6. Confidentiality of Information

- (a) Except when required under Rule 1.6(b) or permitted under Rule 1.6(c), a lawyer shall not, during or after termination of the professional relationship with the client, use or reveal a confidence or secret of the client known to the lawyer unless the client consents after disclosure.

Selected IL Rules of Professional Conduct:

Rule 2.1. Advisor

In representing a client, a lawyer shall exercise independent professional judgment and render candid advice. In rendering advice, a lawyer may refer not only to law but to other considerations, such as moral, economic, social and political factors that may be relevant to the client's situation.

Rule 3.1. Meritorious Claims and Contentions

A lawyer shall not bring or defend a proceeding, or assert or controvert an issue therein, unless there is a basis for doing so that is not frivolous, which includes a good-faith argument for an extension, modification or reversal of existing law. * * *

Selected IL Rules of Professional Conduct:

Rule 3.3. Conduct Before a Tribunal

- (a) In appearing in a professional capacity before a tribunal, a lawyer shall not:
- (1) make a statement of material fact or law to a tribunal which the lawyer knows or reasonably should know is false;
 - (2) fail to disclose to a tribunal a material fact known to the lawyer when disclosure is necessary to avoid assisting a criminal or fraudulent act by the client;
 - (3) fail to disclose to the tribunal legal authority in the controlling jurisdiction known to the lawyer to be directly adverse to the position of the client and not disclosed by opposing counsel;
 - (4) offer evidence that the lawyer knows to be false. If a lawyer has offered material evidence and comes to know of its falsity, the lawyer shall take reasonable remedial measures;
 - (5) participate in the creation or preservation of evidence when the lawyer knows or reasonably should know the evidence is false;

* * *

Conclusion

& Prediction #10

If *Fromson* adverse inference is overruled in *Knorr-Bremse*, clients and their attorneys will be more free to communicate candidly with assurance of confidentiality

Events in *Knorr-Bremse*:

- *Knorr-Bremse* En Banc Oral Argument
Feb. 5, 2004 (see summary attached)
- Fed. Cir. Decision Anticipated:
July 6, 2004 (Prediction #10)