



3-1-2006

# Attorney-Client Privilege as a Patent Sword and Shield: The Role of the Adverse Inference Rule in the Efficiency of the Patent System

Wilson L. White

Follow this and additional works at: <http://scholarship.law.unc.edu/nclr>



Part of the [Law Commons](#)

---

## Recommended Citation

Wilson L. White, *Attorney-Client Privilege as a Patent Sword and Shield: The Role of the Adverse Inference Rule in the Efficiency of the Patent System*, 84 N.C. L. REV. 1049 (2006).

Available at: <http://scholarship.law.unc.edu/nclr/vol84/iss3/7>

This Comments is brought to you for free and open access by Carolina Law Scholarship Repository. It has been accepted for inclusion in North Carolina Law Review by an authorized administrator of Carolina Law Scholarship Repository. For more information, please contact [law\\_repository@unc.edu](mailto:law_repository@unc.edu).

# Attorney-Client Privilege as a Patent Sword and Shield: The Role of the Adverse Inference Rule in the Efficiency of the Patent System

INTRODUCTION.....	1049
I. BACKGROUND .....	1051
II. THE BIRTH OF THE ADVERSE INFERENCE RULE.....	1054
A. <i>Patent Infringement</i> .....	1054
B. <i>An Exculpatory Opinion</i> .....	1057
C. <i>Adverse Inference Rule</i> .....	1061
D. <i>The Practical Effect of the Adverse Inference Rule</i> .....	1064
III. ADVERSE INFERENCE RULE VERSUS ATTORNEY-CLIENT PRIVILEGE .....	1066
A. <i>Background on Privilege</i> .....	1066
B. <i>Scope of Waiver</i> .....	1067
C. <i>Proposed Solution</i> .....	1069
IV. THE ADVERSE INFERENCE RULE SHOULD NOT HAVE BEEN ABOLISHED .....	1073
A. <i>Critique of Knorr-Bremse</i> .....	1073
B. <i>The Patent System</i> .....	1074
C. <i>Professional Responsibility of Lawyers</i> .....	1082
CONCLUSION.....	1082

## INTRODUCTION

“The patent laws [reward] innovation with a temporary monopoly. The monopoly is a property right; and like any property right, its boundaries should be clear. This clarity is essential to promote progress, because it enables *efficient* investment in innovation.”

—Justice Anthony M. Kennedy<sup>1</sup>

For nearly twenty years, engineers, inventors, and patent attorneys operated in a world where a competent exculpatory patent opinion could be the deciding factor in whether or not a finding of willful patent infringement would be rendered by a court.<sup>2</sup> Under the adverse inference rule, failure to disclose the opinion of patent

---

1. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730–31 (2002) (emphasis added) (citations omitted).

2. *See infra* Part II.

counsel created an inference that the opinion would show that the firm knew its proposed conduct potentially infringed upon an existing patent.<sup>3</sup> Such an inference easily led to a finding of willfulness<sup>4</sup> and brought with it a severe penalty of treble damages for willful infringement.<sup>5</sup> Because of the threat of increased damages associated with a finding of willful infringement, businesses were economically encouraged to become aware of and avoid potentially infringing activity.

However, after a longstanding existence in the area of patent law, the adverse inference rule no longer exists. In its recent decision in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*,<sup>6</sup> the United States Court of Appeals for the Federal Circuit made a notable change to patent law by putting to rest the adverse inference rule.<sup>7</sup> This landmark decision reaffirmed the judicial sanctity of the attorney-client privilege<sup>8</sup> and, at the same time, created grave uncertainty and unrest regarding the need for and usefulness of patent opinions.

This Comment explores the effect of historical and current case law on the risks, benefits, and obligations of a business to search for and become aware of its competitors' patents and patent activities. This Comment argues that the court should not have used *Knorr-*

---

3. See *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1579–80 (Fed. Cir. 1986); see also Jon E. Wright, Comment, *Willful Patent Infringement and Enhanced Damages—Evolution and Analysis*, 10 GEO. MASON L. REV. 97, 112 (2001) (describing the Federal Circuit's definition of the adverse inference rule as "the conclusion that [the accused infringer] 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").

4. See *Kloster*, 793 F.2d at 1580 ("If infringement be accidental or innocent, increased damages are not awardable for the infringement. If infringement be willful, increased damages 'may' be awarded at the discretion of the district court, and the amount of increase may be set in the exercise of that same discretion."). Part II, *infra*, offers a detailed discussion of the practical effects of the adverse inference rule.

5. See 35 U.S.C. § 284 (2000).

6. 383 F.3d 1337 (Fed. Cir. 2004) (en banc).

7. See *id.* at 1341. Prior to this appeal, the Federal Circuit asked the parties to brief answers to four questions. *Id.* The first two questions were: (1) "When the attorney-client privilege . . . is invoked by a defendant in an infringement suit, is it appropriate . . . to draw an adverse inference with respect to willful infringement?" and (2) "When the defendant had not obtained legal advice, is it appropriate to draw an adverse inference with respect to willful infringement?" *Id.* at 1344–45. The court answered both of these questions in the negative. *Id.*

8. The crux of the court's opinion was the inherent friction between the adverse inference rule and the attorney-client privilege. The court admitted that "[t]hroughout [the] evolution [of the adverse inference rule] the focus was not on attorney-client relationships, but on disrespect for law. However, implementation of [the rule] has resulted in inappropriate burdens on the attorney-client relationship." *Id.* at 1343.

*Bremse* as an opportunity to overturn the adverse inference rule, but instead the court should have used the case as a chance to bring precision to the scope of the waiver of attorney-client privilege. The court's overemphasis on the attorney-client privilege muddled the duty of care associated with willful patent infringement. Abolishing the adverse inference rule was unnecessary, not only because the problems with the rule could have been resolved more narrowly, but also because the adverse inference rule furthers the goals of the proposed efficiency theory of the patent system.

Part I of this Comment offers a brief background of the facts of the *Knorr-Bremse* case. Part II reviews the law as it existed under the adverse inference rule. Because the implementation of the adverse inference rule tends to result in a finding of willful infringement, accused infringers had a strong incentive to avoid the rule—even if this meant waiving the attorney-client privilege and disclosing an opinion of patent counsel. Part III explores the friction the adverse inference rule created with the attorney-client privilege. Because the disclosure of an opinion of counsel operates as privilege waiver, questions abound regarding the scope of that waiver. Thus, Part III offers an alternative solution that focuses on the scope of the waiver rather than the adverse inference itself. Part IV proposes a theory of efficiency to guide the use of the adverse inference rule. Part IV further offers a critique of the *Knorr-Bremse* decision and explains why the adverse inference rule should not have been abolished.

## I. BACKGROUND

Knorr-Bremse is a foreign corporation that manufactures air disk brakes for large commercial trucks, such as tractor-trailers.<sup>9</sup> Haldex is also a foreign company that manufactures air brakes. Dana is an American corporation that contracted with Haldex to sell in the United States air brakes manufactured by Haldex in Sweden.<sup>10</sup> In 1998, Knorr-Bremse orally notified Dana that it was involved in a patent dispute with Haldex in Europe over the air brake design Dana was selling in the United States.<sup>11</sup> A year later, Knorr-Bremse gave Dana written notification that a patent was issued to Knorr-Bremse on the aforementioned air brake design and that Knorr-Bremse had commenced a patent infringement action against Haldex.<sup>12</sup> A

---

9. *Id.* at 1341.

10. *Id.*

11. *Id.*

12. *Id.*

separate suit was filed in the United States in May 2000.<sup>13</sup> In November 2000, Knorr-Bremse's motion for summary judgment of patent infringement was granted.<sup>14</sup> However, in the United States, Dana and Haldex continued to operate trucks containing the infringing air brakes.<sup>15</sup> The continued acts of infringement by Haldex formed the basis for Knorr-Bremse's claim of willful infringement. On the issue of willfulness, Haldex mentioned that it had obtained an opinion from both European and United States counsel regarding Knorr-Bremse's patent but refused to disclose any opinions at trial, asserting the attorney-client privilege.<sup>16</sup> Dana, on the other hand, did not obtain an opinion of counsel at all but instead relied on Haldex's position.<sup>17</sup>

The trial court applied the adverse inference rule to conclude that the failure to disclose an opinion meant that the opinions were unfavorable to Haldex and Dana.<sup>18</sup> Ultimately, the court held that Dana and Haldex willfully infringed Knorr-Bremse's patent rights.<sup>19</sup> The court purported to apply a totality of the circumstances test, under which the failure to obtain or disclose an exculpatory opinion of patent counsel created an adverse inference as to the culpability of the alleged infringer.<sup>20</sup> Although the adverse inference rule forms but one part of the totality of the circumstances test, it is clear that the adverse inference rule almost single-handedly determined the outcome of Knorr-Bremse's willful infringement action.<sup>21</sup> On appeal, the facts of this case presented the United States Court of Appeals for the Federal Circuit<sup>22</sup> with the opportunity to reconsider its precedent

---

13. *Id.*

14. *Id.* at 1342.

15. *Id.*

16. *Id.*

17. *Id.*

18. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 133 F. Supp. 2d 843, 862 (E.D. Va. 2001) (explaining that "where, as here, an infringer refuses to produce an exculpatory opinion of counsel in response to a charge of willful infringement, an inference may be drawn that either no opinion was obtained or, if it was, that it was an unfavorable opinion"), *vacated*, 383 F.3d 1337 (2004) (en banc).

19. *Id.* at 862-63.

20. *Id.*

21. *Id.* at 862 ("A finding of willful infringement of a patent is determined by a totality of the circumstances surrounding the infringement.").

22. The Federal Circuit is the forum for most patent appeals. See 35 U.S.C. § 141 (2000) ("An applicant dissatisfied with the decision in an appeal to the Board of Patent Appeals and Interferences . . . may appeal the decision to the United States Court of Appeals for the Federal Circuit."); see also 28 U.S.C. § 1295(a)(1) (asserting the Federal Circuit's authority to hear appeals on cases arising under § 1338); *id.* § 1338(a) (giving district courts original jurisdiction for civil action claims of patent infringement).

with respect to the adverse inference rule.<sup>23</sup> Hearing the case en banc, the Federal Circuit reversed the lower court's finding of willful infringement<sup>24</sup> and abolished the adverse inference rule.<sup>25</sup> The crux of the court's reasoning for abolishing the rule was that the use of the adverse inference rule had created "inappropriate burdens on the attorney-client relationship."<sup>26</sup>

The court did not address the burdens that the absence of the adverse inference rule would impose on the enforcement of patent rights. Despite the Federal Circuit's failure to address the issue, its ruling has a direct impact on the efficiency of the patent system. Traditional theories of the patent system attempt to explain how and why the United States Patent Office ultimately issues patents.<sup>27</sup> A proper view of the patent system not only encompasses how and why patents are obtained, but also offers insight into what is required to perpetuate the patent system. The efficiency theory proposed in this Comment contributes to the ongoing scholarship regarding patent system efficiency.<sup>28</sup> The primary concern of the proposed efficiency theory is allocating benefits and burdens in a manner that best promotes the efficient operation of the patent system.

---

23. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343–44 (Fed. Cir. 2004) (en banc).

24. *Id.* at 1341.

25. *Id.* at 1344 ("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. Precedent authorizing such inference is overruled.").

26. *Id.* at 1343.

27. See *infra* Part IV.B.

28. See generally Sean T. Carnathan, *Patent Priority Disputes—A Proposed Re-Definition of "First-to-Invent,"* 49 ALA. L. REV. 755, 760 (1998) (arguing that "by re-defining first-to-invent to be synonymous with first-to-reduce-to-practice, the U.S. patent system will achieve greater efficiency without sacrificing the nation's creative spirit"); Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 400 (2003) (arguing that because the paramount concern of the patent system is the benefit to society rather than the benefit to an individual inventor, limiting an individual patent enhances the overall efficiency of the patent system); Michelle Armond, Comment, *Introducing the Defense of Independent Invention to Motions for Preliminary Injunctions in Patent Infringement Lawsuits*, 91 CAL. L. REV. 117, 121–22 (2003) (suggesting that an individual invention defense is in harmony with other academic proposals arguing for increasing the economic efficiency of the overall patent system); Kevin J. Kelly, Comment, *Placing the Burden Back Where It Belongs: A Proposal To Eliminate the Affirmative Duty from Willful Infringement Analyses*, 4 J. MARSHALL REV. INTELL. PROP. L. 509, 521–22 (2005) (arguing that the affirmative duty requirement in willful infringement analyses has a negative effect on the efficiency of technological advancement).

## II. THE BIRTH OF THE ADVERSE INFERENCE RULE

A. *Patent Infringement*

The patent system grants a property right to inventors in the form of a patent—a monopoly of limited duration.<sup>29</sup> A patent is infringed when someone “without authority makes, uses, offers to sell, or sells any patented invention . . . during the term of the patent.”<sup>30</sup> Courts are empowered to award damages “adequate to compensate for the infringement.”<sup>31</sup> Under the Patent Act, courts are also permitted to award increased damages.<sup>32</sup> The enhanced damages are not only compensatory but can also be punitive in nature.<sup>33</sup> This allows courts the discretion to compensate patentees for damages they have suffered while punishing infringers for, and deterring potential infringers from, engaging in infringing conduct.<sup>34</sup> Enhanced damages awards also allow courts to strike a balance between legal and equitable concerns.<sup>35</sup> Typically, the enhanced damages provision is applied in cases of willful infringement.<sup>36</sup>

Willfulness is a legal term of art that signifies deliberate and intentional conduct.<sup>37</sup> The use of the enhanced damages penalty in cases of willful infringement indicates Congress’s desire to punish those who intentionally infringe the legal rights of others.<sup>38</sup> The law

---

29. See *Thomas & Betts Corp. v. Pauduit Corp.*, 138 F.3d 277, 285 (7th Cir. 1998) (“Patent law seeks to foster and reward invention by providing the inventor with a *monopoly of limited duration*; in return for that reward, the inventor must disclose his invention and dedicate it to the public.” (emphasis added)). Under the current Act, patent rights extend twenty years from the effective filing date of the patent application. 35 U.S.C. § 154 (2000).

30. 35 U.S.C. § 271(a).

31. *Id.* § 284.

32. *Id.* A finding of willfulness does not automatically guarantee increased damages. The Federal Circuit has held that “a finding of willful infringement merely *authorizes*, but does not *mandate*, an award of increased damages.” *Juicy Whip, Inc. v. Orange Bang, Inc.*, 382 F.3d 1367, 1373 (Fed. Cir. 2004) (quoting *Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 543 (Fed. Cir. 1990)).

33. See *SRI Int’l Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1464 (Fed. Cir. 1997); *Amsted Indus., Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 183 (Fed. Cir. 1994).

34. *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1126 (Fed. Cir. 1987).

35. *Amsted*, 24 F.3d at 184 (explaining that enhanced damages serve not only a punitive role, but also address the equities as between the patentee and infringer (citing *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 201 (Fed. Cir. 1986))).

36. *SRI Int’l*, 127 F.3d at 1468.

37. See *McLaughlin v. Richland Shoe Co.*, 486 U.S. 128, 133 (1988).

38. Congress elected to punish willful infringers according to the relative weight society assigns to the obligations of the parties involved in the patent system. This general notion plays a role in the efficiency theory of the patent system discussed in Part IV, *infra*.

imposes an affirmative duty to exercise due care to avoid infringing the known patent rights of others.<sup>39</sup> When a party fails to take reasonable steps to avoid potentially infringing activity, that party risks being held liable for willful infringement.<sup>40</sup> However, a willful infringement analysis is not a bright line test. A finding of willfulness requires an inquiry into the culpability of the accused infringer.<sup>41</sup> There are several different degrees of culpability, all of which affect the willfulness analysis.<sup>42</sup> Each case will be different, and the level of culpability will fall at different points on the continuum given the specific facts of a particular case.<sup>43</sup> Because of this wide culpability range, a finding of willful infringement must be based on the totality of the circumstances.<sup>44</sup>

Courts have articulated nine factors to be considered in the totality of the circumstances test:

- (i) whether the infringer deliberately copied the ideas or design of another;
- (ii) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed;
- (iii) whether the infringer engaged in inappropriate behavior in the course of the litigation;
- (iv) the infringer's size and financial condition;
- (v) the closeness of the infringement and validity issues;
- (vi) the duration of the infringer's misconduct;
- (vii) any remedial action by the infringer;
- (viii) the infringer's motivation for continuing

---

39. See *Hildebrand v. Steck Mfg. Co.*, 279 F.3d 1351, 1355 (Fed. Cir. 2002); *LNP Eng'g Plastics, Inc. v. Miller Waste Mills, Inc.*, 275 F.3d 1347, 1357 (Fed. Cir. 2001) (quoting *Crystal Semiconductor Corp. v. TriTech Microelectronics, Int'l, Inc.*, 246 F.3d 1336, 1351 (Fed. Cir. 2001)); *Electro Med. Sys., S.A. v. Cooper Life Scis., Inc.*, 34 F.3d 1048, 1056 (Fed. Cir. 1994); *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389 (Fed. Cir. 1983).

40. See *SRI Int'l*, 127 F.3d at 1464–65.

41. *Id.* (explaining that “the primary consideration is whether the infringer, acting in good faith and upon due inquiry, had *sound reason* to believe that it had the right to act in the manner that was found to be infringing” (emphasis added)).

42. See *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1125–26 (Fed. Cir. 1987) (“‘Willfulness’ in infringement, as in life, is not an all-or-nothing trait, but one of degree. It recognizes that infringement may range from unknowing, or accidental, to deliberate, or reckless, disregard of a patentee’s legal rights.”).

43. *Id.* at 1126.

44. See *Electro Med. Sys.*, 34 F.3d at 1056; *Studiengesellschaft Kohle, M.B.H. v. Dart Indus., Inc.*, 862 F.2d 1564, 1573 (Fed. Cir. 1988) (“The consequences of a finding of willful infringement being serious, such a finding . . . is to be made only after due consideration of the totality of the circumstances.”).



infringing conduct in the face of knowledge of the patent; and (ix) whether the infringer attempted to conceal its misconduct.<sup>45</sup>

Courts have also noted that “intent and reasonable beliefs are the primary focus of a willful infringement inquiry.”<sup>46</sup> The first two factors of the multifactor test—whether the infringer deliberately copied or whether the infringer investigated the scope of patent protection once he knew of the patent’s existence—are the only two factors that give any treatment to the infringer’s affirmative duty to *avoid* infringing activity.<sup>47</sup> This is significant because without a clear indication of what the duty of care is, enforcing that duty is almost always futile. And if the duty cannot be enforced, the patent rights granted by the patent system are rendered meaningless. The deliberate copying and subsequent investigation factors highlight the duty to avoid infringing activity. In terms of investigative measures, a court considers these subsequent actions as they relate to forming a good-faith belief that the patent is in some way defective. The test focuses on the defectiveness of the patent itself and not on what actions should be taken to avoid infringing the patent.

In order for a potential infringer to demonstrate the reasonableness of his belief that his proposed course of conduct is noninfringing, the potential infringer should be required to take some investigative action *prior* to engaging in the proposed activity. An affirmative duty to avoid infringing activity has no meaning if such prior investigation is not required. Taking investigative measures after engaging in infringing conduct or in preparation for trial would be inadequate. Consequently, the Federal Circuit began interpreting the duty of care as including a “duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.”<sup>48</sup> The Federal Circuit’s emphasis on prior action

---

45. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 133 F. Supp. 2d 843, 862 (E.D. Va. 2001), *vacated*, 383 F.3d 1337 (3rd Cir. 2004) (en banc); *see also* *Transclean Corp. v. Bridgewood Servs., Inc.*, 290 F.3d 1364, 1377–78 (Fed. Cir. 2002) (applying same test); *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992) (applying same test).

46. *Ortho Pharm. Corp. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992).

47. Although the subject of this Comment is the efficiency of the patent system, other concerns abound when deciding how to allocate liability for the infringement of a patent. These concerns include distributional concerns, degrees of fault, and other justice considerations. *See generally* Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1093–1105 (1972) (positing that the reasons a society selects a set of entitlements include economic efficiency, wealth distribution, and other justice considerations).

48. *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983); *see also* *LNP Eng’g Plastics, Inc. v. Miller Waste Mills, Inc.*, 275 F.3d 1347, 1357

reinforces the notion that potential infringers have a duty to become aware of the patent activity of their competitors before attempting to enter the field of competition, and if the competitor has beaten the infringer to the Patent Office, the infringer must stay off of the field.<sup>49</sup>

### B. *An Exculpatory Opinion*

A patent opinion, though, may give a potential infringer reasonable grounds for entering the field—but not just any opinion will do. The opinion must be competent and timely, and the accused infringer must reasonably rely on the opinion.<sup>50</sup> The timeliness of the opinion relates to the Federal Circuit’s temporal requirement that the opinion be obtained before an accused infringer engages in infringing activity. Because the infringer has a duty to *avoid* infringing activity,<sup>51</sup> an opinion obtained after engaging in improper conduct would not itself rebut a claim of willfulness.<sup>52</sup>

For example, in *Johns Hopkins University v. CellPro*,<sup>53</sup> the district court held that the patent opinions obtained by CellPro were not sufficient to indicate good faith.<sup>54</sup> With respect to timing, the court noted:

The opinions were not prepared at a time when the CellPro Board was considering whether to proceed with the apparently infringing work. Rather, the opinions were prepared after

---

(Fed. Cir. 2001) (“Usually, this duty of due care requires a potential infringer to obtain competent legal advice before continuing its potentially infringing activities.”); *Comark Commc’ns, Inc. v. Harris Corp.*, 156 F.3d 1182, 1190 (Fed. Cir. 1998) (explaining that the duty “requires the potential infringer to obtain competent legal advice before engaging in any activity that could infringe another’s patent rights”).

49. Even though *Knorr-Bremse*, 383 F.3d 1337, 1341 (Fed. Cir. 2004), overturned the adverse inference rule, the duty of care, or what is left of it, is apparently still required. See, e.g., *Imonex Servs., Inc. v. W.H. Munzprufer Dietmar Trenner GmbH*, 408 F.3d 1374, 1377 (Fed. Cir. 2005) (noting that “[a]ctual notice of another’s patent rights triggers an affirmative duty of care”). Therefore, businesses are still somewhat obligated to become aware of and avoid infringing the patent rights of their competitors. This Comment takes the position that without the incentive to conduct a thorough prior art search and obtain a competent opinion from a qualified patent attorney, which was imposed by the adverse inference rule, declaring that businesses still have the duty to become aware of and avoid the patent rights of others is essentially meaningless. For a broader discussion of what is left of the duty of care requirement, see *infra* Part IV.B.

50. See *Johns Hopkins Univ. v. CellPro, Inc.*, 152 F.3d 1342, 1352 (Fed. Cir. 1998) (reiterating the district court’s reason for finding willful infringement based on the fact that the opinions were “untimely, not competent, and not relied upon”).

51. *Underwater Devices*, 717 F.2d at 1389–90.

52. *Id.* at 1390 (explaining that the duty requires a potential infringer to obtain an opinion of counsel “before the initiation of any possible infringing activity”).

53. 978 F. Supp. 184 (D. Del. 1997), *aff’d* 152 F.3d 1342 (Fed. Cir. 1998).

54. *Id.* at 194.

those business decisions had been made. The opinions appear to have been prepared for two other reasons: to assist CellPro in raising funds and to immunize the company from a claim for enhanced damages.<sup>55</sup>

Arguably, the most important aspect of a patent opinion is its competence. In *Comark Communications, Inc. v. Harris Corp.*,<sup>56</sup> the Federal Circuit offered its rationale behind the competence requirement:

The reason a potential defendant obtains an opinion from counsel is to ensure that it acts with due diligence in avoiding activities which infringe the patent rights of others. Obtaining an objective opinion letter from counsel also provides the basis for a defense against willful infringement. In order to provide such a prophylactic defense, however, counsel's opinion must be premised upon the *best information known to the defendant*. Otherwise, the opinion is likely to be inaccurate and will be ineffective to indicate the defendant's good faith intent. Whenever material information is intentionally withheld, or the best information is intentionally not made available to counsel during the preparation of the opinion, the opinion can no longer serve its prophylactic purpose of negating a finding of willful infringement.<sup>57</sup>

The potential infringer is charged with disclosing the best information it has available to the lawyer, and the lawyer, in turn, is charged with producing a reasoned legal opinion based upon that information. The objectivity of the patent opinion is essential for reasonable reliance<sup>58</sup> upon that opinion. As with any other legal analysis, it is not necessary that the opinion reach the correct legal conclusion (or the same conclusion that the court ultimately reaches),<sup>59</sup> but the opinion must provide a reasoned and unbiased

---

55. *Id.*

56. 156 F.3d 1182 (Fed. Cir. 1998).

57. *Id.* at 1191 (emphasis added).

58. It is not enough for the patent opinion to suggest that the infringer's conduct poses no legal problems. The opinion must be objective and unbiased such that it puts the infringer on notice of the relevant legal issues arising from the proposed course of conduct. See *Cargill, Inc. v. Sears Petroleum & Transp. Corp.*, 334 F. Supp. 2d 197, 240 (N.D.N.Y. 2004) ("A client's reliance on an opinion is reasonable so long as the opinion contains 'sufficient internal indicia of creditability.'" (quoting *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983))).

59. See *Graco, Inc. v. Binks Mfg. Co.*, 60 F.3d 785, 793 (Fed. Cir. 1995) (stating that in determining the competency of a patent opinion "[w]hether or not an opinion was 'legally'

review of the relevant prior art,<sup>60</sup> offer a discussion of case law, and make reference to the type of conduct that could possibly be infringing.<sup>61</sup>

The *CellPro* court also addressed the substance of the patent opinions in that case. The court found that the opinions did not reference the burden of proof CellPro would face at trial in order to show that the plaintiff's patents were invalid.<sup>62</sup> Also, one opinion concluded that the plaintiff's patent on cell suspensions was invalid because it was anticipated by three prior art references included in the patent opinion.<sup>63</sup> However, none of the three prior art references the opinion claimed to have used to anticipate the plaintiff's invention even referred to cell suspensions.<sup>64</sup> These grave deficiencies in the opinions' substantive analyses resulted in the rejection of the patent opinions.

The patent opinion that was the subject of the willful infringement analysis in *Westvaco Corp. v. International Paper Co.*,<sup>65</sup> on the other hand, was held to be timely, reliable, and competent.<sup>66</sup> In *Westvaco*, the patent counsel began each opinion letter "with a statement that the opinion is based on a review of the file history of the patent, the prior art of record, and additional prior art."<sup>67</sup> Also, the opinion did not make broad, unsupported, conclusory

---

correct is not the proper focus"); *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 830 (Fed. Cir. 1992) (stating that just because "counsel's opinion turned out to be contrary to our judgment . . . does not make his advice regarding [the] patent incompetent"); *Ortho Pharm. Corp. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992) (explaining that the importance of a patent opinion "does not depend upon its legal correctness").

60. The phrase "prior art" is a patent term of art that signifies inventions, patents, and other works that have been placed in the public domain at a time prior to the filing of a particular patent application in question. 1 CHISUM ON PATENTS: Glossary (1944) (defining prior art) [hereinafter CHISUM Glossary]. Prior art is used to test the innovativeness and priority of inventions that are the subject of patent applications. *Id.* Prior art has been defined as "includ[ing] (1) information in applications for previously patented inventions; (2) information that was published more than one year before a patent application is filed; and (3) information in other patent applications and inventor's certificates filed more than a year before the application is filed." BLACK'S LAW DICTIONARY 119 (8th ed. 2004).

61. See *Westvaco Corp. v. Int'l Paper Co.*, 991 F.2d 735, 743-44 (Fed. Cir. 1993) ("In considering the reasonableness of the accused infringer's reliance on an opinion of counsel, the opinion letter should be reviewed for its 'overall tone, its discussion of case law, its analysis of the particular facts and its reference to inequitable conduct.'" (quoting *Ortho Pharm.*, 959 F.2d at 944)).

62. *Johns Hopkins Univ. v. CellPro*, 978 F. Supp. 184, 194 (D. Del. 1997).

63. *Id.*

64. *Id.*

65. 991 F.2d 735 (Fed. Cir. 1993).

66. *Id.* at 744.

67. *Id.*

statements.<sup>68</sup> Instead, the opinion analyzed the relevant infringement issues with a detailed discussion of the prior art and claimed inventions.<sup>69</sup> Furthermore, the court noted that “[a]n opinion of counsel . . . need not unequivocally state that the client will not be held liable for infringement. An honest opinion is more likely to speak of probabilities than certainties.”<sup>70</sup> The patent opinions Westvaco obtained in that case did not make statements of certainty. Rather, the opinions were couched in terms of probabilities—stating the likelihood of the claimed invention being held invalid or not infringed.<sup>71</sup> Because of the timeliness and competence of these opinion letters, as well as the patent attorney’s detailed analyses and qualified conclusions, the court held that these opinions were justifiably relied upon.<sup>72</sup>

It is important to note, however, that simply obtaining an opinion from patent counsel is not enough to avert a claim of willful infringement.<sup>73</sup> Because of the totality of the circumstances test, a patent opinion is only one factor used to determine willfulness.<sup>74</sup> Specifically, obtaining a timely, reliable, and competent patent opinion only satisfies the investigation factor enumerated in the totality of the circumstances test.<sup>75</sup> Even if an infringer receives and reasonably relies on a patent opinion, the infringer is not completely shielded from a finding of willful infringement.<sup>76</sup> While obtaining a patent opinion alone is not enough to defeat a claim of willfulness, under the adverse inference rule, failing to obtain an opinion was practically enough to ensure a finding of willfulness.<sup>77</sup>

---

68. *Id.*

69. *Id.*

70. *Id.* (quoting *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 829 n.9 (Fed. Cir. 1992)).

71. *Id.*

72. *Id.* at 744–45.

73. *See id.* at 744.

74. *See supra* notes 44–45 and accompanying text.

75. *See supra* note 45 and accompanying text.

76. *See Minn. Mining & Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559, 1580 (Fed. Cir. 1992) (“Legal advice is only one factor to be considered on the question of willfulness and an opinion of counsel does not guarantee against a finding of willfulness.”).

77. *See infra* Part II.D (discussing the practical effects of the adverse inference rule).

### C. Adverse Inference Rule

The basic premise of the duty to avoid infringement is the duty to respect the law.<sup>78</sup> The law affords patents a presumption of validity<sup>79</sup> and confers upon patentees the right to exclude others from making, using, or selling the patented inventions.<sup>80</sup> Before the adverse inference rule, and even before the creation of the Federal Circuit, enforcing these presumptively valid patent rights was futile.<sup>81</sup> Businesses would blatantly infringe patentees' rights and some would even neglect to obtain an exculpatory patent opinion prior to engaging in potentially infringing conduct.<sup>82</sup> When faced with a claim of willful infringement, these businesses would assert the attorney-client privilege in order to escape having to disclose that they did not obtain opinion of counsel.<sup>83</sup> Businesses would argue that a patent opinion is a communication between lawyer and client that is protected by the privilege.<sup>84</sup> While this is certainly true, by asserting the privilege and refusing to disclose the opinion, these businesses made it difficult for courts to determine if advice from counsel was even sought or what that advice consisted of if it was indeed obtained.<sup>85</sup> This practically shielded accused infringers from any real inquiry into the duty of care requirement and complicated the willful infringement analysis. The court had no way to assess the culpability

---

78. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004) (en banc) ("Fundamental to determination of willful infringement is the duty to act in accordance with law.").

79. 35 U.S.C. § 282 (2000).

80. *Id.* § 154(a)(1).

81. See *Knorr-Bremse*, 383 F.3d at 1343 (explaining that "[r]einforcement of [the duty to avoid patent infringement] was a foundation of the formation of the Federal Circuit court, at a time when widespread disregard of patent rights was undermining the national innovation incentive").

82. For example, in *Underwater Devices*, the alleged infringer relied on the advice of its in-house counsel to "refuse to even discuss the payment of a royalty" to the patentee without seeking advice of patent counsel or even conducting an inquiry into the validity of the patent. *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1385 (Fed. Cir. 1983).

83. The ABA Model Rules of Professional Conduct protect against the disclosure of confidential communications between lawyer and client. See MODEL RULES OF PROF'L CONDUCT R. 1.6 (2003).

84. See *Knorr-Bremse*, 383 F.3d at 1344 (stating that "this court has never suggested that opinions of counsel concerning patents are not privileged").

85. In *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568 (Fed. Cir. 1988), the alleged infringer refused to disclose either whether it obtained opinion of patent counsel before engaging in the infringing conduct or the content of any patent opinion. The court in that case held that "[w]here the infringer fails to introduce an exculpatory opinion . . . a court must be free to infer that either no opinion was obtained or, [that the opinion] was contrary to the infringer's desire to initiate or continue its use of the patentee's invention." *Id.* at 1572-73.

of the accused infringer without knowing whether the accused in fact received an opinion or what the content of such an opinion was.

If the duty of care requires that reasonable steps be taken to avoid infringing activity, the inability to find out what advice was given by a patent attorney or whether advice was even requested omits a vital component of the duty of care analysis. In essence, without some mechanism in place to force the disclosure of this vital information, little is left with respect to the duty of care. Thus patent attorneys are essentially the guardians of the patent system. Society depends on their competent, unbiased opinions for the smooth operation of the system. Without access to these opinions, courts are left blind as to what measures are reasonable to avoid infringing the presumptively valid rights of a patentee. By allowing the assertion of the attorney-client privilege to thwart the adverse inference, the attorney-client privilege essentially serves as both a sword and a shield.<sup>86</sup> Equipped with the privilege, an infringer can be confident that if brought into court, the privilege would shield the infringer from liability for willfulness. The assertion of the attorney-client privilege in avoiding the disclosure of patent opinions not only cripples patent lawyers with respect to their roles in the patent system but also affords infringers an avenue to disrespect the legal rights of patentees, while avoiding the taxing penalty for willfulness.

Keenly aware of this widespread disrespect for the law, the Federal Circuit began requiring potential infringers to obtain an opinion from counsel.<sup>87</sup> In *Underwater Devices Inc. v. Morrison-Knudsen Co.*,<sup>88</sup> the Federal Circuit held that "a potential infringer . . . has an affirmative duty to exercise due care to determine whether or not he is infringing."<sup>89</sup> This "includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity."<sup>90</sup> However, the *Underwater Devices* court reasoned that the duty to obtain the opinion of counsel is triggered only after "a potential infringer has *actual notice* of

---

86. *But see* *Aspex Eyewear, Inc. v. E'Lite Optik, Inc.*, 276 F. Supp. 2d 1084, 1092 (D. Nev. 2003) ("Fundamental fairness compels the conclusion that a litigant may not use reliance on advice of counsel to support a claim or defense as a sword in litigation, and also deprive the opposing party the opportunity to test the legitimacy of that claim by asserting the attorney-client privilege or work-product doctrine as a shield.").

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

88. 717 F.2d 1380 (Fed. Cir. 1983).

89. *Id.* at 1389-90.

90. *Id.* (citing *Milgo Elec. Corp. v. United Bus. Commc'ns, Inc.*, 623 F.2d 645, 666 (10th Cir. 1980), *cert. denied*, 449 U.S. 1066 (1980); *Gen. Elec. Co. v. Sciaky Bros., Inc.*, 415 F.2d 1068, 1073-74 (6th Cir. 1969); *Marvel Specialty Co. v. Bell Hosiery Mills, Inc.*, 386 F.2d 287 (4th Cir. 1967), *cert. denied*, 390 U.S. 1030 (1968)).

another's patent rights."<sup>91</sup> Because no attorney-client privilege issue was presented in that case, the court did not address what effect, if any, an assertion of the privilege would have on a finding of willfulness.

The court did, however, get the opportunity to address the issue in *Kloster Speedsteel AB v. Crucible Inc.*<sup>92</sup> In *Kloster*, the accused infringer engaged in the type of conduct that plagued the field of patent law at that time by importing into the United States infringing products with hopes that the relevant patents would be held invalid.<sup>93</sup> At trial, facing a claim of willful infringement, the accused infringer did not even assert that it obtained an opinion from counsel after being put on actual notice of the patentee's rights.<sup>94</sup> Arguably, the receipt of an opinion in that case would have served as evidence of good faith to rebut the culpability element of willfulness. Instead, the accused infringer in the *Kloster* case asserted the attorney-client privilege and neglected to disclose or even mention receiving advice from counsel.<sup>95</sup>

The *Kloster* court, in response to this apparent disrespect for the law, pronounced that "silence on the subject, in alleged reliance on the attorney-client privilege, would warrant the conclusion that [the accused] either obtained no advice of counsel or did so and was advised that its [conduct] would be an infringement of valid U.S. patents."<sup>96</sup> This was the first time the court addressed the issue of attorney-client privilege as it relates to a potential infringer's duty to obtain a patent opinion. With no prior decision existing to this effect, the court's pronouncement settled a great deal of confusion as to what role the privilege played in the analysis of willfulness. Because of the effect the court's pronouncement in *Kloster* had on the field of patent law, the Federal Circuit reinforced the rule two years later in *Fromson v. Western Litho Plate & Supply Co.*<sup>97</sup> The *Fromson* court held that "[w]here the infringer fails to introduce an exculpatory opinion of counsel at trial, a court must be free to infer that either no

---

91. *Underwater Devices*, 717 F.2d at 1389 (emphasis added). This Comment disagrees with the notion that actual notice should be required to trigger the duty to obtain opinion from counsel. In Part IV, *infra*, this Comment proposes a view of the patent system that requires a standing duty of care on the part of potential patentees and the general public alike to become aware of and avoid infringing the valid patent rights of others—a duty that is immediately triggered at the time a patent is granted.

92. 793 F.2d 1565 (Fed. Cir. 1986).

93. *Id.* at 1580.

94. *Id.*

95. *Id.*

96. *Id.*

97. 853 F.2d 1568 (Fed. Cir. 1988).



opinion was obtained or, if an opinion were obtained, it was contrary to the infringer's desire to initiate or continue its use of the patentee's invention."<sup>98</sup> Because the attorney-client privilege was widely being used as both a sword and shield in promoting disregard for patent rights, something needed to be done to strengthen the duty of care. So began the life of the adverse inference rule—a measure designed to ensure proper respect for legal patent rights.

The birth of the adverse inference rule created a new wrinkle in the willful patent infringement analysis. The nine-factor totality of the circumstances test<sup>99</sup> still determined the direction of the analysis, but the adverse inference rule directly affected the outcome of factors two and nine of the multifactor test. Factor two deals with whether the infringer “investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed.”<sup>100</sup> Factor nine addresses “whether the infringer attempted to conceal its misconduct.”<sup>101</sup> When the attorney-client privilege is asserted, the infringer chooses not to disclose an opinion of counsel. Absent disclosure, there is no way for the court to assess what investigative measures were taken by the accused infringer. Before the adverse inference rule, the analysis would stall for lack of an answer to this question. The adverse inference rule provided the court with an answer: the accused did not take any investigative steps, or if steps were taken, the resulting opinion was unfavorable to the accused.<sup>102</sup> In terms of factor nine, the adverse inference rule reflected the common sense notion that if you are refusing to disclose information, then you must be hiding something, and particularly something potentially adverse to your interests. Although the rule only directly affected these two factors, the effect was so powerful that the adverse inference rule had great influence and control over the overall willful infringement analysis.<sup>103</sup>

#### D. *The Practical Effect of the Adverse Inference Rule*

This Comment posits that the adverse inference rule only served as an incentive for increasing awareness of and respect for legal

---

98. *Id.* at 1572–73 (citing *Kloster*, 793 F.2d at 1579–80).

99. *See supra* note 45 and accompanying text.

100. *See supra* text accompanying note 45.

101. *See supra* text accompanying note 45.

102. *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986).

103. *Id.* at 579 (“In the present case, the totality of the circumstances, *including the failure to seek advice of counsel* makes any finding of non-willfulness clearly erroneous . . . .” (emphasis added)).

patent rights. In the abstract, the totality of the circumstances analysis would ensure that the adverse inference rule does not solely dictate which way a willful infringement assessment would turn.<sup>104</sup> The failure to obtain a patent opinion, and thus drawing an adverse inference, theoretically would not in and of itself constitute an ultimate finding of willful infringement.<sup>105</sup> At least it should not be the single determining factor under a totality of the circumstances analysis.<sup>106</sup> However, while obtaining the opinion of counsel was only one consideration in the totality of the circumstances test for willfulness,<sup>107</sup> the reality of the adverse inference rule proved to be quite different. The enormous weight given to the adverse inference practically mandated that businesses obtain a patent opinion.<sup>108</sup>

According to the American Bar Association, the practical effect of the adverse inference rule presented “an accused infringer with a Hobson’s choice: [the accused] must either waive the [attorney-client] privilege and disclose the advice of counsel, or assert the privilege and be presumed to have received no opinion or an adverse opinion.”<sup>109</sup> The potentially devastating financial consequences of treble damages for willful infringement very often made the decision to obtain and disclose opinion of counsel “unavoidable.”<sup>110</sup> The American Bar Association further argued in its amicus brief in *Knorr-Bremse* that the adverse inference rule also created an ethical dilemma for lawyers in that it caused lawyers to give “sanitized” opinions rather than candid and objective opinions.<sup>111</sup> Naturally, a

---

104. See, e.g., *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1125 (Fed. Cir. 1987) (explaining that “[t]here is no *per se* rule that an opinion letter from patent counsel will necessarily preclude a finding of willful infringement, . . . nor is there a *per se* rule that the lack of such a letter necessarily requires a finding of willfulness” (citations omitted)).

105. *Kloster*, 793 F.2d at 1579.

106. See *id.* (citing *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 867 (Fed. Cir. 1985)).

107. See *supra* note 45 and accompanying text.

108. See, e.g., *Wright*, *supra* note 3, at 112 (stating that “the combination of the affirmative duty rule and the adverse inference rule *strongly suggest* that potential infringers should obtain a competent opinion of counsel upon notice of a competitor’s possible patent rights” (emphasis added)).

109. Corrected Brief of the American Bar Ass’n as Amicus Curiae Supporting Neither Party at 5, *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc) (No. 01-1357) (citing *Pfizer Inc. v. Novopharm Ltd.*, 57 U.S.P.Q.2d 1442, 1443 (N.D. Ill. 2000)). The ABA argued in opposition to the adverse inference rule. *Id.* at 2–3.

110. *Id.*

111. *Id.* at 5–6; see generally Imron T. Aly, Note, *Encouraging Unprofessionalism: The Magic Wand of the Patent Infringement Opinion*, 12 GEO. J. LEGAL ETHICS 593 (1999) (arguing that the patent opinion “requirement” encourages unprofessionalism). The basis for the ABA’s argument is that because lawyers expect the forced disclosure of their

major conflict regarding the attorney-client privilege is present when clients are forced to disclose communications with their lawyers who are being “forced” to sidestep their objectivity. Since the policies surrounding the adverse inference rule are different from those surrounding the attorney-client privilege,<sup>112</sup> the intersection of these two concepts creates friction that is arguably unavoidable.

### III. ADVERSE INFERENCE RULE VERSUS ATTORNEY-CLIENT PRIVILEGE

#### A. *Background on Privilege*

The attorney-client privilege is a bedrock principle in our judicial system. The United States Supreme Court has characterized the privilege as a mechanism by which open and honest communications between lawyer and client are both encouraged and protected.<sup>113</sup> The Federal Circuit has coined it “a basic, time-honored privilege.”<sup>114</sup> The attorney-client privilege reaches across the various legal disciplines. The basic premise is simple: what is said between a lawyer and a client should stay between the lawyer and client unless the client explicitly desires otherwise.<sup>115</sup> Its place in the area of patent law is no different.<sup>116</sup> With the adverse inference rule in place, however, no

---

opinions at trial, lawyers are inclined to substitute candor for advocacy in an effort to better protect their clients and minimize the risk of exposure to willful infringement. *See* Corrected Brief of the American Bar Ass’n, *supra* note 109, at 3–4 (stating that the “absence of confidentiality . . . also discourages lawyers from providing cautionary advice that they know may later be used to their clients’ detriment” (citing *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 226 (2d Cir. 1999))). This argument assumes that lawyers are bound more by the desires of their clients than by the ABA’s own Rules of Professional Conduct. In Part IV, *infra*, this Comment argues that reliance on the ABA’s argument presents a serious flaw in the rationale for abolishing the adverse inference rule. The fact that the adverse inference rule complicates the position of potential infringers should not give lawyers just cause for sidestepping their duty to give candid advice.

112. *See infra* Part III.

113. *See Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981) (stating that the attorney-client privilege is “the oldest of the privileges for confidential communications known to the common law” and explaining that the privilege “encourages full and frank communication between attorneys and their clients”).

114. *Quantum Corp. v. Tandon Corp.*, 940 F.2d 642, 644 (Fed. Cir. 1991).

115. *See generally Upjohn*, 449 U.S. at 389 (explaining the basic premise of the attorney-client privilege). There are, of course, exceptions to this general rule. Lawyers are allowed to reveal information necessary to prevent a client’s commission of a crime and to establish a defense in an action by the client against the lawyer. *See* MODEL RULES OF PROF’L CONDUCT R. 1.6 (2003).

116. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344 (Fed. Cir. 2004) (en banc) (explaining that “a special rule affecting attorney-client relationships in patent cases is not warranted”).

effect is given to the underlying reasons for the attorney-client privilege whenever the privilege is asserted in a willful infringement action. Clients may not “desire” to disclose the contents of confidential communications between themselves and their patent lawyers, but the adverse inference rule typically made it the most economically sound decision.<sup>117</sup> Once the privilege is waived in order to disclose a patent opinion, the client relinquishes the shield of the privilege.<sup>118</sup>

### B. *Scope of Waiver*

The scope of the waiver is probably the most damaging aspect of the adverse inference rule’s effect on the attorney-client privilege. Under the adverse inference rule, while it is certain that an accused infringer’s assertion of the advice of counsel defense operates as a waiver of the attorney-client privilege,<sup>119</sup> there is no settled doctrine as to how to treat the waiver of attorney-client privilege when such a defense is asserted. Some courts have taken a very broad approach<sup>120</sup> to the waiver while other courts have attempted to narrow the scope.<sup>121</sup> The courts that have attempted to narrow the scope of the waiver understand that if the waiver is defined too broadly, parties

---

117. See *supra* Part II.D.

118. See *Genentech, Inc. v. U.S. Int’l Trade Comm’n*, 122 F.3d 1409, 1416 (Fed. Cir. 1997) (“Once the attorney-client privilege has been waived, the privilege is generally lost for all purposes and in all forums.”).

119. See *Nitinol Med. Techs., Inc. v. AGA Med. Corp.*, 135 F.2d 212, 215 (D. Mass. 2000) (“There is no question . . . that when a party asserts an advice of counsel defense, the result is at least some waiver of the attorney-client and work-product privileges.”); *Mushroom Assocs. v. Monterey Mushrooms, Inc.*, No. C-91-1092 TEH (PJH), 1992 WL 442892, at \*3 (N.D. Cal. May 19, 1992) (“A survey of patent case law has convinced this court that the use of the advice of counsel defense waives the attorney client privilege.”); *Bristol-Myers Co. v. Sigma Chem. Co.*, 8 U.S.P.Q.2d (BNA) 1946, 1948 (D. Del. 1988) (stating that “the attorney-client privilege may be waived if the client discloses part of a privileged communication or if the client relies on the advice of counsel as an essential element of his defense”).

120. See *Weil v. Inv./Indicators, Research & Mgmt.*, 647 F.2d 18, 24 (9th Cir. 1981) (stating that “voluntary disclosure of the content of a privileged attorney communication constitutes waiver of the privilege as to *all other such communications* on the same subject” (emphasis added)); *AKEVA L.L.C. v. Mizuno Corp.*, 243 F. Supp. 2d 418, 422 (M.D.N.C. 2003) (stating that “the client relying on advice of counsel waives attorney-client privilege with respect to the *entire subject matter* of the waiver and not just the specific opinion letter proffered” (emphasis added)).

121. *Kelsey-Hayes Co. v. Motor Wheel Corp.*, 155 F.R.D. 170, 172 (D. Mich. 1991) (stating that the scope of the waiver in patent cases is generally construed narrowly); *Hercules, Inc. v. Exxon Corp.*, 434 F. Supp. 136, 156 (D. Del. 1977) (“The privilege or immunity has been found to be waived only if facts relevant to a particular, narrow subject matter have been disclosed in circumstances in which it would be unfair to deny the other party an opportunity to discover other relevant facts with respect to that subject matter.”).

are likely to forgo the waiver and refuse to disclose any information at all.<sup>122</sup> Therefore, these courts have restricted the waiver to documents and communications between the lawyer and client that only relate to a narrowly defined subject matter, such as willfulness alone.<sup>123</sup> Interpreted broadly, however, courts have held that “[o]nce the attorney-client privilege has been waived, the privilege is generally lost for all purposes and in all forums.”<sup>124</sup> Under this broad definition of the waiver, once an accused infringer waives the privilege, it opens the door to discovery of all communications with all lawyers relating to the advice given, including trial counsel.<sup>125</sup> The stated reason for such a broad scope of the privilege waiver is the security of fundamental fairness.<sup>126</sup> As one court explains:

Fairness dictates that a party may not use the attorney-client privilege as both a sword and a shield. A party, therefore, may not selectively disclose privileged communications that it considers helpful while claiming privilege on damaging communications relating to the same subject. A court ultimately must be guided by the subject matter of the documents disclosed, balanced by the need to protect the frankness of the client disclosure and to preclude unfair partial disclosures. The scope of waiver *must of necessity be somewhat broad* and is, in fact, a subject matter waiver, that is, a waiver of all communications on the same subject matter.<sup>127</sup>

Once the attorney-client privilege has been waived, it is forever gone.<sup>128</sup> Under the judicial doctrines of claim and issue preclusion, the client is no longer permitted to use the privilege to safeguard the

---

122. *Kelsey-Hayes*, 155 F.R.D. at 172.

123. *See, e.g., Thorn EMI N. Am., Inc. v. Micron Tech., Inc.*, 837 F. Supp. 616, 621–22 (D. Del. 1993).

124. *See Genetech, Inc. v. U.S. Int’l Trade Comm’n*, 122 F.3d 1409, 1416 (Fed. Cir. 1997).

125. *See, e.g., AKEVA*, 243 F. Supp. 2d at 423 (“[O]nce a party asserts the defense of advice of counsel, this opens to inspection the advice received during the entire course of the alleged infringement. Consequently, the waiver of attorney-client privilege . . . covers all points of time, including up through trial.”).

126. *See Saint-Gobain/Norton Indus. Ceramics Corp. v. Gen. Elec. Co.*, 884 F. Supp. 31, 33 (D. Mass. 1995) (explaining that “[t]he basic principle which supports the waiver of the attorney-client privilege here is fairness”).

127. *Chiron Corp. v. Genentech, Inc.*, 179 F. Supp. 2d 1182, 1186–87 (D. Cal. 2001) (emphasis added) (citations omitted); *see also AKEVA*, 243 F. Supp. 2d at 424 (stating that “all opinions received by the client relating to infringement must be revealed, even if they come from defendants’ trial attorneys, and even if they pre-date or post-date the advice letter of opinion counsel”).

128. *See supra* note 118 and accompanying text.

confidential communications at issue.<sup>129</sup> The forward-reaching effects of claim and issue preclusion could make the waiver of attorney-client privilege a potentially damaging decision.<sup>130</sup> Because of such a permanent and damaging effect, giving the waiver of attorney-client privilege a broad, subject matter scope effectively destroys the privilege and all of the policy reasons for protecting it.

Although a great deal of the patent law community disagrees,<sup>131</sup> the elimination of the adverse inference rule was not the most efficient answer to the problem created by the friction between the adverse inference rule and the attorney-client privilege. The real problem was not the adverse inference itself but what accused infringers faced in order to avoid the inference—the possibility of a broad relinquishment of the attorney-client privilege. Since under the adverse inference rule waiving the privilege risked waiving confidentiality with respect to all forms of communication between the lawyer and client in all present and future forums, the rule felt like an assault on the privilege. This attack on the sanctity of the privilege is what bothered opponents of the adverse inference rule the most. Despite the overwhelming distaste for the adverse inference rule in the patent community, this Comment argues that the adverse inference rule should have a place in patent law jurisprudence. The solution to the problem is not to kill the adverse inference but, instead, to bring some order, logic, and predictability to the scope of the waiver. Therefore, the Court of Appeals for the Federal Circuit should not have used *Knorr-Bremse* as an opportunity to overturn the adverse inference rule but instead as a chance to address the scope of the waiver of attorney-client privilege.

### C. Proposed Solution

Because the goals of patent law are different from the goals in other areas of law, issues unique to patent law should be addressed

---

129. PAUL R. RICE, ATTORNEY-CLIENT PRIVILEGE IN THE UNITED STATES § 9:85, at 9-295 (1993).

130. *Id.*

131. In *Knorr-Bremse*, the court invited briefs from third parties to address several questions. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1341 (Fed. Cir. 2004) (en banc). On the question of whether an adverse inference should be drawn when an accused infringer invokes the attorney-client privilege, all fourteen parties that provided a brief answered the question in the negative. *Id.* Similarly, when asked whether the inference should be drawn when no opinion was obtained at all, all but one brief argued that it should not. *Id.*

differently.<sup>132</sup> It is highly unlikely that the Federal Circuit's decision in *Knorr-Bremse* will be reviewed by the Supreme Court.<sup>133</sup> As such, this Comment does not argue for a reversal of *Knorr-Bremse*, but instead argues that other areas might present a larger problem in willful infringement cases, namely the scope of the privilege waiver.<sup>134</sup>

Prior to the *Knorr-Bremse* decision, scholars argued that the Federal Circuit should dispel the confusion surrounding the scope of the attorney-client privilege waiver.<sup>135</sup> One scholar opined that the "confusion regarding the scope of the waiver stems from confusion regarding the willful infringement standard."<sup>136</sup> The *Knorr-Bremse* court attempted to clear up the confusion regarding the scope of the waiver by holding that no adverse inference could be drawn as a result of the failure to disclose or obtain a patent opinion.<sup>137</sup> The court purported to solve the disclosure problem while leaving the willful standard intact.<sup>138</sup> However, as Judge Dyk notes in his dissenting opinion, the *Knorr-Bremse* majority may not have preserved the rule that a potential infringer has an affirmative duty to discover whether or not his actions are infringing.<sup>139</sup> Although an accused infringer is no longer required to disclose a patent opinion to avoid the adverse inference, the question remains as to what happens if the accused infringer does disclose a patent opinion. Further, if the accused is not required to disclose or obtain an opinion, then the court is at least handicapped in determining whether the accused's acts were willful or not.

---

132. Other scholars have offered solutions to the scope of the waiver problem. For a detailed discussion of the problems associated with an unclear scope of the waiver of attorney-client privilege that pre-dates the *Knorr-Bremse* decision, see generally Jared Goff, *The Unpredictable Scope of the Waiver Resulting from the Advice-of-Counsel Defense to Willful Patent Infringement*, 1998 BYU L. REV. 213.

133. The United States Supreme Court rarely reviews patent cases. See *id.* at 216 (stating that "because the Supreme Court rarely grants certiorari in patent cases, the Federal Circuit is essentially the court of last resort").

134. In Part IV of this Comment, *infra*, a view of the patent system is proposed that encourages increased efficiency in the system. The combination of these two propositions offers an alternative to the elimination of the adverse inference rule.

135. See, e.g., Goff, *supra* note 132, at 236.

136. *Id.*

137. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344-45 (Fed. Cir. 2004) (en banc).

138. *Id.* at 1344 (holding that "[a]lthough the duty to respect the law is undiminished, no adverse inference shall arise from invocation of the attorney-client [privilege]").

139. *Id.* at 1348 (Dyk, J., dissenting) ("I do not join the majority opinion to the extent that it may be read as reaffirming that 'where, as here, a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing.'" (citations omitted)).

In terms of the scope of the waiver dilemma, it is important to note that the complexities of patent law have created problems for the courts for years. In fact, one reason Congress created the Federal Circuit was to address problems unique to patent law.<sup>140</sup> Courts have, from time to time, created, changed, and adapted the rules to better serve the goals and needs of patent law. For example, before *Markman v. Westview Instruments*,<sup>141</sup> patent claim construction was an issue of fact for the jury to decide in patent infringement cases.<sup>142</sup> Allowing the jury to construe the scope of patent claims at issue created serious problems for both parties to a patent infringement suit. The lack of uniformity in jury claim constructions made it practically impossible to plan a litigation strategy, and it ultimately led to different definitions for terms of art and different interpretations of the scope of patent protection.<sup>143</sup>

To remedy this problem—a problem unique to the area of patent law—the United States Supreme Court held that “the construction of a patent, including terms of art within its claim, is exclusively within the province of the court.”<sup>144</sup> This landmark decision led to lower courts adopting what are now commonly known as “*Markman* hearings.”<sup>145</sup> In these hearings, the parties argue for their interpretations of the claims before the judge using canons of construction, the patent specification, and even industry usage of particular words and phrases.<sup>146</sup> The judge, however, ultimately determines the scope of a particular claim.<sup>147</sup> Typically, the outcome of the *Markman* hearing determines the outcome of the entire case: after the hearing, the successful party, now aware that the claims will

---

140. See *id.* at 1343 (majority opinion) (“Fundamental to determination of willful infringement is the duty to act in accordance with the law. Reinforcement of this duty was a foundation of the formation of the Federal Circuit court, at a time when widespread disregard of patent rights was undermining the national innovative incentive.”).

141. 517 U.S. 370 (1996).

142. Patent claims consist of an enumerated list of elements that comprise several aspects of the invention and they collectively determine the scope of patent protection. CHISUM Glossary, *supra* note 60 (providing definition for patent claim).

143. *Markman*, 517 U.S. at 391 (“Uniformity would, however, be ill served by submitting issues of [claim] construction to juries.”).

144. *Id.* at 372.

145. See generally Steven Z. Szczepanski & Floyd R. Nation, *A ‘Markman’ Hearing Can Determine Case Outcome: It Is Prudent To Have a Litigator Experienced in Drafting Claims and Getting Them Through PTO*, NAT’L L.J., May 24, 1999, at C26 (explaining the process of a *Markman* hearing).

146. *Id.*

147. *Id.*



be construed in its favor, usually moves for summary judgment on issues such as validity or infringement and often wins.<sup>148</sup>

The *Markman* hearing serves as a good example of how the courts have created special procedures and provisions that better serve the goals of the patent system. One of the major problems that existed before *Markman* was a lack of uniformity in the construction of patent claims.<sup>149</sup> The *Markman* hearing addresses this lack of uniformity and provides a manageable avenue for determining the scope of patent protection.<sup>150</sup>

A similar measure can be used to address the problem with defining the scope of the attorney-client privilege waiver. This Comment proposes the creation of a *Markman*-like procedure in which the issue of whether a patent opinion is timely, competent, and justifiably relied upon is an issue of law for the court to decide. As in the *Markman* hearing, the procedure would consist of an in camera review of the patent opinion at issue and any related communications probative of the issues of timeliness, competence, and reliance.<sup>151</sup> Both parties would be allowed to offer arguments as to whether or not the opinion of counsel was sufficient to give the accused infringer "sound reason" to believe that his actions were noninfringing,<sup>152</sup> but the judge would make the ultimate decision as to whether the opinion was sufficient to provide a good-faith basis for the accused infringer's actions. In addition, because this procedure would be an in camera review, provisions should be made such that the communications at issue would still be protected outside of the hearing. As none of the contents of any patent opinions would be presented at trial, the proposed provisions would relieve some of the damaging effects that the doctrines of claim and issue preclusion currently have on the waiver. With such a procedure in place, the goal of the patent system to deter willful infringement of patent rights would be served without derogating the attorney-client privilege. If operated in conjunction with the adverse inference rule, this proposed procedure affords adequate protection to the attorney-client privilege while continuing to enforce the duty to respect the presumptively valid patent rights of others.

---

148. *Id.*

149. See *supra* note 143 and accompanying text.

150. See *Markman v. Westview Instruments*, 517 U.S. 370, 388–89 (1996) (explaining that judges are better equipped than juries to properly construe written instruments).

151. See Paul R. Rice, *Attorney-Client Privilege: The Eroding Concept of Confidentiality Should Be Abolished*, 47 DUKE L.J. 853, 889–90 (1998) (discussing a similar use of in camera review to determine whether attorney-client privilege exists).

152. See *SRI Int'l v. Advanced Tech. Lab.*, 127 F.3d 1462, 1464–65 (Fed. Cir. 1997).

#### IV. THE ADVERSE INFERENCE RULE SHOULD NOT HAVE BEEN ABOLISHED

##### A. Critique of Knorr-Bremse

The attorney-client privilege is a much older judicial construction than the adverse inference rule.<sup>153</sup> However, when the adverse inference rule began evolving, the focus was on addressing the growing problems with disregard for patent rights.<sup>154</sup> In fact, the *Knorr-Bremse* court admits that when the adverse inference rule was conceived the attorney-client privilege was not an apparent issue.<sup>155</sup> However, the rule has evolved over the past twenty years, and the court now recognizes the inappropriate strains the rule puts on the attorney-client relationship.<sup>156</sup> One could argue that the burdens placed on the attorney-client privilege today as a result of the adverse inference rule are no greater than the burdens placed on the privilege twenty years ago. Before the adverse inference rule, inventors and lawyers had no clear incentive for becoming aware of and avoiding infringing activity.<sup>157</sup> Then, under the adverse inference rule, inventors and lawyers knew that in order to avoid exposure to willful infringement, an exculpatory opinion had to be obtained and, if necessary, disclosed.<sup>158</sup> If the proposed in camera inspection of the patent opinion and related communications with no future preclusive effect is provided,<sup>159</sup> then waiving the attorney-client privilege in reliance on an advice of counsel defense is indeed a small price to pay in order to avoid the woes of treble damages for willful infringement. Abolishing the adverse inference rule wholesale was not the answer. In fact, the adverse inference rule played a major role in furthering the goals of the patent system.

---

153. While the adverse inference rule existed for nearly twenty years, “[t]he attorney-client privilege is the oldest of the privileges for confidential communications known to the common law.” *Upjohn Co. v. United States*, 449 U.S. 383, 390 (1981) (citing 8 J. WIGMORE, EVIDENCE § 2290 (McNaughton rev. ed. 1961)).

154. *See Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004) (en banc) (stating that “[t]hroughout this evolution [of the adverse inference rule] the focus was not on attorney-client relationships, but on disrespect for law”).

155. *Id.*

156. *Id.*

157. *See supra* Part II.C.

158. *See supra* Part II.D.

159. *See supra* Part III.C.

### B. *The Patent System*

There are two prominent theories of the patent system typically adopted by the courts: the “reward” theory and the “contract” theory.<sup>160</sup> The reward theory is grounded in the constitutional power granted to Congress to “promote the Progress of Science and useful Arts.”<sup>161</sup> The concept behind this theory is that the patent system encourages innovation and investment in research and development by rewarding inventors with an exclusionary property right in their inventions for a limited time.<sup>162</sup>

The contract theory, on the other hand, focuses on the dissemination of knowledge.<sup>163</sup> The goal of the contract theory is to increase the amount of innovative knowledge available in the public domain.<sup>164</sup> The basic premise of the contract theory is a metaphorical “contract” between inventors and the public, where inventors are given a monopoly on their inventions in exchange for full disclosure of the invention.<sup>165</sup>

Both the contract and the reward theories of the patent system address different goals. The proposed efficiency theory presents a more complete view of the patent system by encompassing the goals of two of the more common theories and encouraging increased efficiency in the operation of the patent system. Under the traditional theories, inventors are encouraged to conduct research and discover new ideas and then disclose those ideas in exchange for a patent monopoly.<sup>166</sup> But what happens when those monopolistic rights are disregarded or infringed?

The efficiency theory proposed in this Comment purports to address this issue. Under this efficiency theory, the patent system is viewed as a relationship between the government, potential inventors, and the general public, where a series of obligations and concessions are transferred between the three parties. The potential inventors get

---

160. For a discussion of the two theories, see Vincenzo Denicolò & Luigi Alberto Franzoni, *The Contract Theory of Patents*, 23 INT’L REV. L. & ECON. 365, 365–66 (2004).

161. See U.S. CONST. art. I, § 8, cl. 8; Denicolò & Franzoni, *supra* note 160, at 365.

162. See Denicolò & Franzoni, *supra* note 160, at 365–66.

163. See *id.* at 366.

164. See *id.*

165. See *id.*; *Universal Oil Prods. v. Globe Oil & Ref.*, 322 U.S. 471, 484 (1944) (“As a reward for inventions and to encourage their disclosure, the United States offers a seventeen-year monopoly to an inventor who refrains from keeping his invention a trade secret. But the *quid pro quo* is disclosure of a process or device in sufficient detail to enable one skilled in the art to practice the invention . . .”). The period has since been extended to twenty years. See 35 U.S.C. § 154(a)(2) (2000).

166. See Denicolò & Franzoni, *supra* note 160, at 365–66.

the opportunity to obtain an exclusive monopoly on their inventions for a limited time period<sup>167</sup> in exchange for the full disclosure of their inventions. The general public gets access to new inventions and free reign to make, use, and sell those inventions without restriction after the expiration of the monopolistic rights. This satisfies the incentive and dissemination goals of the reward and contract theories, respectively. However, under the efficiency theory, in return for the embarrassment<sup>168</sup> of granting a limited monopoly at the expense of disseminating ideas to the public, the government explicitly requires potential inventors and the general public to exercise due care in respecting the exclusive rights granted to other inventors for the duration of the patent monopoly. Under this proposed view of the patent system, the requisite due care is not triggered by actual notice of a patentee's rights.<sup>169</sup> The duty is a standing obligation on the part of potential inventors and the general public alike. To put it another way, under the proposed conceptualization of the patent system, once a patent monopoly is granted, the universe of potential inventors and the general public are put on constructive notice of these patent rights and are immediately charged with the duty to avoid infringing these rights. This constructive notice concept is familiar in other areas of intellectual property law. For example, in trademark law, the Lanham Act<sup>170</sup> provides that once a trademark is registered on the principle registry, nationwide protection is granted and the whole world is charged with constructive notice of the owner's trademark rights.<sup>171</sup> The constructive notice requirement also has some history in patent law. Although the patent statutes do not provide for constructive notice on their face, at least one court has held that a patent grant confers constructive notice upon the world of the existence of the patentee's rights.<sup>172</sup> So, while constructive notice is

---

167. See U.S. CONST. art. I, § 8, cl. 8.

168. See *Graham v. John Deere Co.*, 383 U.S. 1, 9 (1966) (noting Thomas Jefferson's perception of the difficulty of "drawing a line between the things which are worth to the public the embarrassment of an exclusive patent, and those which are not"). Monopolies work against the basic principles of capitalism. The benchmark of capitalism is the concept of free enterprise and competition. This Comment suggests that the idea of granting a monopoly to inventors is embarrassing to those who believe in the basic principles of our capitalistic society.

169. *But see Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389 (Fed. Cir. 1983) (noting that the potential infringer's affirmative duty commences upon actual notice of the patentee's rights).

170. Pub. L. No. 87-772, § 1, 76 Stat. 769 (1975).

171. See 15 U.S.C. § 1072 (2000).

172. See *Sontag Chain Stores Co. v. Nat'l Nut Co.*, 310 U.S. 281, 295 (1940) (asserting that once patents are filed in and granted by the PTO, "[c]onstructive notice of their existence goes thus to all the world").

not explicit in the wording of the patent statutes, it at least has some underpinnings in patent jurisprudence.

Under the adverse inference rule, courts required potential infringers to obtain opinion of counsel once the “potential infringer [had] *actual notice*” of a patentee’s rights.<sup>173</sup> Assuming the duty of care required under the efficiency theory includes the duty to obtain a timely and competent patent opinion, then that duty is immediately triggered at the time a patent is granted and continues throughout the duration of the patent monopoly. The standing obligation to affirmatively avoid patent infringement better serves the goals of patent law than does the actual notice trigger. Requiring actual notice as a trigger to initiate the duty of care puts an undue burden on patentees to persistently police the everyday activities of the general public in order to enjoy their lawful benefits under the patent system. Under the current actual notice rule, patentees have the burden of taking extreme measures to ensure that every potential infringer has actual notice of the patentee’s rights. Further, the actual notice requirement gives the general public, as potential infringers, wide latitude in their ability to disregard or refuse to become aware of patentees’ rights. If there is no actual notice, then the standard of care to avoid infringing those rights is practically nonexistent. This situation contributes greatly to the inefficiency of the patent system.

Patentees should not have to bear such a burden. One of the primary goals of the patent system is to provide incentives to engage in research and development so that society can make useful progress in technology and science.<sup>174</sup> Gaining a monopoly on an invention for a limited duration is the incentive the patent system provides. But, once an inventor has achieved the requisite progress and secured her monopoly, she is required to expend even greater efforts to protect that monopoly, seriously calling into question the incentive of the patent system. For this reason alone, the efficiency theory of the patent system is superior to the more traditional views of the system. The efficiency theory places the burden of respecting and protecting the government’s monopoly grant, not on the patentee, but on potential inventors and members of the general public, all of whom may one day wish to avail themselves of the benefits of the patent system. Removing the burden from the patentee and placing it on the public at large increases the substance and validity of the patent monopoly. Consequently, the incentive to engage in progressive

---

173. *Underwater Devices*, 717 F.2d at 1389 (emphasis added).

174. See Denicolò & Franzoni, *supra* note 160, at 366.

research and development is increased and patentees get to realize the full reward for disclosing their new inventions, furthering the goals of the patent system.

The efficiency theory is essentially an application of a standard efficiency argument to the patent context.<sup>175</sup> In a general torts context, liability is typically allocated to the lowest cost avoider.<sup>176</sup> That is to say, courts reach an efficient result by determining “which of the parties . . . is in the best position to make the cost-benefit analysis between accident costs and accident avoidance costs and to act on that decision once it is made.”<sup>177</sup> In the context of patent infringement, this Comment argues that the constructive notice element of the proposed efficiency theory reflects society’s notion that the general public can avoid infringement of an issued patent more cheaply—by availing itself of competent counsel—than the patentee can by monitoring the activities of the public.

One might quarrel with the proposed efficiency theory on the grounds that it weighs heavily on the side of patentees’ rights. In particular, it seems that the proposed theory provides patentees with all of the system’s benefits while charging them with none of the burdens. Whether that criticism is correct depends on whether one looks at the system *ex post* or *ex ante*. An *ex post* view of the system would begin the analysis once everyone’s position is determined—basically after a patent is granted. From this viewpoint, the patentee has her patent and is discharged from any remaining duties<sup>178</sup> under the theory, while potential inventors and the public at large continue to have the duty to become aware of the patentee’s rights and seek the advice of counsel prior to engaging in any activity that could potentially infringe those rights.

This *ex post* view overlooks an essential part of the system. Before a patent is ever granted, the patentee is among the general public and potential inventors. Therefore, looking at the system from an *ex ante* perspective, the efficiency theory charges a potential

---

175. Standard efficiency arguments allocate burdens and responsibilities based on the relative positions of the parties involved. See Calabresi & Melamed, *supra* note 47, at 1093–98 (discussing the role efficiency plays in the selection of entitlements); see also Guido Calabresi & Jon T. Hirschoff, *Toward a Test for Strict Liability in Torts*, 81 *YALE L.J.* 1055, 1056–60 (1972) (discussing Learned Hand’s formula for efficiently allocating accident costs and the costs of accident avoidance).

176. See Calabresi & Hirschoff, *supra* note 175, at 1060.

177. *Id.*

178. The patentee would be discharged from duties only with respect to that particular patent, of course. Under the efficiency theory, the patentee would still be charged with a standing duty to avoid infringing the patent rights of other patentees.

patentee, before a patent is ever granted, with the same duty it charges the general public with once the patent rights accrue. That duty is to take affirmative steps to avoid infringing the constructively known patent rights of others and, ultimately, to obtain an opinion of counsel. The standing affirmative duty produces two immediate results: (1) only the truly new, useful, and nonobvious inventions will make it to the patent office<sup>179</sup> and (2) a competent and more thorough prior art search<sup>180</sup> is conducted and compiled prior to the patent application arriving in the hands of a patent examiner.

Charging patent applicants with constructive knowledge of the universe of currently valid patent rights and requiring them to take affirmative steps to avoid infringing those rights increases the knowledge an inventor has at the time of the invention. Therefore, an inventor is more knowledgeable about the state of the art or science before deciding to seek exclusive rights to her invention. The inventor can avoid wasting enormous sums of money<sup>181</sup> in pursuing a patent that ultimately fails to meet the statutory requirements of novelty, utility, and nonobviousness by researching the scope of current patent rights. If the patentability of the invention is questionable, the inventor is likely to forgo pursuing the patent and resort to other forms of intellectual property protection, if any at all.<sup>182</sup> Because of the expressed duty of care associated with the proposed efficiency theory, a potential inventor has the ability to make a more informed decision about whether to patent her invention or not.<sup>183</sup> The efficiency of the patent system will increase because the number of patent applications is likely to decrease.

---

179. In order to be eligible for a patent grant, the Patent Act requires that the invention is new, useful, and nonobvious at the time of the invention. See 35 U.S.C. §§ 101–103 (2000).

180. A prior art search is used to produce references used in the examination of a patent. See CHISUM Glossary, *supra* note 60 (defining prior art). The references indicate the disclosed areas of the art in light of which the proposed invention was examined. *Id.*

181. Current filing, searching, examination, and maintenance fees are listed on the U.S. Patent and Trademark Office's ("USPTO's") website. See <http://www.uspto.gov/web/offices/ac/qs/ope/fee2005oct01.htm> (last visited Feb. 18, 2006).

182. Another option would be to keep the invention a secret and seek protection through trade secret law. See Mark D. Janis, *Supplemental Forms of Intellectual Property Protection for Plants*, 6 MINN. J. L. SCI. & TECH. 305, 311–12 (2004) (discussing current trends in intellectual property law that may influence the "patent versus trade secret decision"); Chris J. Katopis, *Patients v. Patents?: Policy Implications of Recent Patent Legislation*, 71 ST. JOHN'S L. REV. 329, 344–46 (1997) (discussing the decision between patent and trade secret protection).

183. The decision to pursue patent protection would be a more informed decision if the potential inventor was aware of the universe of prior art and, consequently, the likelihood of whether a patent would be granted on the invention.

Applications for unpatentable and worthless inventions likely will not make it to the patent office, and only the most innovative and progressive discoveries will be advanced.

The idea of increasing the efficiency of the patent system by decreasing the number of unpatentable applications arriving at the patent office is not a new concept. In fact, the Patent Act itself seeks to address this very concern in its statutory bar provisions.<sup>184</sup> In particular, the Act precludes the grant of a patent on an invention that has been on sale in the United States for more than one year prior to the date of filing of the patent application.<sup>185</sup> The Act also prohibits the patenting of an invention that has been known or used by others in the United States or disclosed in a printed publication in the United States of a foreign country more than one year prior to the same critical date.<sup>186</sup> While these provisions seek to decrease the number of unpatentable applications being offered for review, their effectiveness is highly questionable. Each year since 1998, the number of patent applications filed in the United States Patent and Trademark Office has increased.<sup>187</sup> Over the same period, however, the percentage of those applications that were granted United States patents has steadily decreased.<sup>188</sup> Therefore, the provisions outlined in the Patent Act do not effectively address the problem of unpatentable patent applications. Consequently, the proposed efficiency theory can eliminate some of the inefficiencies currently experienced by the patent system.

The second immediate benefit of the efficiency theory is the compilation of a more competent and thorough prior art search before the examination of the patent application. The importance of this result cannot be overstated. A more thorough and comprehensive compilation of prior art included as references in the patent application directly increases the efficiency of patent examiners by decreasing the time examiners currently spend searching for prior art related to the invention in question.<sup>189</sup> As a result of this decreased search time, examiners can pass on and make a determination of the patentability of an application more quickly. A more comprehensive prior art search ultimately increases the

---

184. See 35 U.S.C. § 102(b).

185. *Id.*

186. *Id.* § 102(a).

187. Filing statistics from 1963 to 2004 can be accessed online at the USPTO's website. See [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us\\_stat.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm) (last visited Feb. 18 2006).

188. See Table 1 and Figure 1 shown in the Appendix to this Comment.

189. See MANUAL PATENT EXAMINING PROCEDURE § 904.02 (8th ed., rev. 4 2005).



duration of the monopoly grant since a patent's benefits extend from the time of filing the patent application.

It is important to note that Congress created the patent system under its enumerated powers in the Constitution. The Constitution does not make patents or patent rights a constitutional guarantee, but merely empowers Congress to enact laws that promote the progress of science.<sup>190</sup> In response to this grant of power and the social desire to provide incentives for progressive work in the fields of science and technology, Congress created the patent system.<sup>191</sup> Both potential inventors and the general public are beneficiaries of the patent system.<sup>192</sup> Both groups get the benefit of finding out what advances others have made or are making, and both groups have the ability to obtain their own monopolistic rights if they make advances.<sup>193</sup> For the reasons articulated above, the patent system should operate under the proposed efficiency theory. The standing duty of care associated with the efficiency theory is best encouraged and enforced when the efficiency theory operates in conjunction with the adverse inference rule.

The adverse inference rule provided one way of ensuring that potential inventors and the public upheld their obligations to the government.<sup>194</sup> The rule forced potential inventors and the public to take reasonable steps to avoid breaching the rights of inventors or face serious and potentially economically damaging consequences.<sup>195</sup> The resulting process of obtaining and disclosing reasoned patent opinions exhibited a perfect implementation of the duty of care contemplated by the proposed efficiency theory. Eliminating the adverse inference rule has effectively taken away the obligations of potential inventors and the general public, while maintaining the government's obligations to these parties.<sup>196</sup> If a realized duty of care on the part of potential inventors and the general public to avoid patent infringement is not present and, more importantly, not enforced, then the quid pro quo inherent in the patent system is destroyed.

---

190. See U.S. CONST. art. I, § 8, cl. 8; 1 CHISUM, *supra* note 60, § 2 (discussing the constitutional enablement of the earliest versions of the Patent Act).

191. See 1 CHISUM, *supra* note 60, § 2 (discussing the constitutional enablement of the earliest versions of the Patent Act).

192. See *supra* notes 160–65 and accompanying text.

193. See *supra* notes 160–65 and accompanying text.

194. See *supra* Part II.C.

195. See *supra* notes 109–10 and accompanying text.

196. See *supra* Part IV.A.

But the patent system does not exist in a vacuum. It operates within the confines of our judicial system, and the sanctity of the attorney-client privilege cannot be taken lightly. Doing so will eviscerate the art of zealous advocacy. However, the attorney-client privilege cannot and should not be used to undermine the basic purpose of the judicial framework—to seek truth and administer justice.<sup>197</sup> Fundamental to that purpose is the unbending duty to respect the law. Although the Federal Circuit asserted in *Knorr-Bremse* that the “duty to respect the law is undiminished,”<sup>198</sup> the court justified overturning the adverse inference rule on the grounds that “the ‘conceptual underpinnings’ of [*Underwater Devices*] have significantly diminished in force.”<sup>199</sup> However, the very reason the adverse inference rule came about was to ensure proper respect for the law and the rights given to patented inventors. So which is it? If the duty to respect the law has not diminished, then neither has the conceptual foundation of the adverse inference rule. Because enforcing the duty to respect the law is at the core of the adverse inference rule, discarding the rule undoubtedly blurs, if not totally eradicates, the requirement that people respect the legal patent rights of others.

Further, in support of the abolition of the adverse inference rule, the American Bar Association claims that the rule “penalizes candor and changes what should be candid advice into advocacy.”<sup>200</sup> In essence, the ABA argues that the forced disclosure of patent opinions as a result of the adverse inference rule inevitably forced lawyers to produce “sanitized opinions” instead of giving candid advice.<sup>201</sup> Therefore, the ABA sought the removal of the adverse inference rule because it believed the rule derogated the foundations of the attorney-client relationship<sup>202</sup> and impaired the lawyer’s ability to

---

197. STANDARDS FOR PROFESSIONAL CONDUCT WITHIN THE SEVENTH FEDERAL JUDICIAL CIRCUIT pmb1. (1992), available at [http://www.au.af.mil/au/awc/awcgate/law/civility\\_7th\\_fed.pdf](http://www.au.af.mil/au/awc/awcgate/law/civility_7th_fed.pdf) (“In fulfilling our duty to represent a client vigorously as lawyers, we will be mindful of our obligations to the *administration of justice*, which is a *truth-seeking* process designed to resolve human and societal problems in a rational, peaceful, and efficient manner.” (emphasis added)).

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

199. *Id.* (quoting *Arizona v. Rumsey*, 467 U.S. 203, 212 (1984)).

200. See Corrected Brief of the American Bar Ass’n, *supra* note 109, at 6.

201. *Id.*

202. *Knorr-Bremse*, 383 F.3d at 1344 (“Although this court has never suggested that opinions of counsel concerning patents are not privileged, the inference that withheld opinions are adverse to the client’s actions can distort the attorney-client relationship, in derogation of the foundations of that relationship.”).

render candid advice. Although there is indeed some degree of friction between the adverse inference rule and the attorney-client privilege, this friction should not be a ground for abolishing the rule. In fact, the ABA's argument is essentially using the attorney-client privilege as an end run around the professional responsibility of attorneys—the duty of candor.

### C. *Professional Responsibility of Lawyers*

In viewing the patent system under the efficiency theory discussed in Part IV.B, a discussion of the effect the particulars of the theory has on the professional responsibility of an opinion-writing patent attorney is needed. Contrary to the ABA's argument that the adverse inference rule effectively makes patent attorneys assume the role of an advocate, lawyers writing patent opinions are not advocates and, in fact, should not be allowed to become advocates.<sup>203</sup> In the patent opinion writing context, they should be considered counselors and advisors. Their sole responsibility should be to assess what issues with respect to patent infringement, validity, and scope arise as a result of the client's proposed course of conduct and offer an opinion as to the client's position with respect to these issues. Under the Model Rules of Professional Conduct, lawyers acting as advisors are required to render unbiased and candid opinions.<sup>204</sup> The argument that the adverse inference rule should be abolished because patent lawyers are acting as advocates by writing biased opinions in order to protect their clients' interests should fall on deaf ears in any American court. American lawyers, especially those acting in advisory roles, are bound by the duty to render candid advice.<sup>205</sup> No court should allow blatant and unprofessional breaches of this duty to serve as good cause for removing a judicial rule that has brought order and respect and has the potential to bring increased efficiency to the American patent system.

## CONCLUSION

The adverse inference rule offered much-needed support to a then-weak duty of care with respect to patent rights. The rule forced businesses not only to become aware of the patent activity of others, but also to take affirmative steps to avoid engaging in infringing

---

203. See *supra* Part II.C (suggesting that patent attorneys are guardians of the patent system).

204. See MODEL RULES OF PROF'L CONDUCT R. 2.1 (2003) ("In representing a client, a lawyer shall exercise independent professional judgment and render candid advice.").

205. See *id.*

conduct. Unfortunately, the tension the rule created with the attorney-client privilege led to its eventual demise in *Knorr-Bremse*. The death of the adverse inference rule was untimely. The problems the rule created with the attorney-client privilege could have been solved by tailoring a judicial scheme that properly addressed the scope of the waiver of privilege. The *Markman*-like procedure proposed by this Comment affords patentees the opportunity to conduct discovery of the patent opinions obtained by accused infringers, while ensuring that defendants contain the confidentiality of the communications. This procedure is a better solution than the total elimination of the adverse inference rule. The patent system, as it exists today, suffers from a steady decline in efficiency. This problem is addressed by the proposed efficiency theory that imposes a standing duty to become aware of and avoid infringing patentees' rights by obtaining reasoned patent opinions. When acting in conjunction with the adverse inference rule, the efficiency theory encourages patent lawyers to honor their sworn duty to render candid advice, furthers the incentive goals of the patent system, and protects and enforces the basic duty to respect the law.

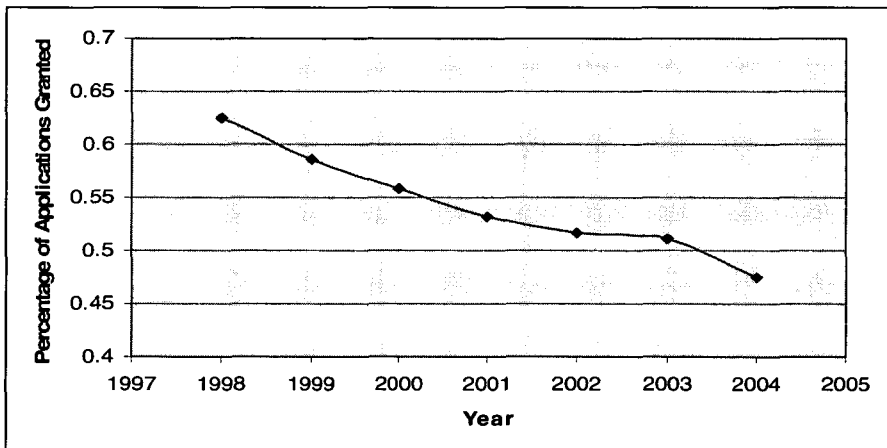
WILSON L. WHITE

## APPENDIX

**Table 1: Patent Statistics 1998–2004\***

Year	Total No. Applications	Total Patent Grants	Percentage of Patent Applications Granted
1998	260,889	163,144	0.625
1999	288,811	169,086	0.585
2000	315,015	175,980	0.559
2001	345,732	183,972	0.532
2002	356,493	184,378	0.517
2003	366,043	187,017	0.511
2004	382,139	181,302	0.474

**Figure 1: Graphical Depiction of Patent System Efficiency 1998–2004**



\* This data can be obtained from the United States Patent and Trademark Office website: [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us\\_stat.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm). The percentages were obtained by dividing the number of patents granted by the total number of applications filed in that particular year.