
United States Court of Appeals
for the
Federal Circuit

KNORR-BREMSE SYSTEME FUER NUTZFAHRZEUGE GMBH,

Plaintiff-Cross Appellant,

— v. —

DANA CORPORATION,

Defendant-Appellant,

and

HALDEX BRAKE PRODUCTS CORPORATION, and HALDEX BRAKE
PRODUCTS AB,

Defendants-Appellants.

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA IN 00-CV-803,
JUDGE T. S. ELLIS, III

**BRIEF FOR *AMICUS CURIAE* NEW YORK
INTELLECTUAL PROPERTY LAW ASSOCIATION IN
SUPPORT OF ELIMINATING THE ADVERSE INFERENCE
ARISING FROM THE ASSERTION OF ATTORNEY-CLIENT
PRIVILEGE IN DEFENSE OF WILLFUL INFRINGEMENT**

MELVIN C. GARNER
DARBY & DARBY P.C.
805 Third Avenue
New York, New York 10022
(212) 527-7700

NICHOLAS M. CANNELLA
F. CHRISTOPHER MIZZO
FITZPATRICK, CELLA, HARPER & SCINTO
30 Rockefeller Plaza
New York, New York 10112
(212) 218-2100

*Attorneys for Amicus Curiae New York
Intellectual Property Law Association*

CERTIFICATE OF INTEREST


Counsel for the amicus curiae New York Intellectual Property
Law Association certifies the following:

1. The full name of every party or amicus represented by me is: New York Intellectual Property Law Association.
2. The party represented by me as amicus curiae is the real party in interest.
3. All parent corporations and any publicly held corporations that own 10 percent or more of the stock of the party or amicus represented by me are: None.
4. The names of all law firms and the partners or associates that appeared for the parties or amicus now represented by me in the trial court or are expected to appear in this court are:

Melvin C. Garner
President, NYIPLA
DARBY & DARBY P.C.
805 Third Avenue
New York, New York 10022
(212) 527-7700

Nicholas M. Cannella
F. Christopher Mizzo
FITZPATRICK, CELLA,
HARPER & SCINTO
30 Rockefeller Plaza
New York, New York 10112
(212) 218-2100

Dated: November 3, 2003



Nicholas M. Cannella
Counsel of Record for Amicus Curiae

TABLE OF CONTENTS

CERTIFICATE OF INTEREST	i
TABLE OF CONTENTS	ii
TABLE OF AUTHORITIES	iii
STATEMENT OF INTEREST OF AMICUS CURIAE	1
SUMMARY OF ARGUMENT	2
ARGUMENT	4
I. NO ADVERSE INFERENCE OF WILLFUL INFRINGEMENT SHOULD BE DRAWN FROM A DEFENDANT’S ASSERTION OF THE ATTORNEY- CLIENT PRIVILEGE OR WORK PRODUCT IMMUNITY ...	4
II. NO ADVERSE INFERENCE SHOULD ARISE FROM THE FAILURE TO OBTAIN AN OPINION OF COUNSEL, UNLESS THE POTENTIAL INFRINGER, BEFORE COMMENCEMENT OF AN INFRINGEMENT ACTION, INCURS AN OBLIGATION TO SEEK LEGAL ADVICE	9
III. WHETHER A SUBSTANTIAL DEFENSE IS SUFFICIENT TO DEFEAT WILLFULNESS DEPENDS ON THE TOTALITY OF THE CIRCUMSTANCES	11
CONCLUSION	13
PROOF OF SERVICE	15
CERTIFICATE OF COMPLIANCE	16

TABLE OF AUTHORITIES

Cases

<u>Burlington Indus., Inc. v. Dayco Corp.</u> , 849 F.2d 1418 (Fed. Cir. 1988)	4
<u>Frazier Industrial Co. Inc. v. Advance Storage Products</u> , 33 USPQ2d 1702 (C.D. Cal. 1994)	7
<u>Fromson v. Western Litho Plate & Supply Co.</u> , 853 F.2d 1568 (Fed. Cir. 1988)	6
<u>Hickman v. Taylor</u> , 329 U.S. 495 (1946).....	6
<u>Johns Hopkins Univ. v. Cellpro, Inc.</u> , 160 F.R.D. 30 (D. Del. 1995)	5
<u>Kloster Speedsteel AB v. Crucible Inc.</u> , 793 F.2d 1565 (Fed. Cir. 1986)	5, 8
<u>Mosel Vitelic Corp. v. Micron Tech., Inc.</u> , 162 F. Supp. 2d 307 (D. Del. 2000).....	7
<u>Quantum Corp. v. Tandon Corp.</u> , 940 F.2d 642 (Fed. Cir. 1991)	5, 7
<u>Read Corp. v. Portec, Inc.</u> , 970 F.2d 816 (1992), abrogated on other grounds, <u>Markman v. Westview Instruments, Inc.</u> , 52 F.3d 967 (Fed. Cir. 1995)	4
<u>Rolls-Royce Ltd. v. Valeron Corp.</u> , 800 F.2d 1101 (Fed. Cir. 1986)	10, 12
<u>State Contracting & Engineering Corp. v. Condotte America, Inc.</u> , __ F.3d __, 2003 WL 22288180 (Fed. Cir. October 7, 2003).....	3, 11, 12

Thorn EMI N. Am., Inc. v. Micron Tech., Inc.,
837 F. Supp. 616 (D. Del. 1993).....7

Underwater Devices, Inc. v. Morrison-Knudsen Co., Inc.,
717 F.2d 1380 (Fed. Cir. 1983)8, 9

Upjohn Co. v. United States,
449 U.S. 383 (1981).....5

Other Authorities

Fed. R. Civ. P. 11 11

STATEMENT OF INTEREST OF AMICUS CURIAE

The New York Intellectual Property Law Association

("NYIPLA") is an association of more than 1,300 attorneys whose interest and practice lies in the areas of patent, copyright, trademark, trade secret and other intellectual property law. Unlike attorneys in many other areas of practice, NYIPLA members, whether in private practice or employed by corporations, typically represent both plaintiffs and defendants in litigation. NYIPLA attorneys also regularly participate in proceedings in the Patent and Trademark Office, including representing parties in interferences, as well as representing applicants for patents. Since its founding in 1922, the NYIPLA has been committed to maintaining the integrity of United States patent law, and to the proper interpretation and application of that law.

This amicus brief is submitted in response to the Court's Order dated September 26, 2003. Because of the practical experience of its members, and its non-partisan status, the NYIPLA believes that its views will aid this Court in its resolution of the issues raised in this en banc appeal concerning the roles of advice of counsel, the adverse inference, and substantial defenses in a willful infringement determination.

SUMMARY OF ARGUMENT

Under the Federal Circuit's controlling case law, defendants armed with an opinion of counsel and faced with a charge of willful infringement must either waive privilege or suffer an adverse inference that supports a finding of willfulness. Force-fed this choice, most defendants waive privilege because an adverse inference could be devastating, especially in jury trials. Forcing defendants to waive privilege or face a potentially more unpleasant alternative, not only undermines the attorney-client privilege and work product immunity, but is unduly prejudicial and unnecessary to effectuate the patent laws. Accordingly, we respectfully submit that this Court should hold that a defendant's invocation of the attorney-client privilege and work product immunity does not give rise to an adverse inference with respect to willful infringement.

No adverse inference of willful infringement should arise merely from the fact that the defendant did not obtain an opinion of counsel. There are many reasons why a defendant, without an attorney's opinion, may honestly believe that a patent is invalid, not infringed or unenforceable. An adverse inference may be appropriate only when a defendant has an obligation to seek legal advice before the filing of an infringement suit, but fails to do so. Whether an obligation to seek legal advice existed should

depend on the totality of the circumstances, not solely on whether the defendant had actual notice of a patent. Such a rule will better encourage defendants to obtain opinions of counsel, without punishing those who had actual notice and a reasonable basis for not seeking advice. As this Court recently concluded in State Contracting & Engineering Corp. v. Condotte America, Inc., __ F.3d __, 2003 WL 22288180 (Fed. Cir. October 7, 2003), one reasonable basis for not seeking advice of counsel occurs when a defendant relies on a substantial defense, which by itself may be sufficient to defeat liability for willful infringement.

Whether a substantial defense, in and of itself, should bar willfulness depends upon a consideration of the totality of the circumstances. For example, a defendant who infringed for many years without justification but subsequently presents a substantial, albeit losing defense, should not be shielded from willfulness because to do so would not discourage unlawful copying. Thus, when the defense was learned should be one of the factors taken into consideration.

ARGUMENT

I. NO ADVERSE INFERENCE OF WILLFUL INFRINGEMENT SHOULD BE DRAWN FROM A DEFENDANT'S ASSERTION OF THE ATTORNEY-CLIENT PRIVILEGE OR WORK PRODUCT IMMUNITY

Much like the charge of inequitable conduct, which this Court has observed is raised in “almost every major patent case [and] has become an absolute plague,”¹ the charge of willful infringement has become a ubiquitous allegation accompanying almost every charge of infringement because of the potential for treble damages. Once a patentee has alleged infringement, little else is required to tack on a charge of willfulness. Although a willful infringement determination examines the totality of the circumstances regarding the infringer’s intent,² one factor has become dominant and nearly determinative -- whether the defendant obtained a competent opinion of counsel before engaging in the infringing activity.

Under currently controlling case law, a defendant who has obtained an opinion of counsel is faced with a dilemma: either waive

¹ Burlington Indus., Inc. v. Dayco Corp., 849 F.2d 1418, 1422 (Fed. Cir. 1988).

² Read Corp. v. Portec, Inc., 970 F.2d 816, 827 (1992), abrogated on other grounds, Markman v. Westview Instruments, Inc., 52 F.3d 967 (Fed. Cir. 1995) (identifying nine factors that may be taken into consideration, including whether or not the defendant sought and obtained legal advice).

privilege and produce that opinion, including any materials that a court may deem to be related to the subject matter of the opinion, or assert privilege and suffer the prejudice of an adverse inference. Kloster Speedsteel AB v. Crucible Inc., 793 F.2d 1565, 1580 (Fed. Cir. 1986).³ Given the nearly insurmountable hurdle created by that inference, a defendant is all but forced “to respond to a claim of willful infringement by asserting an affirmative defense of good faith reliance on the advice of counsel, which results in a waiver of the attorney-client privilege.” Johns Hopkins Univ. v. Cellpro, Inc., 160 F.R.D. 30, 34 (D. Del. 1995). Because this result wreaks havoc on the attorney-client privilege and work product immunity, and is unduly prejudicial, the adverse inference should be done away with.

The attorney-client privilege is a “time-honored privilege”⁴ that deserves the utmost respect and protection. Upjohn Co. v. United States, 449 U.S. 383 (1981). It enhances and furthers the goals of our legal system by encouraging “full and frank communication between attorneys and their clients.” Id. at 389. For the attorney-client privilege to function properly,

³ In Quantum Corp. v. Tandon Corp., 940 F.2d 642, 643-44 (Fed. Cir. 1991), this Court acknowledged the dilemma that the adverse inference creates. In an effort to blunt the dilemma’s effects, the Court suggested that in some situations, bifurcation of willfulness may be appropriate. Id. However, bifurcation does not ameliorate the adverse inference’s ill-effects; it merely postpones them.

⁴ Quantum Corp., 940 F.2d at 644.

both clients and attorneys must be assured that their communications will be protected.

Likewise, work product immunity requires a “degree of privacy, free from unnecessary intrusion by opposing parties and their counsel.” Hickman v. Taylor, 329 U.S. 495, 510-11 (1946). Without that protection, attorneys will not be at liberty to exhaustively prepare their legal theories and litigation strategies. Id.

Without these protections, the interests of clients, the legal profession, and ultimately, our legal system are, at best, poorly served. The adverse inference eviscerates these fundamental principles by requiring defendants either to waive privilege and produce communications and work product in an attempt to avoid a finding of willful infringement or face the perhaps insurmountable obstacles that flow from the adverse inference.

The adverse inference unduly prejudices defendants by assuming that there are only two reasons why a defendant does not waive privilege: either the defendant (i) did not obtain an opinion of counsel, or (ii) obtained an unfavorable opinion. See, e.g., Fromson v. Western Litho Plate & Supply Co., 853 F.2d 1568, 1572-73 (Fed. Cir. 1988). This binary analysis is flawed; it ignores valid, practical and justifiable reasons why a defendant may want to assert privilege -- reasons having nothing to do with

the substance of the opinion itself. For example, the full scope of waiver may not be determinable until after the district court rules, ranging from narrow to extremely broad. Compare Thorn EMI N. Am., Inc. v. Micron Tech., Inc., 837 F. Supp. 616, 622 (D. Del. 1993) with Mosel Vitelic Corp. v. Micron Tech., Inc., 162 F. Supp. 2d 307, 311-13 (D. Del. 2000). Being unable to determine the scope of waiver beforehand is particularly problematic because those courts that find a broad waiver may allow unjustifiable intrusion into opinion counsel's work product, providing opposing counsel with a roadmap of the perceived strengths and weaknesses of the case.⁵ See, e.g., Frazier Industrial Co. Inc. v. Advance Storage Products, 33 USPQ2d 1702, 1703 (C.D. Cal. 1994) (allowing expansive discovery, including opinion counsel's work product not communicated to the client).

Further, a defendant may want to assert privilege if it intends to rely on a different -- and potentially stronger -- substantive defense at trial, than the defense set forth in a pre-suit opinion. Although both defenses may be objectively reasonable, at trial the defendant, especially before a jury, may deem it advisable to forgo the added difficulty of explaining why its

⁵ Depending on when waiver takes place, disclosure of an opinion or underlying work product may also affect a defendant's liability. Quantum Corp., 940 F.2d at 643-44.

trial defense was not included in the earlier opinion. And, plaintiff's counsel surely will seek to exploit that fact in an effort to derogate defendant's trial defense.

Given its potentially harmful impact, allowing the adverse inference to continue to be drawn can only be justified if compelling benefit derives from it. That is not the case. This Court, in a combination of two cases, Underwater Devices, Inc. v. Morrison-Knudsen Co., Inc., 717 F.2d 1380, 1389-90 (Fed. Cir. 1983) and Kloster Speedsteel AB v. Crucible, Inc., 793 F.2d 1565, 1580 (Fed. Cir. 1986), forged what would come to be known as the adverse inference. However, neither case explains what purpose the adverse inference was meant to serve. Even if it was created to encourage potential infringers to seek legal advice, there are less invasive and prejudicial ways of achieving that objective, as discussed below.

In sum, we submit that a defendant's assertion of privilege to a charge of willfulness should no longer give rise to an adverse inference.

II. NO ADVERSE INFERENCE SHOULD ARISE FROM THE FAILURE TO OBTAIN AN OPINION OF COUNSEL, UNLESS THE POTENTIAL INFRINGER, BEFORE COMMENCEMENT OF AN INFRINGEMENT ACTION, INCURS AN OBLIGATION TO SEEK LEGAL ADVICE

As explained below, if the facts and circumstances of the particular case did not give rise to an affirmative obligation to obtain an opinion of counsel, then no adverse inference of any kind should be drawn from the fact that the defendant did not obtain an opinion of counsel. On the other hand, it may be appropriate to draw a negative inference from the defendant's failure to obtain legal advice if that defendant had an obligation to obtain such advice, but did not.

This negative inference, however, differs significantly in function and effect from the adverse inference based upon the assertion of privilege. Because there is no privilege at stake, waiver of privilege is not implicated. And, this negative inference would promote compliance with the patent laws and respect for patent rights, without compromising the sanctity of the privilege or unduly prejudicing those defendants.

For this rule to be applied justly, the Court's current test, as set forth in Underwater Devices, should be modified. Currently, an obligation to seek legal advice arises once a defendant has actual notice of a patent. Underwater Devices, 717 F.2d at 1390. We submit, however, that such an

approach focuses on the wrong factor (actual notice), when the defendant's intent should be the issue. Indeed, apparently recognizing the difficulties associated with rigid application of the Underwater Devices test, this Court has considered other factors that impact a defendant's decision not to seek opinion of counsel. See, e.g., Rolls-Royce Ltd. v. Valeron Corp., 800 F.2d 1101, 1109-10 (Fed. Cir. 1986) (affirming district court's refusal to draw an adverse inference from defendant's failure to obtain legal advice because it had a good faith belief it had designed around the patent).

Whether a defendant had an obligation to seek legal advice should be determined by examining the totality of the circumstances surrounding defendant's pre-litigation activities. Pertinent circumstances may include, but are not limited to: whether the defendant was aware of the patent; whether the defendant copied the patentee's commercial product; whether the differences between the claims and the allegedly infringing product were so great that it was reasonable not to obtain legal advice; and whether the defendant knew of a substantial defense to the allegation of infringement at the time he learned of the patent and its potential implications.⁶ If it was reasonable that the defendant did not seek advice of counsel before the inception of litigation, no adverse inference may be

⁶ A substantial defense to infringement, by itself, may also be sufficient to defeat a charge of willful infringement as discussed in Section III, infra.

drawn. Cf. State Contracting & Eng'g Corp. v. Condotte Am., Inc., ___ F.3d ___, 2003 WL 22288180 at *5 (Fed. Cir. October 7, 2003) (“In the circumstances of this case, it was reasonable for the [defendants] not to seek the advice of counsel.”). If, on the other hand, the relevant circumstances lead to the conclusion that the defendant had the affirmative duty to obtain legal advice, failing to do so would permit a negative inference to be drawn.

Once litigation begins, no further obligation to seek legal advice should exist beyond presentation of defendant’s good faith defenses. Federal Rule of Civil Procedure 11 safeguards the bona fides of litigation assertions; there should be no additional requirement that the defendant also obtain a separate, inevitably redundant, opinion of counsel.

III. WHETHER A SUBSTANTIAL DEFENSE IS SUFFICIENT TO DEFEAT WILLFULNESS DEPENDS ON THE TOTALITY OF THE CIRCUMSTANCES

If a defendant deliberately copied a product known to be protected by patent and, at that time, knew of no grounds for doing so, enhanced damages should be awardable. The mere fact that defendant’s trial counsel subsequently presented a plausible, but losing, defense should not allow that defendant to escape the consequences of his earlier behavior. On the other hand, if defendant knew of a substantial defense prior to

infringement, a finding of willfulness should be barred. The existence of a substantial defense should be considered with the totality of other circumstances in making the willfulness determination.

This Court recently held that a substantial defense, learned of before infringement commenced, by itself can be sufficient to defeat a willfulness charge. State Contracting, 2003 WL 22288180 at *5. This conclusion makes sense.

Willfulness is determined by evaluating a defendant's state of mind based on an examination of the totality of the circumstances. If the circumstances show that a defendant had a good faith belief that there was no infringement, there is no reason why that defendant should be found to have willfully infringed a patent, and therefore be subject to treble damages, merely because it did not seek legal advice. Id. (finding that the defendants' good faith belief that they were covered by a license to practice the invention was, by itself, sufficient evidence that the infringement was not willful); Rolls-Royce, 800 F.2d at 1110 (Fed. Cir. 1986) (concluding that a good faith attempt to design around supported the finding of non-willfulness).

CONCLUSION

Amicus curiae New York Intellectual Property Law Association respectfully submits that no adverse inference should be drawn because a defendant asserts the attorney-client privilege or work product immunity; that it is only appropriate to draw a negative inference from the failure to obtain an opinion if the potential infringer had an obligation to seek legal advice and failed to do so; and that, whether a substantial defense is sufficient to defeat liability for willful infringement depends on the totality of the circumstances.

Respectfully submitted,

NEW YORK INTELLECTUAL
PROPERTY LAW ASSOCIATION

By:



Nicholas M. Cannella,
Counsel of Record
FITZPATRICK, CELLA,
HARPER & SCINTO
30 Rockefeller Plaza
New York, New York 10112
(212) 218-2100

Of Counsel:

F. Christopher Mizzo
FITZPATRICK, CELLA,
HARPER & SCINTO
30 Rockefeller Plaza
New York, New York 10112
(212) 218-2100

Melvin C. Garner
President, NYIPLA
DARBY & DARBY P.C.
805 Third Avenue
New York, New York 10022
(212) 527-7700

PROOF OF SERVICE

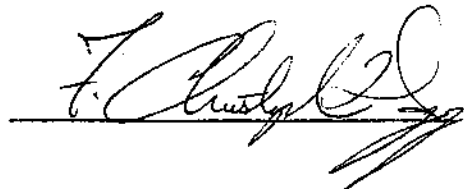
The undersigned hereby certifies that two copies of the foregoing BRIEF FOR AMICUS CURIAE NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION were caused to have been sent via Federal Express to:

Wesley W. Whitmyer, Jr., Esq.
St. Onge Steward Johnston & Reens LLC
986 Bedford St.
Stamford, Connecticut 06905-5619
Attorney for Defendants-Appellants Haldex Brake Prods. Corp. and Haldex Brake Prods. AB

Jeffrey D. Sanok, Esq.
Crowell & Moring, LLP
1001 Pennsylvania Ave., N.W.
Washington, D.C. 20004-2595
Attorney For Plaintiff-Cross Appellant Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH

Ellen A. Efros, Esq.
Rader, Fishman & Grauer PLLC
1233 20th Street, Suite 501
Washington, D.C. 20036
Attorney for Defendant-Appellant Dana Corp.

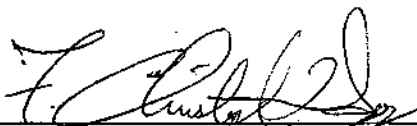
Dated: November 3, 2003



CERTIFICATE OF COMPLIANCE

Counsel for amicus curiae New York Intellectual Property Law Association certifies that this brief complies with the word limitation set forth in the Court's September 26, 2003 Order. The number of words in this brief, excluding the items that do not count towards the limitation under Fed. R. App. P. 32(a)(7)(B)(iii) and Fed. Cir. R. 32(b), is 2457.

Dated: November 3, 2003


F. Christopher Mizzo

NY_Main 385467v1