

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

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**UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT**

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**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.

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**APPEAL FROM UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF VIRGINIA IN CV-00-803-A  
JUDGE THOMAS SELBY ELLIS III**

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**MOTION FOR LEAVE TO FILE BRIEF, AND  
BRIEF OF *AMICUS CURIAE*  
CONEJO VALLEY BAR ASSOCIATION**

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Steven C. Sereboff, Esq.  
Karol M. Pessin, Esq., of counsel  
SoCal IP Law Group  
310 N. Westlake Blvd., Ste. 120  
Westlake Village, CA 91362  
www.socalip.com  
(805) 230-1350

Attorneys for *amicus curiae*  
Conejo Valley Bar Association

November 3, 2003

## Certificate Of Interest

Counsel for *amicus* Conejo Valley Bar Association certifies:

1. The full name of every party or *amicus* represented by me is: Conejo Valley Bar Association.
2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is: not applicable.
3. All parent corporations and any publicly held corporations that own 10 percent or more of the stock of the party or *amicus curiae* represented by me are: not applicable.
4. The names of all law firms and the partners or associates that appeared for the party or *amicus* now represented by me in the trial court or agency or are expected to appear in this court are: Steven C. Sereboff, Karol M. Pessin, SoCal IP Law Group.

November 3, 2003

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Steven C. Sereboff, Esq.

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## **Motion for Leave to File *Amicus* Brief**

The Conejo Valley Bar Association hereby moves for leave to file this *amicus curiae* brief in the captioned case. The Court, in orders 01-1357, 02-1256, 01-1376, 02-1221, invited bar associations, trade or industry associations, and government entities to provide *amicus curiae* briefs addressing three of four questions presented to the parties for briefing.<sup>1</sup> We at the Conejo Valley Bar Association file this *amicus* brief in response to the Court's invitation.

Our *amicus* brief addresses the following points: (1) the patentee's exclusionary power is unfairly enhanced by the threat of automatic inferences of willfulness, (2) varying degrees of notice and business circumstances call for a varying degree and type of "due care."

## **About *Amicus Curiae* Conejo Valley Bar Association**

Based in the heart of Southern California's 101 Technology Corridor, the Conejo Valley Bar Association draws its membership primarily from local law firms and in-house attorneys serving small, mid-market and large

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<sup>1</sup> *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.* 344 F.3d 1336, 1337 (Fed. Cir. 2003).

companies. Our members' clients are predominantly high tech, high growth companies in fields such as software, biotech, telecommunications and semiconductors. Our clients are innovators, but also vend in some of the world's most competitive markets.

## **Introduction**

On September 26, 2003 the Court invited the parties in the above-captioned case to brief four questions. The Court also invited *amicus curiae* to brief the first, second and fourth questions. In the first and second questions, the Court asked whether an adverse inference of willful infringement should be automatic upon the defendant's invocation of the attorney-client privilege and/or work product privilege, or when the defendant has not obtained legal advice. In the fourth question, the Court asked whether willfulness should always be defeated when the defendant has presented a substantial defense, even if the defendant secured no legal advice. *Amicus curiae* Conejo Valley Bar Association respectfully addresses these issues.

*Amicus curiae* writes *in pro bono publico*, rather than in support of either party. We are unconcerned with the outcome of the case, though decidedly concerned about the issues. We wish to see the American public

benefit from innovation, from technical disclosure, and from competition in product and service markets. In short, we support the purpose of the patent system. The Conejo Valley Bar Association believes that the patent laws should be interpreted in ways that best serve these important public policies.

Turning to the issues, *amicus curiae* necessarily opposes automatic inferences, because they disregard the range of real world situations. Thus, there should not be an automatic inference of willful infringement – whether from invoking the attorney-client or work product privilege or from a failure to obtain legal advice. Nor should there be an automatic inference of no willful infringement simply because the defendant’s attorneys were lucky or skillful enough to find a substantial defense. We believe these automatic inferences miss the point – the law should encourage reasonable behavior.

Most importantly, the inferences chill innovation and the flow of better and lower priced products and services to the public. Innovators, in the face of “cheap” notice letters, are forced to incur “expensive” opinions of counsel as insurance against a sure inference of willfulness. This is an opportunity cost: money which could be spent on product launches is diverted to law firms. Many vendors therefore engage in “intentional ignorance,” where any knowledge of patents is avoided, to avoid the high

cost of exercising due care. The adverse inference of willfulness created this problem. Allowing willfulness to be overcome by a spirited defense fails to encourage reasonable behavior – it simply shifts legal budgets from patent clearance (i.e., due care) to litigation defense. Thus, the automatic inferences thwart innovation by forcing innovators with notice to pay law firms and not scientists, and exacerbate patent gamesmanship by providing even more incentive to avoid patent searching altogether.

Our premise is simple – notice is cheap. Automatic adverse inferences of willful infringement aggravate rather than repair an imbalance between patentee and vendors providing products and services to the public. The current “totality of the circumstances” analysis is sufficient to deter and punish willful infringers without discouraging potential innovators. Furthermore, businesses should be encouraged to take affirmative steps to avoid patent infringement as early as possible. If the law allowed defendants to skip obtaining legal advice and still easily escape a finding of willful infringement, the public interest in avoiding disputes would not be served.

## **I. An Adverse Inference Promotes Economic Inefficiency Because Innovation Budgets are Diverted to Legal Budgets**

Notice is cheap; due care is expensive. For less than \$1,000 a patentee can hire an attorney to send a strongly worded notice letter. Guided by the Court's jurisprudence, the recipient must spend \$5-50,000 *or more* for a patent attorney to advise them of their rights. Of course, the Court could simply shrug off this imbalance as just a "cost of doing business."

The patent system encourages innovation by providing the patentee with exclusionary power (not necessarily monopoly power) *when electing to enforce* a patent. The mere existence of a patent may be used by patentees for an *in terrorum* effect beyond the exclusionary power of litigation on the merits of the patent itself: the patent litigation process is expensive, protracted, and may result in a market entry barrier, essentially stifling innovation. The current "totality of circumstances" test, with the finder of fact considering business justifications for claiming privilege or absence of a competent non-infringement opinion, recognizes the broad range of situations that a trial court may face.

Therefore, an automatic adverse inference is tantamount to a *presumption* of willfulness. An automatic adverse inference essentially

requires the finder of fact to presume willfulness even in view of the totality of the circumstances: they heavily weight opinions of counsel in determining whether the accused infringer proceeded “willfully” or not.

Having an automatic “adverse inference” gives the patentee too much power (including the *in terrorum* threat of litigation) because there are too many good and innocent reasons why an opinion is not obtained or privilege is claimed. Willfulness as determined by the totality of the circumstances -- including the reasons for lack of competent opinion of counsel -- with the threat of enhanced damages, as well as preliminary injunctive relief, is sufficient to punish infringers’ wrongful acts, deter future infringement, and help undercompensated patentees.

Without adequate guidance as to the scope of waiver or what is needed to rebut the “adverse inference,” innovators are discouraged from innovation and from market entry. Patentees use the sword of “adverse inference” to force waiver of privilege -- and then claim that such waiver opens the door to sensitive competitive information which was disclosed in obtaining the opinion of counsel. At a minimum, determining the scope of waiver requires additional litigation costs. Moreover, an “adverse inference” can be rebutted -- but it is unclear whether any business justification for

claiming waiver or lack of opinion can ever rebut what amounts to a *de facto* determination of willfulness. Uniform procedural safeguards would be needed, such as automatic protective orders and automatic bifurcation so as to avoid prejudice during the liability phase. The adverse inference is tantamount to an automatic finding of willfulness in the absence of risking disclosure of attorney-client/work product information beyond the opinion itself or of injection of populist prejudice into the liability phase of trial.

In the end, the “adverse inference” leads to more opinions, and more costly opinions, with no consideration of whether all these opinions actually help anyone but the lawyers. Even if some companies practice “intentional ignorance” by studiously avoiding the competitive patent landscape, the “adverse inference” proposed is not a proxy for a new “duty to investigate.” Our world is not perfect and the funds of most vendors are limited. Thus, more attorney opinions means less money spent on something else, and research and development is the obvious place to cut. With less spending on R&D comes less innovation. Society suffers.

## **II. Varying Degrees of Notice and Business Circumstances Call for A Varying Degree and Type of “Due Care”**

There is one clear situation where a \$50,000 opinion is merited: (a) the patentee has made a clear and particular allegation of infringement, (b) the patentee has resources to litigate, and (c) the accused infringer has made and will likely continue to make large and profitable sales of implicated product. Admittedly, this situation arises from time to time, though the Court probably sees a higher ratio of such cases. And even in such “perfect” cases, mitigating factors may include surrounding business negotiations, or facially meritless allegations in the patentee’s infringement determination -- factors considered in the totality of circumstances test.

We know of too many vendors which intentionally avoid investigating the competitive patent landscape before launching a new product. These vendors are intentionally avoiding “cheap notice” giving rise to “expensive due care.” Many of these vendors have financial power to withstand protracted patent litigation, and financially exhaust less well-heeled patentees. Others have a quiver of patent arrows themselves, engendering cross-litigation with any accuser. We recognize that patent gamesmanship will always exist, and fault the “adverse inference” for much of this practice.

Typically, when a patentee sends a “notice” letter to a vendor, the “notice” letter falls far short of a clear and particular allegation of infringement.<sup>2</sup> The attorney-advised patentee carefully drafts these letters so that the accused vendor will not be “threatened” enough to file a declaratory judgment action, and the patentee not prematurely pinned down on claim scope. Yet, under the automatic adverse inference, such “noticeless notice” gives rise to a duty by the business to undertake a \$50,000 opinion.

More commonly, we see even lesser notice situations. For example, consider the situation of new product development – “promoting the useful arts” -- ostensibly a desirable thing. A vendor may identify an invention and obtain a patentability search. The patentability search may identify tens or even hundreds of patents which are relevant. The business may also perform a clearance search, to reduce its risk of infringement liability. Here again, tens, hundreds or even thousands of patents may be identified. In both situations, the vendor is serving the public good by seeking a better patent (through its own prior art search), and by seeking to avoid disputes by searching for patents relevant to the product. Arguably, the vendor is now

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<sup>2</sup> This shortfall itself is reflected in some of the local rules in the district courts -- such as those promulgated by the Northern District of California -- requiring an early filing by the patentee of a chart tracking the claims to the accused embodiment.

on notice that many, many patents are relevant to their product. Some measure of due care seems reasonable – but how much?

Rarely is claim scope a black or white determination upon a preliminary read of the specification and claims. Claim scope is normally a shade of grey. Certainty of claim scope may be increased with a review of the file history and cited art -- again, expensive endeavors -- which may result in a determination of “charcoal grey” or “light grey.”

The Court’s jurisprudence suggests that the only sure way for a vendor to avoid being labeled a willful infringer is to have a financially insurmountable \$50,000 opinion on each and every “grey” patent in the search reports. In the absence of such perfection, an “adverse inference” imposes the duty of clairvoyance -- to predict which of the “grey area” patents should be selected for full opinion of counsel.

In sum, “notice” may range from “active,” to “passive aggressive,” to “passive.” It seems logical for the duty of due care to depend in large part on the quality of the notice.

In addition to the quality of the notice, though, several other factors should be considered in determining good faith. Did the vendor seek advice from a patent attorney? Did the patent attorney provide an opinion on patent

infringement? Did the patent attorney provide an opinion on patent validity? What were the costs of the infringement and validity opinions, especially in relation to the vendor's likely relevant sales and profits? Does the patentee have a history of malicious or frivolous suits? Is there a pattern of harassment by the patentee of the vendor or others? Is this a complex or fast changing technology? What is the size of the market? How many competitors are in the market? If there is infringement, how much harm would the patentee suffer? How many patents are known to be relevant? What is the remaining life of the patent? How likely is the infringer to sue? How close are the vendor and the patentee in the market? How much has the vendor spent in development? Are there any past dealings between the patentee and the vendor? Are the patentee and vendor direct competitors? Is there prosecution history estoppel?

Engaging in this game of "twenty questions" leads to a simple conclusion: the current test -- totality of the circumstances -- is the only one which really works.

Just as there is a range of notices and many questions which impact the extent of reasonable due care, there are also many ways for a vendor to satisfy the duty of due care. For example, the vendor might: engage in a

good faith attempt to acquire a license; request reexamination; attempt to purchase the patent; await expiration of the patent for failure to pay maintenance fees, where the patentee has a good chance of not paying the maintenance fees; identify a cloud on the title; recognize that the patentee has a high likelihood of failure as a business. None of these steps require a patent attorney to issue an opinion. More importantly, many of these steps serve the public interest far better than a patent attorney's opinion.

## Conclusion

The Court has served the public well by strengthening the patent laws. This has encouraged innovation while also creating greater respect for that innovation. However, the automatic adverse inference of willfulness has resulted in diversion of innovation budgets to legal budgets. Furthermore, the Court's failure to guide vendors on the range of due care they may follow has resulted in intentional ignorance. The Conejo Valley Bar Association therefore urges the Court to eliminate the automatic adverse inference of willfulness, and to provide better guidance on how vendors may exercise due care without transferring too much of their innovation budget to their attorneys.

November 3, 2003

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Steven C. Sereboff, Esq.  
Karol M. Pessin, Esq., of counsel  
SoCal IP Law Group  
310 N. Westlake Blvd., Ste. 120  
Westlake Village, CA 91362  
www.socalip.com  
(805) 230-1350  
fax (805) 230-1355  
info@socalip.com

For *Amicus Curiae*  
Conejo Valley Bar Association

## **Entry Of Appearance by Steven C. Sereboff, Esq.**

Please enter my appearance as counsel for: Conejo Valley Bar Association. I represent *amicus curiae*. As *amicus curiae*, this party supports Appellants on questions 1 and 2, and Appellees on question 4.

My address and telephone are:

SoCal IP Law Group  
310 N. Westlake Blvd., Ste. 120  
Westlake Village, CA 91362  
www.socalip.com  
(805) 230-1350  
fax (805) 230-1355

I am the principal attorney for this party in this case and will accept all service for the party. I agree to inform all other counsel in this case of the matters served upon me.

Date admitted to the Federal Circuit bar: August 7, 1992

This is not my first appearance before the United States Court of Appeals for the Federal Circuit:

November 3, 2003

\_\_\_\_\_  
Steven C. Sereboff, Esq.

## **Entry Of Appearance by Karol M. Pessin, Esq.**

Please enter my appearance as counsel for: Conejo Valley Bar Association. I represent *amicus curiae*. As *amicus curiae*, this party supports Appellants.

My address and telephone are:

SoCal IP Law Group  
310 N. Westlake Blvd., Ste. 120  
Westlake Village, CA 91362  
www.socalip.com  
(805) 230-1350  
fax (805) 230-1355

I am not the principal attorney for this party in this case.

Date admitted to the Federal Circuit bar: March 16, 1989

This is not my first appearance before the United States Court of Appeals for the Federal Circuit:

November 3, 2003

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Karol M. Pessin, Esq.

## **Certificate of Compliance with Type-Volume Limitation, Typeface Requirements, and Type Style Requirements**

1. This brief complies with the type-volume limitation of Fed.R.App.P. 32(a)(7)(B) and this Court's order of September 26, 2003 limiting the size of *amicus* briefs to 2500 words because this brief contains 2383 words, excluding the parts of the brief exempted by Fed.R.App.P. 32(a)(7)(B)(iii).
2. This brief complies with the typeface requirements of Fed.R.App.P. 32(a)(5) and the type style requirements of Fed.R.App.P. 32(a)(6) because this brief has been prepared in a proportionally spaced typeface using Microsoft Word 2002 in 14 pt Times New Roman.

November 3, 2003

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Steven C. Sereboff, Esq.  
Karol Pessin, Esq., of counsel  
SoCal IP Law Group  
310 N. Westlake Blvd., Ste. 120  
Westlake Village, CA 91362  
www.socalip.com  
(805) 230-1350  
fax (805) 230-1355  
info@socalip.com

Attorneys for *Amicus Curiae*  
Conejo Valley Bar Association

## **Certificate of Service**

I, Steven C Sereboff, certify that this **MOTION FOR LEAVE TO FILE BRIEF, AND BRIEF OF *AMICUS CURIAE* CONEJO VALLEY BAR ASSOCIATION**, and accompanying papers have been sent via third party commercial carrier for delivery within 3 calendar days (i.e., FedEx 2<sup>nd</sup> day service) on November 3, 2003 to:

1. The Clerk of the Court of Appeals for the Federal Circuit (original + 30 copies) at:

Clerk

U.S. Court of Appeals for the Federal Circuit

717 Madison Place, NW

Washington, DC 20439

2. Counsel for Plaintiff-Cross Appellant **KNORR-BREMSE SYSTEME FUER NUTZFAHRZEUGE GMBH** (2 copies) at:

Jeffrey D. Sanok

Crowell & Moring LLP

1001 Pennsylvania Ave. NW

Washington, DC 20004

3. Counsel for Defendant-Appellant DANA CORPORATION, (2 copies) at:

Ellen A. Efros

Rader, Fishman & Grauer

1233 20<sup>th</sup> Street, N.W., Suite 501

Washington, D.C. 20036

4. Counsel for Defendants-Appellants HALDEX BRAKE PRODUCTS CORPORATION and HALDEX BRAKE PRODUCTS AB (2 copies) at:

Wesley W. Whitmyer, Jr.

St. Onge Steward Johnston & Reens, LLC

986 Bedford Street

Stamford, CT 06905

November 3, 2003

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Steven C. Sereboff, Esq.