

THE CORPORATE COUNSEL'S ROLE
IN RISK AVOIDANCE

EFFECTIVE OPINIONS:
ORAL VS. WRITTEN; USE OF OUTSIDE COUNSEL
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INTRODUCTION

How to avoid via effective opinions holdings of willful infringement and assessment of increased damages and/or an award of attorney fees is the question.

This question relates to remedies in a patent infringement suit. Our Patent Code, Title 35 U.S.C., defines the elements of recovery:

- Section 281 provides for civil action by the patentee;
- Section 283, for an injunction to prevent further infringement;
- Section 284, for recovery by the patent owner of damages not less than a reasonable royalty, together with interest and costs, and for damages that may be increased by the court up to three times the amount found;
- Section 285, for award by the court, in exceptional cases, of reasonable attorney fees to the prevailing party; etc.

Thus, under the above statutory provisions the court "may increase the damages up to three times the amount found or assessed" (§284) and "in exceptional cases may award attorney fees to the prevailing party" (§285). (Emphasis added.)

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It is clear from this language that the decision to increase damages or award attorney fees is completely within the discretion of the trial court. Such awards will not be overturned absent a clear showing of an abuse of discretion. Increased damage and attorney fee awards are appropriate only in cases of deliberate or willful infringement or bad faith litigation and inappropriate when the infringer had an honest doubt about and mounted a good faith and substantial challenge to the validity of the patent or the existence of infringement. See generally Chisum, PATENTS, §20.03(04)[b] and [c] (1985).

THEN AND NOW

While Chisum states that "(d)ecisions granting and denying increased damages are legion", it is, however, clear that decisions where willful infringement is found and enhanced damages and attorney's fees are awarded, have been on the increase since the Court of Appeals for the Federal Circuit (Federal Circuit) went into operation in 1982. The issue of willful infringement and the role of legal opinions have now reached new levels of prominence. This is not surprising. The Patent System stands strengthened. Patents are more valuable and the courts "read the riot act" to infringers. And this is proclaimed by such business periodicals as FORTUNE ("The Surprising New Power of Patents", June 1986 p. 59), DUN'S BUSINESS MONTH ("Patents: Potent Weapon For High-Tech Companies", July, 1986, p. 32) and CHEMICAL WEEK ("Washington's pro-patent court", December 1986, p. 15). The FORTUNE article carries the following interesting by-line:

Thanks mostly to a new appeals court, patent holders are winning many more suits against infringers. Damage awards have driven some defendants close to bankruptcy. Companies with patents are going on the offensive; infringers had better rethink.

These articles point out in a "then and now" comparison that before 1982 trial courts held patents invalid more often than not, normally assessed only "reasonable-royalty" damages and rarely granted double or treble damages so that it literally paid off to infringe.

Now the situation is drastically changed. Many more patents are upheld and penalties for infringement have become severe. "What is really giving management the willies is the trend in damages." (FORTUNE, supra at 57). Consequently, there is "a growing respect for the power of patents and ... the need to manage differently as a result." (FORTUNE, ibid.)

Normally, increased damages and/or attorney fees used to be assessed only in cases of truly flagrant copying often coupled with other egregious conduct and absence of a competent legal opinion as, for example, in

- American Safety Table v. Schreiber, 163 USPQ 129 (2nd Cir. 1969) (flagrant copying - "we'll take our chances" attitude);

- General Electric v. Sciaky Bros., 163 USPQ 257 (6th Cir. 1969) (invention copied in toto when own Patent Department expressed serious doubts);

- Milgo Electronic v. United Business Communications, 206 USPQ 481 (10th Cir. 1980) (flagrant copying with knowledge of existence of patent - continued sales - absence of opinion);

- Lam v. Johns-Manville, 213 USPQ 1061 (10th Cir. 1982) (intentional copying - no attempt to investigate patent and to deviate - "stonewalling" behaviour); etc.

However, in Western Electric v. Stewart-Warner, 208 USPQ 183 (4th Cir. 1980) - perhaps a more typical decision - there was no assessment of increased damages and attorney fees even though there was intentional infringement and dilatory licensing negotiations. The court found honest doubt and lack of bad faith nonetheless. Apparently, plaintiff had waited for years to bring suit.

The concept of "honest doubt" is still in vogue but not applied as liberally nor stretched as much as it used to be.

WANTON AND WILLFULL

Awards of increased damages and attorney fees must be supported by specific findings of willful infringement. Willfulness is the crux of it all. Willful infringement is a question of fact and as such will not be disturbed or reversed on appeal unless it was "clearly erroneous". The "clearly erroneous" standard is taken very seriously by the Federal Circuit.

Most of the times the Federal Circuit affirms findings of willfull infringement and awards of increased damages and/or attorney fees but on occasion it overturns such awards, e.g. Stickle et al v. Heublein, 219 USPQ 377 (Fed.Cir. 1983); State Industries v. A.O. Smith, 224 USPQ 418 (Fed. Cir. 1985); Machinery Corporation of America v. Gullfiber AB, 227 USPQ 368 (Fed. Cir. 1985) or it remands for assessment of such awards, e.g. CPG Products v. Pegasus Luggage, 227 USPQ 497 (Fed. Cir. 1985) and Kloster Speedsteel v. Crucible, 230 USPQ 81 (Fed. Cir. 1986) (in both cases by Chief Judge Markey).

Apart from the obvious requirement of infringement, the following requirements must be satisfied before a finding of willful infringement is justified;

- notice to or knowledge by the infringer of the patent(s) in suit and
- absence of a reasonable basis by the infringer "for believing it had right to do the acts." (Stickle, supra at 388.)

In other words, infringement is willful if it is done deliberately and intentionally and with knowledge of the patent in suit and, conversely, infringement is not willful if it is done without knowledge of the patent or with a good-faith belief that the patent is invalid or not infringed.

The Federal Circuit has repeatedly stated that willfulness cannot be determined by hard and fast per se rules but must be judged based on the "totality of circumstances".

Special circumstances and factors taken into account by the trial court in finding willful infringement and exercising its discretion and granting increased damages and/or attorney fees are, for example:

- deliberate copying,
- presence of willful or cavalier behaviour,
- failure to obtain and follow the advise of counsel,
- concealment or misrepresentation as to infringing activities,
- continuation of litigation in bad faith, etc.

UNDERWATER DEVICES

There is one early Federal Circuit decision that has been cited in almost all willful infringement cases since. It may not be a seminal decision but does establish very authoritative and quotable guidelines and "hornbook law" on the issue and thus merits a closer look, especially since it has a lot to say about the matter of legal opinions.

It is Underwater Devices v. Morrison-Knudsen, 219 USPQ 569 (Fed. Cir. 1983) and it deals with the validity and infringement of two patents covering an underwater pipe laying apparatus and method. The lower court held the patents valid and willfully infringed and, inter alia, trebled the damage award. The Federal Circuit affirmed in all respects (except for reversing the award of prejudgement interest on the punitive portion of the damage award).

The Federal Circuit, citing the Milgo (supra) and General Electric (supra) decisions, established the following three-pronged guidelines:

1) Where ... 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.

2) Such an affirmative duty includes, inter alia, the duty to seek and obtain competent legal advice from counsel

3) (B)efore the initiation of any possible infringing activity. (Id. at 576.)

Infringing activities in this case were started after a license offer and thus notice was received but before counsel's advice was obtained. Counsel was in-house and was not a patent attorney. He had ordered a patent search after receipt of notice but did not evaluate the results before infringement began nor had he ordered and analyzed the file histories in time. Although he had written a couple of memoranda advocating "hanging tough" since about 80% of the patents were being held invalid, a real opinion from patent counsel was not rendered until after the suit was filed. The in-house memoranda were considered by the court to be "inadequate" and as demonstrating "willful disregard" for the patents in suit inasmuch as they contained "only bald, conclusory and unsupported remarks regarding validity and infringement" (Id. at 577). The court continued:

Had it contained within its four corners a patent validity analysis, properly and explicitly predicated on a review of the file histories of the patents at issue, and an infringement analysis that, inter alia, compared and contrasted the potentially infringing method or apparatus with the patented inventions, the opinion may have contained sufficient internal indicia of creditability to remove any doubt that M-K in fact received a competent opinion. (Ibid.)

Interestingly, the court admitted that the facts that the counsel was in-house and was not a patent attorney alone were not controlling and did not demonstrate lack of good faith but were factors to be weighed.

THE PROGENY

In Central Soya v. Geo. A. Hormel, 220 USPQ 490 (Fed. Cir. 1983) a holding of willful infringement was also upheld because an outside legal opinion was based solely on file history prior art, contained language such as "quite arguably" and "cynical advice" about manufacturing in the Eight Circuit because of its perfect record of invalidity holdings and, furthermore, was not heeded for about two years as regards modifications. Also there was a failure to get an updated opinion.

To overcome the district court's holding of willful infringement, Hormel had not only to show an opinion from competent counsel but also that it had exercised reasonable and good faith adherence to the analysis and advice therein. (Id. at 493.)

Similarly and in reliance on Underwater Devices, supra, increased damages and attorney fee awards were affirmed in

- Rosemount v. Beckman Instruments, 221 USPQ 1 (Fed. Cir. 1984) (only in-house memos from engineers and executives opining that they saw nothing patentable in the patented device inasmuch as it employed only old elements - no legal opinion was obtained at all and "no reasonable basis" determination made as required by Stickle, supra);

- Kori v. Wilco Marsh, 225 USPQ 985 (Fed. Cir. 1985) (conclusory opinion and too late);

- Ralston Purina v. Far-Mar-Co., 227 USPQ 177 (Fed. Cir. 1985) (rejection of license offer without even consulting in-house patent counsel);

- Power Lift v. Lang Tools, 227 USPQ 435 (Fed. Cir. 1985) (rejection of license offer in arrogant manner - State Industries, supra, was distinguished: "The difference between this case and (State) is that (State's) first notice of existence of the patent came with the filing of the infringement suit against it. Here, Lang had knowledge of the existence of the patent the day it issued. Although the infringement suit was filed 9 days later, we agree with the jury's conclusion that Lang's decision to continue production after notice was clear and convincing evidence of willfulness." (State, supra at 438));

- Bott v. Four Star, 1 USPQ 2nd 1210 (Fed. Cir. 1986) (indifferent attitude - in-house conclusory opinions).

See also, Great Northern v. Davis Core, 228 USPQ 356 (Fed. Cir. 1986); Shiley v. Bentley Labs, 230 USPQ 112 (Fed. Cir. 1986); Kaufman Company v. Lantech, 1 USPQ 2nd 1202 (Fed. Cir. 1986).

District courts seem to be in tune and following Underwater Devices, e.g.

- Scott Paper v. Moore Business Forms, 224 USPQ 11 (D. Del. 1984) (willful termination of license - continued manufacture - two outside opinions allegedly obtained but not put in evidence - no evidence outside counsel firms "were supplied with all relevant facts");

- Kerwit Medical v. N & H Instruments, 224 USPQ 679 (N.D. Texas, 1984) (awareness of patents - failure to obtain legal advice - "opinion letter" dealt with different structure);

- S.C. Johnson v. Carter-Wallace, 225 USPQ 1023 (S.D.N.Y. 1985) aff'd in part and vacated in part, 228 USPQ 367 (Fed. Cir. 1986) (manufacture against outside advice but in accordance with conclusory in-house opinion);

- Indecor v. Fox-Wells, 642 F. Supp. 1473 (S.D.N.Y. 1986) ("aggravated" circumstances: opinion not predicated on file history and cross-reading - search only after complaint - disregard for advice).

EFFECTIVE OPINIONS

Judging from the discussions in the above decisions, the matter of legal opinion, opinion of counsel is apparently the most important factor bearing on the infringer's good or bad faith. In this respect the courts not only look for the existence of an opinion but also scrutinize a number of circumstances and attributes, such as,

- the timing, i.e. whether before or after infringement started,
- the qualifications and whereabouts of the author,
- the contents and the bases and sources therefor,
- adherence to or disregard of the advice.

As is clear from the above decisions, the opinion to be effective should be

- timely, i.e. as soon as possible after notice or knowledge of patent and before infringement starts,
- competent i.e. authoritative and not conclusory, well-founded i.e. based on file history and prior art analysis and careful cross-reading;
- authored by a patent attorney rather than general attorney or technical or management personnel; and
- adhered to and followed by the infringer.

However, the courts as already pointed out do not recognize nor apply any per se rules; on the contrary, they profess that

There 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. (Gullfiber, supra at 372.)

IN-HOUSE VS. OUTSIDE

While it is clear that in-house general legal, technical and lay personnel are not competent to render patent validity and infringement opinions, the question has been raised especially by the private patent bar as to whether in-house patent counsel, even though knowledgeable and competent, is sufficiently independent and objective to render an authoritative unbiased opinion. Underwater Devices, S.C. Johnson, supra, etc. are referred to as raising this question.

I submit that it is not proper to dichotomize. I can't believe that the Federal Circuit meant to suggest in Underwater Devices that in-house counsel was less competent than outside counsel - perhaps, it's merely a concern with how closely the counsel is tied to the infringer (Outside counsel also gets paid!) - nor that it meant to say in S.C. Johnson that "actual court experience in patent litigation" was a sine qua non for rendering effective opinions.

In S.C. Johnson an unfavorable opinion was received from outside patent counsel on an earlier embodiment. The formulation was modified but instead of obtaining an updated opinion from outside counsel, a conclusory favorable opinion of house patent counsel was relied on.

Furthermore, I submit that if house counsel rendered an opinion, unlike the conclusory opinions in Underwater Devices and S.C. Johnson, reflecting thorough groundwork and homework including study of file history, search for and analysis of prior art and cross-reading, request of experimental data needed to resolve technical questions, etc., it would be adjudged as fully competent and authoritative.

Note that an in-house patent counsel opinion had passed muster in Deere v. International Harvester, 211 USPQ 11 (7th Cir. 1981) and Western Electric, supra. In the latter decision, the court stated: "Just because an attorney is in-house counsel does not mean that his opinions are necessarily suspect." (Id. at 187.) In H.K. Porter v. Goodyear, 191 USPQ 486 (6th Cir. 1976) "letters from in-house counsel and outside counsel" established "honest doubt."

ORAL VS. WRITTEN

Lastly, the question of whether written opinions are preferable over oral opinions has been raised and discussed. See Novo Industri A/S v. Travenol Labs, 215 USPQ 412 (7th Cir. 1982).

More recently, the Federal Circuit has affirmed a finding of no willful infringement in Radio Steel v. MTD Products, 229 USPQ 431 (Fed. Cir. 1986) in which an oral opinion of outside patent counsel was relied on by the infringer. Patent counsel was contacted upon receipt of notice. He did not order the file history but studied the patent and concluded it was invalid. However, he also suggested design modifications (which were followed). Counsel rendered his opinion orally at a meeting and did not reduce it to writing. Reliance on many of the decisions discussed in this paper and strenuous arguments that the opinion was inadequate for lacking the established requisites were brushed aside by the court:

We have never suggested that unless the opinion of counsel met all of those requirements, the district court is required to find that the infringement was willful. (Id. at 434-435.)

Considering the "totality of circumstances", the court then found good faith but added a caveat:

This is not a case in which an outside patent attorney initially was reluctant to give an oral opinion based on the facts before

him, but was pressured or coerced into doing so by his client, or in which the client previously had received a number of carefully prepared written opinions but in the particular case had acted on the basis of an oral, almost off-the-cuff opinion. In those situations the opinion of counsel might not suffice to establish nonwillfulness. (Id. at 435.)

CONCLUSION

In summary, a well-founded, well-timed competent and authoritative opinion, whether by in-house patent counsel or outside patent counsel and whether in oral or written form, if adhered to by the infringer, will go a long way to forestall a holding of willful infringement and award of increased damages and/or attorney fees.

The opinion, of course, must be adduced; otherwise it is of no avail. How this comports with the attorney/client privilege is a very interesting but different subject which, however, was covered at this Program last year by Robert C. Kline in his talk entitled "Waiver of Attorney-Client Privilege and Work Product Immunity Resulting From Production of Opinion of Counsel to Refute Claim of Willful Infringement". His conclusion that "exposure from the resulting waiver of the attorney-client privilege and work product immunity is unavoidable (but) it can be limited by severing the issues of infringement and willfulness at trial" bears repetition here as a final pointer.