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LIABILITY OF THE PATENT INFRINGER FOR INCREASED DAMAGES FOR WILLFUL PATENT INFRINGEMENT

By Karl F. Jorda*

INTRODUCTION

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

- Section 283 provides 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.)

*Corporate Patent Counsel; CIBA-GEIGY Corporation
Ardsley, New York

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 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 proclaimed by such business periodicals as FORTUNE ("The Surprising New Power of Patents", June 1986 p. 59) and CHEMICAL WEEK ("Washington's propatent 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.) ~~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 around but had not been applied as liberally nor stretched as much as it used to be.

WANTON AND WILLFUL

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".

> 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.)

The Pendulum Swings?!

Prof. Chisum expressed concern "about some of the directions in patent law" and stated:

> Three of the really major issus are fraud and inequitable conduct, prosecution history estoppel and willful infringement. The first two have become the defenses of choice for accused infringers. The latter, willful infringement, has become the patent owner's most potent attack weapon. It seems to me that all of this is most unfortunate; for, in all three areas, a major focus of attention is put on the quality of prior legal representation. And, so, more and more, the focus of attention is on the quality of legal representation - on what the attorneys have done rather than on the underlying merits. That has a tendency, I think, to raise the level of personal animosity. It makes patent litigation even more uncertain than it inherently is. And I think that makes it more difficult to have reasonable settlements. It makes trials more a quest for vindication than for truth. (AIPLA Bulletin, Nov./Dec. 1986, pp. 421-422.)

Did the CAFC perhaps feel stung by criticism such as Prof. Chisum's and put on the brakes?

In Rite-Hite Corp. v. Kelley Co., 2 USPQ2d 1915 (Fed. Cir. 1987), the district court made only generalized findings of no willful infringement and did not cite specific evidence supporting these findings.

[redacted]deral Circuit, however, affirmed the holding that [redacted]ngement was not willful. The Federal Circuit [redacted]ussed the possible bases for the district court [redacted]ding and reminded the appellant that a factual [redacted]estion, such as whether a patent has been willfully [redacted]fringed, is reviewed under the "clearly erroneous" [redacted]andard contained in Federal Rule of Civil Procedure [redacted]2(a).

On cross-appeal, Rite-Hite objected to the district court's holding that the infringement was not willful and emphasized that the infringer's counsel provided no opinion to support its position. The court clarified that, depending upon the circumstances, no opinion letter is required to show a lack of willful infringement:

> The weight that may fairly be placed on the presence or absence of an exculpatory opinion of counsel has varied with the circumstances of each case, and has not been amenable to development of rigorous rule. Although in appropriate circumstances this court has upheld the drawing of adverse inferences on the question of willfulness,... we have observed that "[t]here is no per se rule that an opinion letter from patent counsel will necessarily require a finding of willful infringement,... nor is there a per se rule that the lack of such a letter necesesarily requires a finding of willfulness." Machinery Corp. of America v. Gullfiber AB, 774 F.2d 467, 472, 227 USPQ 368, 372 (Fed Cir. 1985). (2 USPQ2d at 1918-1919)

In response to Rite-Hite's claim that Kelley's copying of a Rite-Hite device evidenced willful infringement, Kelley countered that it was engaged in a legitimate effort to design around Rite-Hite's patented device. The Federal Circuit found that the evidence on this matter as supported the district court's conclusion of no willful infringement, although it was "not clear whether this was the basis for the district court's conclusion."

In Allen Archery, Inc. v. Browning Manufacturing Co., 2 USPQ2d 1490 (Fed. Cir. 1987), the plaintiff/ appellant asked the Federal Circuit to re-examine the

evidence and behind the trial court's conclusions regarding lack of willfulness and infer an "intent and course of action by the infringer, Browning, which demonstrated willful infringement." The trial court had found that Browning acted in good faith in its belief that the patent in suit was invalid and that the plaintiff was at least partially responsible for delay in bringing the lawsuit against Browning.

The Federal Circuit admitted that the evidence relied upon by Allen Archery might support the inference for which it argued. Nonetheless, the Federal Circuit declined to second-guess the district court's factual findings because of the clearly erroneous standard of review. Absent a showing that these findings were clearly erroneous, the court declinded to examine whether the district court abused its discretion in refusing to award attorney fees, costs, or increased damages.

In Amstar v. Envirotech Corp. 3 USPQ2d 1412 (Fed. Cir. 1987) Chief Judge Markey held that the district court did not err in refusing to find willful infringement, even though infringer received early orders by time it had received legal opinion as to infringement of patent at issue, since no infringing devices had been installed, and since before installation , devices were modified, albeit insufficiently to escape infringement.

In the most recent case, Nickson Industries v. Rol Manufacturing et al, Appeal No. 87-1644 (Fed. Cir. 5/17/88) a lower court no-willful infringement holding was affirmed by the CAFC (Judge Markey) even though awareness of the patent in question existed no opinion was obtained until after the suit had been filed and a corporate officer had opined that the patent in question was invalid.

CONCLUSION

In summary, a well-founded, well-timed competent and authoritative opinion, whether by 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 is covered by Robert C. Kline in a talk entitled "Waiver of Attorney-Client Privilege and Work Product Immunity Resulting From Production of Opinion of Counsel to Refute Claim of Willful Infringement". (See ABA-PTC Section Proceedings, Changes in Intellectual Property Law in the Eighties, April 10-11, 1986, p. 65.) 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.