STANDARD OF CARE IN INTELLECTUAL PROPERTY LAW OPINIONS

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I. INTRODUCTION

Intellectual property attorneys are asked to give opinions in a wide variety of situations. Examples of opinions given by intellectual property attorneys include: (A) opinion on the prospects for obtaining enforceable intellectual property protection; (B) opinion concerning the ownership, validity and/or scope of intellectual property rights; (C) opinion responding to an auditor's inquiry concerning contingent liabilities; and (D) opinion relating to litigation -- whether to sue, whether to settle, etc. There are published articles discussing opinion practice for some of the specific situations in which intellectual property lawyers are asked to give opinions.[1] But little has been written on the broader topic of how to approach legal intellectual property opinions in general.[2] Thus, this article discusses the considerations that should be brought to all intellectual property opinions. This article discusses the appropriate standard of care to be applied by the intellectual property attorney asked to render an opinion, and also discusses the factors to be considered in conducting the investigation and drafting the opinion.

II. DETERMINING THE APPROPRIATE STANDARD OF CARE

The attorney asked to provide an opinion must do three things: (1) gather information (i.e., investigate the matter); (2) formulate the opinion (i.e., determine the applicable law and apply the facts to the law); and (3) communicate the opinion to the appropriate recipient (usually the client). How each of these steps is performed is a function of the standard of care applied by the attorney. For example, the attorney may perform an

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1 E.g., D. Chisum, Patents § 20.03[4][b][v] (1992); Kline, "Counsel's Opinion as a Defense to Willful Infringement," Intell. Prop. Counseling & Litig. (1992); Coolley, "Attorney's Opinions: Their Content and Can Corporate Counsel Write Them," 73 J. Pat. & Trademark Off. Soc'y 261 (1991).

2 But see Bramson, "Legal Opinions in Intellectual Property Matters," Intell. Prop. Counseling & Litig. (1992).

exhaustive investigation, or the attorney may rely solely on the information provided by the client. The attorney may consider the law to be well settled and spend no time in the library, or the attorney may conduct a thorough research of the applicable law. Further, the attorney may communicate the opinion to the client in a detailed written report, or simply give the opinion to the client over the phone.[3] It all depends on the standard of care.

A. The Minimum Standards of Care

Of course, every opinion is expected to meet the minimum standards of attorney liability. Perhaps the most important such minimum standard is the malpractice standard, which has been defined as the obligation "to use such skill, prudence, and diligence as lawyers of ordinary skill and capacity commonly possess and exercise in the performance of the tasks which they undertake."[4] Patent attorneys, as specialists, are held to a relatively high malpractice standard.[5]

There are other minimum standards of attorney liability in addition to the malpractice standard. For example, under the U.S. securities laws, an attorney who consents to the inclusion of an opinion in a securities document (such as a prospectus) "purporting to make upon his authority as an expert" may be personally liable for any materially false or misleading statement in that opinion.[6]

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3 "Off-the-cuff" oral opinions should be clearly identified as such and followed by a written report whenever appropriate. Bramson, supra note 2, at 5 n.2 (1992). Cf. Radio Steel & Mfg. Co. v. MTD Prod., Inc., 788 F.2d 1554, 229 U.S.P.Q. 431 (Fed. Cir. 1986). See also PPG Indus., Inc. v. Celanese Polymer Specialties Co. Inc., 658 F. Supp. 555, 1 U.S.P.Q. 1584 (W.D. Ky. 1986); Shiley, Inc. v. Bentley Laboratories, Inc., 601 F. Supp. 964, 968, 225 U.S.P.Q. 1013, 1016 (C.D. Cal. 1985).

4 Freeman, "Opinion Letters and Professionalism," 1973 Duke L.J. 371, 377 (1973).

5 Bramson, supra note 2, at 7.

6 See R. Haft, Venture Capital & Small Bus. Fin. § 6A.07[3][a] (1991); D. Herwitz, Accounting for Law. 125 (1979) ("[T]he federal securities laws [impose] liability, either expressly or by implication, upon practically anyone [including attorneys] involved in a securities transaction who is guilty of, or abets, a failure to make full, fair and accurate disclosure about the securities.").

Naturally, the minimum standards of care play an important role. However, the minimum standards are just that -- minimum standards. No reputable attorney would conduct his or her affairs with a view to complying only with the minimum standards of care.

B. The "Programmed" Standards of Care

For a variety of reasons, a number of "programmed" standards applicable to opinion practice have been developed. Examples include: (1) the standard of care that has to be applied to ultimately prevail in an opinion of counsel defense to a charge of willful infringement in U.S. patent litigation; and (2) the standard of care necessary to protect a client from liability under the U.S. securities laws for materially false or misleading statements or omissions.

There have been many cases on the standard of care necessary to prevail in an opinion of counsel defense to willful infringement. The leading cases include Underwater Devices, Inc. v. Morrisen-Knudsen Co., Inc.[7] and Central Soya Co., Inc. v. Geo. A. Hormel & Co.[8] The opinion of counsel defense only comes up when an opinion of non-infringement or invalidity turns out to have been a poor prediction of future events. Therefore, what is important ultimately is not whether the opinion was correct, but "whether the losing party proceeded on the basis of a legal opinion which, after the fact, the court is willing to characterize as 'thorough and competent.'"[9] The cases generally hold that, to ensure that a client is not exposed to increased damages or attorneys fees, the invalidity or non-infringement opinion must be formulated and communicated to the client in such a way as to have a competent, "self-evidently workmanlike" appearance.[10]

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7 717 F.2d 1380, 219 U.S.P.Q. 569 (Fed. Cir. 1983).

8 723 F.2d 1573, 220 U.S.P.Q. 490 (Fed. Cir. 1983).

9 Gholz, "Willful Infringement and 'Magic Words' - The Effects of Opinions of Counsel on Awards of Increased Damages and Attorney Fees," 66 J. Pat. Off. Soc'y 598, 605 (1984).

10 Id., at 611.

Parsons v. Hornblower & Weeks-Hemphill, Noyes[11] and Thompson v. Avco Corp.[12] illustrate the potential client exposure for false or misleading statements or omissions in legal opinions provided for the benefit of investors.[13] These related actions involved purchases of securities in a company called Cartridge Television, Inc. In each case, the investors argued that they were mislead about the prospects of future patent litigation by misrepresentations or omissions in the company's prospectus. The patent litigation that ensued after the stock was purchased ended up costing the company over $1,000,000.00.

> The company's prospectus included the following sections: HISTORY AND BUSINESS ... [The law firm does] not know of any clearly valid adversary United States patents which can successfully be asserted against the Company's presently proposed recorder-playback unit and cartridge, although the prior art in the field discloses a number of patents which relate in varying degrees to the CARTRIVISION system and adversary claims could be made at any time by competitors of the Company.
>
> A United States patent relating to a type of frequency modulation recording has been called to the Company's attention by a substantial United States patent owner in view of the proposed use of frequency modulation recording in the CARTRIVISION system. The validity of this patent has never been adjudicated.
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> ...
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> RISK FACTORS ... No assurance can be given that patent infringement claims will not be asserted which may adversely affect the Company or that any

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11 447 F. Supp. 482 (D.N.C. 1977), aff'd, 571 F.2d 203 (4th Cir. 1978).

12 Fed. Sec. L. Rep. (CCH) ¶ 96,105 (S.D.N.Y. 1977).

13 Other cases involving exposure for false or misleading statements or omissions concerning intellectual property rights in securities transactions include: Cherner v. Transitron Elec. Corp., 221 F. Supp. 48, 52 (D. Mass. 1963); Gould v. Tricon, Inc., 272 F. Supp. 385, 390 (S.D.N.Y. 1967); In re Automatic Telephone Dialer, Inc., 10 S.E.C. 698 (1941); In re Horton Aircraft Corp., 38 S.E.C. 97 (1957); and In re Universal Camera Corp., 1945 Sec. LEXIS 201 (1945).

> valid patent protection will be obtained by the Company. The Company may be required to obtain patent licenses in order to produce and market the CARTRIVISION system, but no assurance can be given that such licenses can be obtained.[14]

The Parsons court held that it was "clear from the prospectus that prior art existed in the field which might result in patent litigation."[15] According to the Parsons court, the "[p]laintiff's contention that material information regarding [the company's] patent position was omitted [was] frivolous in light of the explicit statements in the prospectus."[16] However, the Thompson court could not say as a matter of law that the prospectus was not false and misleading in its representations concerning the company's patent position and therefore denied the defendant's motion for summary judgement.

In general, the standard of care that should be applied by the intellectual property attorney to protect a client from liability under the U.S. securities laws is that of "a prudent man in the management of his own property."[17] There should be no liability for an incorrect opinion where the opinion giver conducted a reasonable investigation and had reasonable grounds for his actions.[18]

The programmed standards discussed above serve a useful purpose. But they should not be applied by practitioners in their day to day practice because they are, in effect, merely minimum standards. The programmed standards define what must be done at a minimum to protect the client from liability.[19] Clients should normally expect to receive greater attention and care from their attorneys.

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14 Parsons, 447 F. Supp. at 492.

15 Id.

16 Id.

17 Section 11(c) of the 1933 Act.

18 R. Haft, Venture Capital and Small Bus. Fin. § 6A.02[1][a] (1991).

19 See Bramson, supra note 2.

C. The Preferred Standard -- Communicating With Client

All clients have (or should have) budgetary and time constraints. Therefore, some restraint must be exercised by the investigating attorney and judgement should be applied by the attorney drafting the opinion. The question is, how far above the minimum standards should the attorney go? The authors' view is that the best way to determine how to proceed when asked to prepare an opinion is to communicate with the client. The resources applied by the attorney should be matched to the client's needs, and the client's needs should be determined as accurately as possible at the outset.

III. CONDUCTING THE INVESTIGATION

It is particularly important to discuss with the client the scope of any investigation to be conducted preparatory to rendering an opinion. The cost of investigating an intellectual property matter is often largely dependent on whether the investigation is conducted in a limited or exhaustive fashion, or somewhere in between, and the cost of the investigation should be matched to the client's needs.

A. Patent Searching

Patent attorneys are frequently asked to render an opinion as to whether the claims of a U.S. patent are valid over the prior art. Such an opinion should not normally be given without conducting a search of the prior art beyond what can be found in the patent's prosecution history. Indeed, the U.S. Court of Appeals for the Federal Circuit has held that "advice, based solely on file history prior art, does not by itself raise an inference of good faith substantial enough to convince us that the trial court's determination of willful infringement was clearly erroneous."[20] However, how much searching should be done depends on how the results of the search are going to be used by the client. For example, if the client can easily design around the patent whose validity is in question, then the search should not be conducted to exhaustion. But if the patent could be used to put the client out of business, then every relevant area should be searched for invalidating prior art.

In the United States, prior art patent searches normally include a review of the U.S. patents on file in the U.S. Patent and Trademark Office Public Search Room. However, there are many other areas that can be searched. A prior art search can be

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20 Central Soya Co., Inc. v. Geo. A. Hormel & Co., 723 F.2d 1573, 1577, 220 U.S.P.Q. 490, 492 (Fed. Cir. 1983).

expanded to include a review of foreign patent documents and non-patent literature located in the examining groups. It is also possible to check the Patent Office paper records against microfilm records to identify misplaced documents. A prior art search may also be conducted outside of the Patent Office. Searches can be conducted at the Library of Congress, various U.S. government agencies such as the Food and Drug Administration and the National Institutes of Health. Prior art searches can also be conducted at foreign patent offices. The European Patent Office can be a particularly helpful place to look for prior art. The important thing for the client to understand is that as the search is expanded, the costs involved increase dramatically, and there must be a point at which the search should be concluded.

Another issue that comes up in connection with patent validity opinions is whether or not to look for objective evidence of non-obviousness which would tend to prove that the patent is valid. This area of investigation is overlooked by some attorneys. It may be overlooked because of the difficulty in accurately assessing objective evidence of non-obviousness prior to litigation,[21] and some attorneys rationalize that the courts and the U.S. Patent and Trademark Office are reluctant to assign substantial probative weight to such objective evidence anyway. However, the better approach is to discuss the issue with the client.

B. Trademark Clearance Investigations

Another common type of intellectual property opinion involves a trademark clearance investigation. Costs associated with trademark clearance searching can vary widely, depending on the scope of the search. Sources that can be searched include the records of the U.S. Patent and Trademark Office, foreign trademark records, local assumed or fictitious names records, and state corporation records. Prior to conducting a trademark search, the attorney should assess the client's needs to determine the appropriate field of search.

Many companies have trademark investigations conducted on a regular basis. For these companies it may be desirable to establish a policy on the scope of trademark searches so that the client's needs do not have to be determined on a case by case basis.

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21 See Gholz, supra note 9, at 611 n.57.

C. Investigations Related to Securities Transactions

Sometimes determining the client's needs are not enough. For example, under the securities laws, the attorney has an affirmative investigative duty. Under the Securities Act of 1933 § 11(c) [15 U.S.C. § 77k], "[i]n determining ... what constitutes reasonable investigation and reasonable ground for belief, the standard of reasonableness shall be that required of a prudent man in the management of his own property."

The affirmative duty of investigation imposed by the securities laws is explained in A.B.A. Formal Opinion No. 335[22] as follows: In connection with securities law opinions,

> [t]he lawyer should, in the first instance, make inquiry of his client as to the relevant facts and receive answers. If any of the alleged facts, or the alleged facts taken as a whole, are incomplete in a material respect, or are suspect, or are inconsistent, or either on their face or on the basis of other known facts are open to question, the lawyer should make further inquiry. The extent of this inquiry will depend in each case upon the circumstances. For example, it would be less where the lawyer's past relationship with the client is sufficient to give him a basis for trusting the client's probity than where the client has recently engaged the lawyer, and less where the lawyer's inquiries are answered fully than where there appears a reluctance to disclose information.
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> Where the lawyer concludes that further inquiry of a reasonable nature would not give him sufficient confidence as to all the relevant facts, or for any other reason he does not make the appropriate further inquiries, he should refuse to give an opinion.

IV. DRAFTING THE OPINION

A. Select the Appropriate Author

For any opinion, it is most important that the responsible attorney have the appropriate experience and expertise.[23] Some

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22 60 A.B.A.J. 488 (1974).

23 See S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc., 225 (Footnote continued)

opinions should be handled from start to finish by a senior attorney. Other opinions may be drafted by a junior associate and reviewed by the senior attorney. In the United States, a preliminary patentability opinion does not even necessarily have to be given by an attorney; it may be given by a qualified patent agent. But infringement opinions and potential litigation related opinions must be given by an attorney.

It is also essential that the attorney have an appropriate degree of independence.[24] The issue often comes up as to whether it would be appropriate for in-house counsel to render an opinion, and the issue is generally decided based on the degree of independence exercised by that attorney.[25]

B. Identify the Intended Recipient

The opinion should be addressed to the person or entity for whose benefit the opinion is being delivered and should specifically state that it is not being delivered for the benefit of any other party. Thus, it may be appropriate to include the following statement in any formal legal opinion: "This opinion is being rendered pursuant to your request [identify date and maker of request, if applicable] and it is for your benefit only."[26]

(Footnote continued)
U.S.P.Q. 1022, 1042 (S.D.N.Y. 1985), aff'd in part and vacated in part, 781 F.2d 198, 228 U.S.P.Q. 367 (Fed. Cir. 1986) ("counsel [who prepared non-infringement opinion] did not have actual court experience in patent litigation. That is, of course, the arena where patent infringement questions are determined."); Kline, supra note 1.

24 Coolley, supra note 1, at 265 ("An important quality in any competent opinion is independence.").

25 See Studiengesellschaft Kohle m.b.H. v. Dart Indus., Inc., 862 F.2d 1564, 1576 n.4, 9 U.S.P.Q.2d 1273, 1284 n.4 (Fed. Cir. 1988); Gholz, supra note 9, at 609 ("Not only can advice from inside counsel be 'independent' (sometimes exasperatingly independent from the point of view of management), but advice from outside counsel can be slavishly non-independent.").

26 Bramson, supra note 2, at 20.

C. Document the Scope and Explain the Limitations of the Investigation

The scope of investigation should be documented and communicated to the client. A helpful way to document the scope of an investigation is to maintain a due diligence memorandum. Then, in the opinion letter itself, the scope of investigation (what has and has not been considered) should be set forth in detail so that nothing is misunderstood. Examples of things that should be brought to the client's attention in the opinion letter itself include: assumptions of facts being made; matters concerning the ability to prove certain facts (e.g., the need for affidavits from particular people); the date on which the investigation was completed; and the fact that files searched may not be complete or up to date.

D. The Conclusion -- Certainty v. Equivocation

Practically no opinion can be given with total certainty. Businesses and individuals live in an uncertain world. Therefore, it is important that the opinion contain an explanation of the uncertainty involved.

However, there are a couple of problems with expressing uncertainty in an opinion. One such problem is the potential negative impact that equivocal statements can have on a jury in subsequent litigation. A defendant in patent litigation may have to introduce privileged opinions to pursue an opinion of counsel defense to willful infringement. If liability and damages are tried together, then the jury will hear the opinions of the defendant's attorneys prior to the jury's decision on liability. This can be a problem if the opinion is not unequivocally in the defendant's favor.

Another potential problem with equivocal statements arises in connection with the opinion of counsel defense itself. Defensive invalidity/non-infringement opinions should be certain enough to satisfy the court that the defendant relied upon the opinion in good faith. Judge Nichols of the U.S. Court of Appeals for the Federal Circuit has stated that he "would never vote to remit damages for willful infringement, or counsel fees, on the basis of equivocal pronouncements that nowhere draw a clear line for the client, as to what would be right and what would be wrong, under the law."[27]

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27 Central Soya, 723 F.2d at 1581, 220 U.S.P.Q. at 496. Cf., Studiengesellschaft, 862 F.2d at 1577, 9 U.S.P.Q.2d at 1285;
(Footnote continued)

To avoid the problems with equivocation in opinions, the best approach is usually to state the conclusion without equivocation, and then explain the factors which might cause the courts or others to reach a contrary conclusion.

E. Maintain the Attorney-Client Privilege

Attorney-client privileged documents should be identified as such, preferably at the top of any written opinion letter. The client should always be advised as to the significance of the attorney-client privilege and how to avoid waiver of the privilege.

F. Responding to Auditor's Inquiries

Intellectual property attorneys are regularly asked by auditing accountants for opinions concerning a client's prospects in pending litigation, or the likelihood that litigation may commence in the future. However, an attorney's ability to respond to such an inquiry is limited by the attorney-client privilege. A compromise policy has been developed to resolve the conflict between the attorney's need to maintain privilege and the auditor's legitimate need for information. This policy, set forth in the A.B.A. Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information (1976), should always be followed whenever providing an opinion in response to an auditor's inquiry.

V. CONCLUSION

An important aspect of opinion practice is communication between attorney and client. The attorney should endeavor to determine the client's needs before beginning any search or other investigation, and should keep the client's needs in mind when formulating and drafting the opinion.

(Footnote continued)
Windsurfing Int'l Inc. v. Fred Ostermann GmbH, 668 F. Supp. 812, 816-17, 4 U.S.P.Q.2d 1429, 1433-34 (S.D.N.Y. 1987); Gholz, supra note 9, at 611 (concluding "that some prudent hedging of any opinion on validity or infringement is in order," notwithstanding Judge Nichols's concurring opinion in Central Soya).