

# THE EVOLUTION OF THE TOTALITY OF THE CIRCUMSTANCES TEST FOR WILLFUL INFRINGEMENT

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Relatively shortly after its inception, the Federal Circuit set out what many believed to be strict standards for avoiding a finding of willful infringement.<sup>1</sup> Suddenly there was talk about the "duty" to obtain thorough, timely, competent written opinions of counsel before embarking on a new product line. Patent owners must have been encouraged as writers both in the legal journals and the popular press began to warn the unwary of the infringer's dramatic potential downside absent an adequate opinion of counsel.<sup>2</sup>

More recently the Federal Circuit has made it equally clear that what was once a "duty" to obtain a proper opinion of counsel now is only one "factor" to be considered in determining willful infringement. A review of the cases decided by the Federal Circuit indicates that the law in this area is still in an evolutionary stage.

## The Law of Willful Infringement In the Federal Circuit From 1982-1984

In *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389 (Fed. Cir. 1983), the Federal Circuit first adopted the law of an "affirmative duty" to exercise due care to avoid infringement. The appellate court affirmed the trebling of a \$200,000 reasonable royalty damage award. The patent owner had offered to license the infringer before the infringement began for a one time \$200,000 royalty.

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<sup>1</sup> See Pavlak, "The Increasing Risk of Willful Patent Infringement", 65 J.P.O.S. 603 (1983); and Roper, "Damages in Patent Infringement Litigation" in *Developments 1985* (Banner ed. 1985).

<sup>2</sup> See, e.g., Perry, "The Surprising New Power of Patents", *Fortune*, June 12, 1986, at 57 and McMahon, "Patents Better Protected, But Look Who's Getting Them", *Wall St. J.*, Mar. 4, 1986 at 30, col. 3.

The court's infringement discussion began with an important statement for assessing the impact of the opinion. Judge Kashiwa noted that the standard for review of willful infringement is whether the district court's finding was "clearly erroneous", since willful infringement is a finding of fact. *Underwater Devices Inc.*, 717 F.2d at 1389. This suggested that most willful infringement decisions should be affirmed.

The Federal Circuit cited five findings of fact in affirming the district court:

1. The opinion of counsel was obtained after the infringing activities had begun;
2. The attorney did not order the file histories until after the infringement had begun;
3. The opinion was not received until after the suit had been filed;
4. The opinion was rendered by in-house counsel; and
5. The opinion was not rendered by a patent attorney.

The court defined the potential infringer's burden as follows:

Where, as here, 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. See *Milgo Electronic Corp. v. United Business Communications, Inc.*, 623 F.2d 645, 666, 206 U.S.P.Q. 481, 497 (10th Cir. 1980), *cert. denied*, 449 U.S. 1066, 101 S.Ct. 794, 66 L.Ed.2d 611 (1980). Such an affirmative duty includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity. See *General Electric, supra*, at 1073-74, 163 U.S.P.Q. at 261; *Marvel Specialty Company v. Bell Hosiery Mills, Inc.*, 386 F.2d 287, 155 U.S.P.Q. 545 (4th Cir. 1967), *cert. denied*, 390 U.S. 1030, 88 S.Ct. 1409, 20 L.Ed.2d (1968). (Emphasis added)

*Underwater Devices Inc.*, 717 F.2d at 1389-1390. This concept of a duty owed by the potential infringer seems to have far reaching consequences. On its face, the "affirmative duty" language suggests a *per se* standard for willful infringement.

Interestingly, the opinions that apparently were produced by the infringer as a defense to the charge willful infringement may have worsened the infringer's situation. The court characterized one of the memoranda as containing only "bald, conclusory and unsupported remarks." *Underwater Devices Inc.*, 717 F.2d at 1390. This caused Judge Kashiwa to conclude that, "[w]hat these memoranda clearly demonstrated was M-K's willful disregard for the Robley patents." *Underwater Devices Inc.*, 717 F.2d at 1390.

The only memorandum of any substance suggested that the patents were “described” in an article published more than one year earlier. If the patents were not fully “described” then the memorandum suggested that the patented method and apparatus are “simply a further development” of the article and thus would be found invalid. What may have actually “cooked the infringer’s goose”<sup>3</sup> was the statement in the memorandum that:

Courts, in recent years have — in patent infringement cases — found the patents claimed to be infringed upon invalid in approximately 80% of the cases. I would recommend we continue to refuse to even discuss the payment of a royalty with Underwater Devices. Underwater Devices must recognize that if they sue us, they might kill the goose that lays the golden eggs.

The last sentence of the opinion on willful infringement stated that the district court’s finding “in the totality of the circumstances presented in this case” was not clearly erroneous. *Underwater Devices Inc.*, 717 F.2d at 1390. This language, although seemingly insignificantly placed at the end of the decision, became the bone of contention in subsequent cases.<sup>4</sup>

However, the only authority cited for the “totality of the circumstances” proposition is *Milgo Electronic Corp. v. United Business Communications, Inc.*, 623 F.2d 645, 665 (10th Cir. 1980). This of course is the same case relied upon in *Underwater Devices* for the “affirmative duty” standard.

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<sup>3</sup> Similarly cynical advice that was the subject of another 1983 Federal Circuit decision on willful infringement prompted Judge Nichols to note in a concurring opinion that:

The letter closes with the cynical advice, which has caused so much amusement among readers for whom it was obviously not written, that if Hormel chose to go ahead and produce the questioned product, ‘as an added safety precaution,’ it should do so in the jurisdiction of the Eighth Circuit Court of Appeals. The writer says: “The Eighth Circuit has not held a patent either valid or infringed within recent history.’ He goes on to explain in detail where Hormel could operate and be within the Eighth Circuit’s domain. Hormel did not take this advice either: it operated, alas for it, in the Tenth Circuit.

*Central Soya Co., Inc. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1581 (Fed. Cir. 1983).

<sup>4</sup> However, this language was quoted “up front” in a subsequent 1983 opinion, *Central Soya Co., Inc.*, 723 F.2d at 1577, in affirming a finding of willful infringement:

It is necessary to look at “the totality of the circumstances presented in the case,” *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390, 219 U.S.P.Q. 569, 577 (Fed. Cir. 1983), in determining whether a reasonable person would prudently conduct himself with any confidence that the courts might hold the patent invalid.

However, interestingly, *Milgo* never discusses the “totality of the circumstances” standard in its willful infringement section. Instead it is discussed only in connection with the calculation of lost profits.<sup>5</sup>

### The Law of Willful Infringement In the Federal Circuit From 1985-1986

Presumably while potential infringers were contemplating their “affirmative duty” and likely reassessing their positions in pending cases, the Federal Circuit was reassessing its position on willful infringement. Of course, in the important decisions in the first two years the court merely affirmed district court findings of willful infringement.<sup>6</sup> However, the strong language used appeared to suggest that the Federal Circuit would take a very tough stance.

Nevertheless, in the middle of 1985, Judge Davis, writing for a panel including Senior Circuit Judge Skelton and Chief Judge Markey, issued *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853 (Fed. Cir. 1985). This case may have changed the direction of the court on the willful infringement issue. The Federal Circuit affirmed a district court finding of no willful infringement despite the absence of any non-infringement or invalidity opinion from counsel. In response to the patent owner’s suggestion that *Underwater Devices* compelled a finding of willful infringement under these circumstances, Judge Davis replied that:

However, as we stated in that case, the district court should always look at the totality of the circumstances. This includes whether Otari secured legal advice and whether it reasonably felt that its activities fell within its own claims which may have been patentably distinct.

*King Instrument Corp.*, 767 F.2d at 867.

Here, it seemed that the infringer had completely shirked its “affirmative duty” to obtain an opinion of counsel. Perhaps the infringer was successful because it did not rely on an opinion of counsel defense. In both *Central Soya* and *Underwater Devices* the court made note of the

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<sup>5</sup> The court, referring to the uncertainty inherent in assessing damages, stated that “[v]iewing the entire circumstances of the case, the damage assessment appears equitable and conservative.” *Milgo Electronic Corp.*, 623 F.2d at 665. Thus, to the extent that the language of “duty” and “totality of circumstances” are incompatible, this is not attributable to the Tenth Circuit.

<sup>6</sup> Perhaps one of the first to note this factor was the district court in *Corporate Communications Consultants, Inc. v. Columbia Pictures Industries, Inc.*, 576 F. Supp. 1429, 1438 (S.D. N.Y. 1983); see also Gholz, “Willful Infringement and ‘Magic Words’ — The Effect of Opinions of Counsel on Awards of Increased Damages and Attorney Fees”, 66 J.P.O.S. 598 (1984).

“cynical” advice offered in the relied upon opinions. Now, in *King Instrument*, we find out that perhaps if the opinions were never relied on (and therefore not produced) the infringers in the prior cases, like Otari, might have avoided being assessed increased damages.<sup>7</sup>

The court found that the infringer’s mistaken belief that having his own patent would shield it from infringing another patent was a factor in avoiding a finding of willful infringement.<sup>8</sup> If the infringer had sought the advice of counsel most certainly this facet of its defense would have been lost.

In *American Original Corp. v. Jenkins Food Corp.*, 774 F.2d 459 (Fed. Cir. 1985), the Federal Circuit affirmed another decision of a district court finding no willful infringement despite the absence of an opinion of counsel. In this case it was enough that when the infringer heard about the patent he asked a third party supplier to “proceed rapidly to aid them in avoiding a lawsuit involving [the] Marvin [patent]” and subsequently made changes “in the hope of avoiding infringement.” *American Original Corp.*, 774 F.2d at 465. The court found that:

Although the presence or absence of an opinion of counsel is pertinent evidence in determining good faith, the determination is based on “the totality of the circumstances presented in this case. . .” *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390, 219 U.S.P.Q. 569, 577 (Fed. Cir. 1983); see also *King Instrument*, slip op. at 32, 226 U.S.P.Q. at 412.

*American Original Corp.*, 774 F.2d at 465.

Judge Davis, who also wrote the *King Instrument* case, tried to explain in *dictum* in *Machinery Corp. of America v. Gullfiber AB*, 774 F.2d 467 (Fed. Cir. 1985), how “duty” in *Underwater Devices* became only a “factor” in *King Instrument*. Judge Davis explained that:

That opinion [*Underwater Devices*] held that breach of this duty is merely one of the factors to be considered in ascertaining an infringer’s state of mind. 717 F.2d at 1390, 219 U.S.P.Q. at 576. There is no *per se* rule that an opinion letter from patent counsel will necessarily preclude a finding of willful infringement, see e.g., *Central Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 220 U.S.P.Q. 490 (Fed. Cir. 1983) (an opinion letter must be written in good faith and not disregarded), nor is there a *per se* rule that the lack of such

<sup>7</sup> This concern has not escaped Chief Judge Markey who pointed out that, “[i]nfringers should not escape a finding of willfulness by merely denying themselves counsel’s advice while relying on opinions of lay-employees.” *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 231 U.S.P.Q. 191, 192 (Fed. Cir. 1986).

<sup>8</sup> Judge Markey in reviewing *King Instrument* points out “that someone has a patent right to exclude others from making the invention claimed in his patent does not mean that his invention cannot infringe claims of another’s patent broad enough to encompass, i.e., to dominate his invention.” *Rolls-Royce Ltd.*, 231 U.S.P.Q. at 191 n.9.

a letter necessarily requires a finding of willfulness. See e.g. *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 867, 226 U.S.P.Q. 402, 412 (Fed. Cir. 1985) (affirming the district court's finding of no willful infringement despite the failure of an infringer, who knew of the existence of the patent, to procure legal advice of counsel before the initiation of infringing activities).

*Machinery Corp. of America*, 774 F.2d at 472.

In *Radio Steel & Mfg. Co. v. MTD Products, Inc.*, 788 F.2d 1554, 1559 (Fed. Cir. 1986), Judge Friedman noted that the pre-1985 Federal Circuit cases relied on by the patent owner affirmed findings of willful infringement. This case involved an oral opinion given at a meeting by outside patent counsel without review of prior art or prosecution history. The court explained why it affirmed the finding of no willful infringement:

In those [pre-1985] cases we referred to the facts relating to opinions by patent counsel to explain why the factual finding in each case of willful infringement was not clearly erroneous. *Underwater Devices*, *supra* at 1390, 219 U.S.P.Q. at 576. 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.

*Radio Steel & Mfg. Co.*, 788 F.2d at 1559.

At this point one would likely feel quite confident that if he or she prevails on willful infringement in the district court, absent a very unusual finding there, he or she would prevail on the point at the Federal Circuit, whether or not willful infringement was found.<sup>9</sup> Even today this rule of thumb may have some useful value in predicting case outcome.

However, in June 1986 the Federal Circuit reversed a district court's failure to find willful infringement under circumstances that did not seem notably different from other decisions that were affirmed. *Kloster Speedsteel AB v. Crucible, Inc.*, 793 F.2d 1565 (Fed. Cir. 1986). This case was, however, similar to both *Central Soya* and *Underwater Devices* in that a somewhat damaging memorandum came up with regard to willful infringement.<sup>10</sup>

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<sup>9</sup> District courts were reversed or remanded in *State Industries, Inc. v. A.O. Smith Corp.*, 751 F.2d 1226 (Fed. Cir. 1985) (no patent had issued when the infringer began production); *Yarway Corp. v. Eur-Control USA, Inc.*, 775 F.2d 268 (Fed. Cir. 1985) (increase of damages without finding of willful infringement); *CPG Products Corp. v. Pegasus Luggage, Inc.*, 776 F.2d 1007 (Fed. Cir. 1985) (company continued infringing because it was a subsidiary of General Mills).

<sup>10</sup> Like the memorandum in both *Central Soya* and *Underwater Devices*, the memorandum here pointed out the advantages of forum shopping, asserting that "American courts have divergent attitudes toward patents and if this question goes to court, it is important that we take the initiative so that we can choose the right court." *Kloster Speedsteel AB*, 793 F.2d at 1578.

The Federal Circuit noted that the failure to rely on an opinion of counsel, "in alleged reliance on the attorney-client privilege", would warrant the conclusion that the infringer either obtained no advice or counsel or did so and was advised that its importation and sale of the accused products would be an infringement of valid U.S. patents. *Kloster Speedsteel AB*, 793 F.2d at 1580. While this position has a clear appeal, it must also be considered that in some circumstances counsel may fear the kind of intense scrutiny given to opinions of counsel in earlier cases. Also, client and counsel may in some circumstances be legitimately concerned about making trial counsel a material witness in the case.

The memorandum, written by a non-lawyer long before the infringing activity began and before one of the two patents issued, charted a course to challenge the patents based at least in part on conversations with patent counsel. It outlined patent validity investigations to be undertaken and assessed the possible damages if the company lost. However, the memorandum ambiguously noted that:

If enough solid prior art are [sic] found by them, we can bring an action against Crucible and begin to sell ASP-steel in the U.S.A. If the new patent claims, on the other hand, should be judged to be valid, we will be closed out of the American market for the foreseeable future.

*Kloster Speedsteel AB*, 793 F.2d at 1577.

The district court, according to Judge Markey, found that the memorandum: (1) was based on the infringer's assumption that it would be infringing, and (2) assumed that the patent is valid and infringed.<sup>11</sup> *Kloster Speedsteel AB*, 793 F.2d at 1578.

Since no patent had issued at the time of the memorandum, the infringer had no choice but to assume infringement. As to validity, it was clear that the memorandum presumed validity at least for discussion purposes but most clearly charted a strategy to try to show the patent was obvious. Nevertheless, the Federal Circuit found that the district court's underlying finding was that the infringer proceeded with its in-

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<sup>11</sup> In its own words, the district court stated that:

First, Dr. Hellman's memorandum was based upon the assumption that defendants were infringing plaintiff's patent claims, as to which assumption he stated "we have no possibilities for checking on this \*\*\*\*" Second, based upon the assumed premise that plaintiff's patents were valid and being infringed by defendants, Dr. Hellman charted a strategy to check patent validity; contest patent validity; and, in the process, to get defendant's products into the United States market. Finally, Hellman assessed the costs and prospects of litigation upon the further assumption that "the evaluation give the right result."

Crucible, Inc. v. Stora Kopparbergs, AB, 594 F. Supp. 1249, 1264 (W.D. Pa. 1984).

fringement on the assumption, as stated in the memorandum and found by the district court, that the patents were valid and would be infringed. *Kloster Speedsteel AB*, 793 F.2d at 1580. Of course, this stance preceded the infringing activity and there is nothing to indicate that the infringer continued in this state of mind up to the date when the infringement began.

Finally, in the most recent case involving no opinion of counsel, the Federal Circuit affirmed a failure to find willful infringement based on the finding that the infringer made bona fide efforts to avoid infringement by attempting to “design around” the claimed invention. *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 231 U.S.P.Q. 185, 191 (Fed. Cir. 1986). Chief Judge Markey explained that even though the patent owner’s arguments had “some merit”:

This court does not sit to reweigh the evidence presented to the district court, nor will it draw its own inferences, nor make its own findings. It will not reverse unless the inferences drawn and facts found by the trial court are on the full record so unsupported as to have been the result of clear error.

*Rolls-Royce Ltd.*, 231 U.S.P.Q. at 192. Absent a more clearly defined standard for willful infringement, the Federal Circuit appears to conclude that its hands are tied.

### *Conclusion*

It is clear that in most instances the Federal Circuit will affirm the district court’s finding on willfulness. However, in rendering advice to clients who do not have clearly competent opinions of counsel to rely on, this really gives little guidance in rendering sound advice in the period prior to a district court opinion.

Where the client has an opinion but the opinion is of doubtful or possibly negative value, an argument may exist for relying on attorney-client privilege while asserting other factors in defense of the willful infringement charge. One must keep in mind of course Judge Markey’s statement that a negative “conclusion” may be drawn from the failure to produce the opinion.

When counsel for the patentee can find opinions, or other documents, arguably showing that the infringer’s state of mind was one of disregard for the patent, the possibility of finding willfulness both in the court of appeals and the district court will be enhanced. Presumably, such documents always take on a “darker” tinge when examined after the conclusion has been reached that there is infringement.

In any case, a competent opinion of counsel will most likely avoid all of these problems. Thus, the cautious will continue to obtain timely,

thorough and competent opinions of counsel before embarking with new products.

Despite its somewhat uncertain birth, the "totality of the circumstances" standard for judging willful infringement is most certainly here to stay. Nevertheless, the case law still clearly leaves the Federal Court room to evolve either a "softer" or a "harder" policy on willful infringement, or to continue to decide each case on its own merits.

