

## WILLFUL PATENT INFRINGEMENT

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### I. INTRODUCTION

#### A. Basis in Law

This paper presents an overview of the current case law of willful infringement, as developed by the United States Court of Appeals for the Federal Circuit ("the Federal Circuit").

Historically, damages have been increased against an adjudged infringer when the infringement was found to be willful. *Yarway Corp. v. Eur-Control USA, Inc.*, 775 F.2d 268, 277, 227 U.S.P.Q. 352, 358 (Fed.Cir.1985). "If infringement be accidental or innocent, increased damages are not awardable for the infringement. If infringement be willful, increased damages 'may' be awarded at the discretion of the district court, and the amount of increase may be set in the exercise of that same discretion." *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580, 230 U.S.P.Q. 81, 91 (Fed.Cir.1986). The Federal Circuit in *Modine Manufacturing Co. v. The Allen Group Inc.*, 917 F.2d 538, 16 U.S.P.Q.2d 1622 (Fed.Cir.1990), stated that:

Modine seeks to overcome the difficult abuse of discretion standard of review by arguing that the trial judge's decision not to award enhanced damages disregards the jury's factual determination that the infringement was willful. This argument conveniently ignores our clear precedent that a finding of willful infringement merely authorizes, but does not mandate, an award of increased damages.

*Id.* at 543, 16 U.S.P.Q.2d at 1625. (emphasis in original).

The Patent Statute (Title 35, United States Code) is vague in that it provides no guidelines as to what constitutes willful infringement. However, one found to be infringing a valid patent may have damages increased "up to three times the amount found or assessed." 35 U.S.C. § 284.

\*284 Further, 35 U.S.C. § 285 provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." A finding of willful infringement has allowed the court to find the case exceptional and award attorney's fees. *Great Northern Corp. v. Davis Core & Pad Co.*, 782 F.2d 159, 167, 228 U.S.P.Q. 356, 360 (Fed.Cir.1986). The Federal Circuit in *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 228 U.S.P.Q. 367 (Fed.Cir.1986), stated that "[a]llowance of fees

only in exceptional cases is based on the premise that courts should attempt to strike a balance between the interest of the patentee in protecting his statutory rights and the interest of the public in confining such rights to their legal limits." *Id.* at 200, 228 U.S.P.Q. at 368. Further, "[w]illfulness of infringement relates to the accused infringer's conduct in the marketplace. Because that conduct may be seen as producing an unnecessary and outcome-certain law suit, it may make the case so exceptional as to warrant attorney fees under § 285." *Kloster*, 793 F.2d at 1580, 230 U.S.P.Q. at 91.

There does not have to be an accompanying award of attorney's fees for every case where increased damages have been awarded for willful infringement. *Paper Converting Machine Co. v. Magna-Graphics Corp.*, 785 F.2d 1013, 1016, 228 U.S.P.Q. 938, 940 (Fed.Cir.1986). "The measure of damages, as indeed the assessment of attorney fees, provides an opportunity for the trial court to balance equitable concerns as it determines whether and how to recompense the successful litigant." *S.C. Johnson*, 781 F.2d at 201, 228 U.S.P.Q. at 369.

#### B. Standard of Review/Standard of Proof

Willful infringement is a question of fact reviewed under the clearly erroneous standard. *State Indus. v. Mor-Flo Indus.*, 883 F.2d 1573, 1581, 12 U.S.P.Q.2d 1026, 1032 (Fed.Cir.1989); *Underwater Devices, Inc. v. Morrison- Knudsen Co.*, 717 F.2d 1380, 1389, 219 U.S.P.Q. 569, 576 (Fed.Cir.1983). The "clearly erroneous" standard is satisfied when although there is evidence to support it, the reviewing court is left with the definite and firm conviction that a mistake has been committed. *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101, 1104, 231 U.S.P.Q. 185, 187 (Fed.Cir.1986). An award of increased damages for willful infringement is within the discretion of the trial court and will not be overturned absent a clear showing of an abuse of discretion. *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 860, 226 U.S.P.Q. 402, 411 (Fed.Cir.1985).

The standard of proof for willful infringement is not a preponderance of the evidence, as the plaintiff argued in \*285E.I. *du Pont de Nemours & Co. v. Phillips Petroleum Co.*, 849 F.2d 1430, 1440, 7 U.S.P.Q.2d 1129, 1137 (Fed.Cir.1988). Instead, to establish willful infringement, a plaintiff must prove by clear and convincing evidence that the defendant acted with no reasonable basis for believing it had the right to do so. *State v. Mor-Flo*, 883 F.2d at 1581, 12 U.S.P.Q.2d at 1032.

#### C. Definition

The Federal Circuit defined willful infringement in *Stickle v. Hublein, Inc.*, 716 F.2d 1550, 219 U.S.P.Q. 377 (Fed.Cir.1983):

With respect to the court's finding of deliberate and willful infringement, more is necessary to support a finding of "willfulness" than that the infringing acts were not

inadvertent. The court must determine that the infringer acted in disregard of the patent, that is, that the infringer had no reasonable basis for believing it had a right to do the acts.

Id. at 1565, 219 U.S.P.Q. at 388.

#### D. Purpose of Increased Damages

With regard to the purpose of an award of increased damages the Federal Circuit has held:

"Willfulness" in infringement, as in life, is not an all-or-nothing trait, but one of degree. It recognizes that infringement may range from unknowing, or accidental, to deliberate, or reckless, disregard of a patentee's legal rights. The role of a finding of "willfulness" in the law of infringement is partly as a deterrent--an economic deterrent to the tort of infringement--and partly as a basis for making economically whole one who has been wronged, for example by assessment of attorney fees under 35 U.S.C. § 285.

Rite-Hite Corp. v. Kelley Co., 819 F.2d 1120, 1125-26, 2 U.S.P.Q.2d 1915, 1919 (Fed.Cir.1987). However, the Federal Circuit has clearly embraced the punitive purpose as the sole reason for increased damages. In Beatrice Foods Co. v. New England Printing and Lithographing Co., 923 F.2d 1576, 17 U.S.P.Q.2d 1553 (Fed.Cir.1991), the Federal Circuit stated that "[u]nder our cases, enhanced damages may be awarded only as a penalty for an infringer's increased culpability, namely willful infringement or bad faith. Damages cannot be enhanced to award the patentee additional compensation to rectify what the district court views as an inadequacy in the actual damages awarded." Id. at 1579, 17 U.S.P.Q.2d at 1555; see also 5 D. Chisum, Patents, § 20.03[4][b][v] 1988.

#### E. Federal Circuit Overview

It is clear that in determining willful infringement the Federal Circuit looks to the "totality of the circumstances." State v. Mor-Flo, 883 F.2d at 1581, 12 U.S.P.Q.2d at 1032. There are to be no hard and fast rules. Id., 12 U.S.P.Q.2d at 1032. The Federal Circuit does not look at one specific factor, the presence or absence of which requires a finding \*286 of willful infringement vel non. However, a key factor is the existence of a competent opinion of counsel.

The current Federal Circuit standard of conduct for willfulness is "whether, under all the circumstances, a reasonable person would prudently conduct himself with any confidence that a court might hold the patent invalid or not infringed." Id., 12 U.S.P.Q.2d at 1032.

In spite of these somewhat vague standards, the Federal Circuit has provided substantial guidance in determining the type of conduct which may lead to a finding of willful infringement.

## II. FACTORS IN THE TOTALITY OF CIRCUMSTANCES APPROACH

### A. Notice of Patent by Infringer

An alleged infringer's affirmative duty to exercise due care with respect to the patent rights of another begin when the alleged infringer receives actual notice of the patentee's rights. *Underwater Devices, Inc. v. Morrison- Knudsen Co.*, 717 F.2d 1380, 1389, 219 U.S.P.Q. 569, 576 (Fed.Cir.1983).

The alleged infringer's affirmative duty to exercise due care begins when the patentee puts the alleged infringer on notice of the patent with, e.g., a cease and desist letter, or an offer to license. *Underwater Devices*, 717 F.2d at 1384-85, 1389, 219 U.S.P.Q. at 572, 576; see also *Ralston Purina Co. v. Far-Mar-Co.*, 772 F.2d 1570, 1577, 227 U.S.P.Q. 177, 181 (Fed.Cir.1985). However, knowledge of the patentee's rights can also come from third parties. *Great Northern Corp. v. Davis Core & Pad Co.*, 782 F.2d 159, 166-67, 228 U.S.P.Q. 356, 360 (Fed.Cir.1986).

In *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 225 U.S.P.Q. 634 (Fed.Cir.1985), the Federal Circuit affirmed a district court finding of no willful infringement. *Shatterproof* contended on appeal that "the record conclusively established willful infringement as a matter of law, based on LOF's (defendant's) admission that it was aware of both the patents in suit prior to the sale of any infringing product." *Id.* at 628, 225 U.S.P.Q. at 644. LOF successfully argued that it did not have actual notice of the *Shatterproof* patent, and responded that "its awareness of the patents was only 'technical,' and that its patent staff routinely monitors patent activity in all areas of glass technology, but that its key people on the ... project were not aware of the patents until this litigation arose." *Id.*, 225 U.S.P.Q. at 644.

Once an alleged infringer has notice of the patent, it must immediately begin to discharge this affirmative duty to exercise due care. In *Ralston Purina*, the Federal Circuit rejected an argument by the defendant that \*287 an alleged infringer must be allowed a certain amount of time to develop willfulness. 772 F.2d at 1577, 227 U.S.P.Q. at 181.

### B. Opinion of Counsel

#### 1. Existence and Timing of Opinion

Early Federal Circuit cases that dealt with the existence and timing of opinion of counsel are contradictory to the present Federal Circuit position. These early cases held that obtaining an opinion of counsel was mandatory and that the timing of the opinion was critical.

In *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 219 U.S.P.Q. 569 (Fed.Cir.1983), the Federal Circuit first addressed the issue of an alleged infringer obtaining opinion of counsel after becoming aware of the patent. The alleged infringer did not obtain competent legal advice before commencing infringing activity. In regard to an alleged infringer's affirmative duty of due care, the Federal Circuit stated that "[s]uch 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." *Id.* at 1390, 219 U.S.P.Q. at 576 (emphasis in original); see also *Rosemount, Inc. v. Beckman Instruments, Inc.*, 727 F.2d 1540, 1548, 221 U.S.P.Q. 1, 8 (Fed.Cir.1984).

A softening in the Federal Circuit's position in *Underwater Devices* appeared in *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 225 U.S.P.Q. 634 (Fed.Cir.1985). The defendant was aware of plaintiff's patents before its infringing activity and did not seek advice of counsel. However, the district court found no willful infringement without giving a specific reason. On appeal, the Federal Circuit affirmed, stating:

Willfulness of infringement is a question of fact. The issue was comprehensively argued before the district court. The trial judge denied without opinion Shatterproof's motion to increase the damage award, and we do not have his detailed views on this question. The jurisprudence, however, uniformly requires clear and convincing evidence in support of increased damages. A record devoid of opinions of counsel and silent on LOF's reaction to the existence of the Shatterproof patents may indeed lead to negative inferences, and the case for willfulness was dependent on determinations of credibility and motivation which were placed in issue at trial, and which are the province of the trier of fact.

*Id.* at 628, 225 U.S.P.Q. at 644.

Similarly, in *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 226 U.S.P.Q. 402 (Fed.Cir.1985), the Federal Circuit did not follow *Underwater Devices*. On appeal, King cited *Underwater Devices* for the proposition that Otari had an affirmative duty to seek and obtain legal advice \*288 from counsel before the initiation of possible infringing activities. In reply, the Federal Circuit stated:

However, as we stated in that case, the district court should always look at the totality of circumstances. This includes whether Otari secured legal advice and whether it reasonably felt that its activities fell within its own claims which may be patentably distinct. While irrelevant in an infringement analysis, these factors can be considered by the trier in determining Otari's intent in connection with a decision on willfulness *vel non*. *Id.* at 867, 226 U.S.P.Q. at 412.

Subsequently, in *American Original Corp. v. Jenkins Food Corp.*, 774 F.2d 459, 227 U.S.P.Q. 299 (Fed.Cir.1985), the Federal Circuit affirmed the district court's finding of no willful infringement in holding that the presence or absence of an attorney's opinion is only pertinent evidence in determining good faith. *Id.* at 465, 227 U.S.P.Q. at 303.

Having received notice of the patent, current Federal Circuit case law does not per se require an alleged infringer to obtain an opinion from counsel as to either the validity of the patent or infringement thereof. Instead, obtaining an opinion of counsel is the normal thing to do. *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101, 1109, 231 U.S.P.Q. 185, 191 (Fed.Cir.1986).

In *Rolls-Royce*, the district court refused to find willful infringement and the Federal Circuit affirmed. The district court found GTE did not obtain advice of counsel as to infringement, but that GTE was very conscious of the need not to infringe, had a heightened sensitivity to the *Rolls-Royce* patents, and made bona fide efforts to design around the claimed invention. In the totality of circumstances approach, these factors were apparently sufficient to offset the fact that no opinion of counsel was obtained. The Federal Circuit stated:

It is by now well settled that where a potential infringer has actual notice of another's patent rights he has an affirmative duty of due care. (citations omitted). That affirmative duty will normally entail the obtaining of competent legal advice of counsel before infringing or continuing to infringe; that does not mean, however, that absence of an opinion of counsel alone requires in every case a finding of willful infringement. As this court stated in *Kloster* (citation omitted): "Though it is an important consideration, not every failure to seek an opinion of competent counsel will mandate an ultimate finding of willfulness."

*Id.* at 1109, 231 U.S.P.Q. at 191. (emphasis in original).

However, the Federal Circuit in *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 2 U.S.P.Q.2d 1915 (Fed.Cir.1987), stated that "[t]here is no per se rule that an opinion letter from patent counsel will necessarily preclude a finding of willful infringement." *Id.* at 1125, 2 U.S.P.Q.2d at 1918-19.

\*289 In *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 230 U.S.P.Q. 81 (Fed.Cir.1986), a non-lawyer technical expert of the alleged infringer wrote an internal memo which the Federal Circuit described as clearly showing that the alleged infringer intentionally undertook the risk of importing infringing products in the hope that a court would hold the patent invalid, or that the patentee would grant a license. The district court felt the memo evidenced an aggressive strategy of contesting patents. However, the alleged infringer told the patentee it felt the patents were invalid in view of certain prior art. The Federal Circuit held that this cannot substitute for the advice of competent counsel before the onset of infringement, and further that it was contrary to the memo. *Id.* at 1580, 230 U.S.P.Q. at 91.

In *Jurgens v. McKasy*, 927 F.2d 1552, 18 U.S.P.Q.2d 1031, (Fed.Cir.1991), *McKasy* was a distributor of *CBK*. *McKasy* received a letter of assurance from *CBK*, informing *McKasy* that *CBK* had obtained an opinion of counsel that the patent was invalid and not infringed. No copy of the opinion accompanied *CBK*'s assurance letter, and *McKasy* did not investigate further. Moreover, although *McKasy* did temporarily stop selling the infringing products, he started selling again after receiving an indemnity agreement from

CBK--still without advice of counsel. The Federal Circuit held that "[u]nder these circumstances, the judge did not abuse his discretion in doubling the patent damages award against McKasy." *Id.* at 1562, 18 U.S.P.Q.2d at 1039.

The Federal Circuit has had occasion to deal with an oral opinion of counsel. In *Radio Steel & Mfg. Co. v. MTD Products, Inc.*, 788 F.2d 1554, 229 U.S.P.Q. 431 (Fed.Cir.1986), counsel did not review the prior art nor did he obtain the prosecution history of Radio Steel's patent prior to rendering his opinion. Counsel concluded that the accused wheel-barrow literally infringed the Radio Steel patent but that the patent was invalid. He also suggested a design modification to avoid infringement.

On appeal, Radio Steel argued that under prior relevant Federal Circuit decisions (citations omitted) "an infringer may not in good faith, justifiably rely on the opinion of counsel and proceed in the face of a known patent unless counsel's advice is 'competent,' 'authoritative,' or 'contains sufficient internal indicia of credibility to remove any doubt that (the infringer) in fact received a competent opinion.'" *Id.* at 1558-59, 229 U.S.P.Q. at 434. The Federal Circuit replied:

As we have indicated, however, the various factors we have discussed in those cases are just that: factors the district court is to consider in determining willfulness....

....  
\*290 In those 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. (citation omitted). We have never suggested that unless the opinion of counsel met all of those requirements, the district court is required to find the infringement was willful.

*Id.* at 1559, 229 U.S.P.Q. at 434-35.

Radio Steel argued that MTD could not reasonably have relied upon the opinion because it was oral and not based upon even a cursory study of the patent's prosecution history or prior art. The Federal Circuit held, notwithstanding, that MTD made and sold its wheelbarrow in the good faith belief that it was not infringing the Radio Steel patent. The Federal Circuit did shed some light as to oral opinions:

This is not a case in which an outside patent attorney 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. In the present case, however, the district court considered the factors on both sides and concluded that MTD's infringement was not willful. We cannot reverse that determination as clearly erroneous.

*Id.* at 1559, 229 U.S.P.Q. at 435.

## 2. Adequacy of Opinion

The Federal Circuit has formed some substantial guidelines as to the adequacy of counsel opinion. In particular, the Federal Circuit closely looks at counsel opinion to determine if it is competent legal advice upon which an alleged infringer can justifiably rely.

In *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 219 U.S.P.Q. 569 (Fed.Cir.1983), the Federal Circuit laid out the requirements for an adequate opinion of counsel:

Although the December 1973 memorandum may be considered legal advice, it was not legal advice upon which the appellant was justified in relying, since it was not based on an evaluation of the validity or infringement of the Robley patents. The May 1974 memorandum is similarly inadequate. It contains only bald, conclusory and unsupported remarks regarding validity and infringement of the Robley patents. 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.

*Id.* at 1390, 219 U.S.P.Q. at 577.

In *Central Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 220 U.S.P.Q. 490 (Fed.Cir.1983), counsel opinion was to the extent that \*291 "there is a reasonably good chance that the patent might be held invalid." The opinion was based solely on a review of the prior art appearing in the patent file's history. The Federal Circuit stated "[i]n short, the attorney's 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." *Id.* at 1576-77, 220 U.S.P.Q. at 492; see also *Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.*, 761 F.2d 649, 656, 225 U.S.P.Q. 985, 989 (Fed.Cir.1985).

In *Datascope Corp. v. SMEC, Inc.*, 879 F.2d 820, 11 U.S.P.Q.2d 1321 (Fed.Cir.1989), the Federal Circuit looked at the four corners requirements for a competent opinion of counsel set out in *Underwater Devices* when it reversed the district court's ruling of no willful infringement. The Federal Circuit found that the opinion ignored the question of infringement under the doctrine of equivalents. "[A]n opinion on equivalents in this case would have been impossible, SMEC's attorneys never having ordered, let alone consulted, the '339 [patent]'s prosecution history before rendering their opinion." *Id.* at 828, 11 U.S.P.Q.2d at 1327.

### 3. Reliance on Opinion

Notwithstanding the thoroughness of counsel's opinion, the alleged infringer must prove that he or she relied on that opinion. In other words, the alleged infringer must prove

that he or she followed the advice in the opinion. "[W]e agree that reliance is an important factor in determining good faith." *Central Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1577, 220 U.S.P.Q. 490, 492 (Fed.Cir.1983). In that case counsel's opinion advised the defendant as to certain parameters for its manufacturing process so as to avoid infringement. However, the defendant waited two years to determine whether it complied with counsel's advice. In affirming a finding of willful infringement, the Federal Circuit stated:

Such inaction is inconsistent with the assertion of good faith reliance.... Hormel's intentional disregard of its counsel's opinion negates any inference of good faith, placing Hormel in the same position as one who failed to secure the advice of counsel. (citation omitted).

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 1577, 220 U.S.P.Q. at 493.

#### 4. Use of In-house Counsel

The Federal Circuit first addressed the issue of an opinion rendered \*292 by in-house counsel in *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 219 U.S.P.Q. 569 (Fed.Cir.1983) when it stated:

[The defendant] M-K knew that the attorney from whom it sought advice was its own in-house counsel. While this fact alone does not demonstrate M-K's lack of good faith, it is a fact to be weighed. (citations omitted). In addition, M-K knew or should have known that Mr. Schlanger was not a patent attorney. Again, this fact alone is not controlling, but does bear on the question whether M-K, when it sought advice, did so in good faith.

Id. at 1390, 219 U.S.P.Q. at 576.

In *Studiengesellschaft Kohle m.b.H. v. Dart Indus.*, 862 F.2d 1564, 9 U.S.P.Q.2d 1273 (Fed.Cir.1988), the master found that Dart willfully infringed the plaintiff's patent. However, the district court judge reversed the master's finding. The Federal Circuit affirmed.

The district court found that Dart's in-house patent attorney, Valles, discovered the plaintiff's patent while monitoring the technical field. Valles did a pre-infringement investigation and rendered opinions. As to the master's finding of willful infringement, two of the master's four principal reasons for such a finding concerned Dart's use of in-house counsel instead of outside counsel.

Judge Wright carefully reviewed the master's report and concluded that the master had, in effect, "imposed a requirement that Dart use outside counsel unless Dart could prove why outside counsel was not required in this case." Judge Wright concluded that the master committed a basic error of law when he stated: "Dart appears to have followed

the policy of getting an [outside] opinion when it feared the patent holder would enforce its rights or it was going to be sued for failure to take a license. This 'policy' does not conform to the requirement of the law." (citations omitted). Judge Wright reasoned that there are no particular requirements in a totality of circumstances determination and that creating such a requirement is an error of law. He explained:

Though the master is correct that the use of in-house counsel is a factor to be weighed, he is incorrect when he approaches the factor with the view that use of in-house counsel is inherently wrong. (citations omitted). ("Just because an attorney is in-house counsel does not mean that his opinions are inherently suspect."). Just as the overall determination of willfulness is dependent on the totality of circumstances, so too should the infringer's decision to use a particular counsel be viewed on a case by case basis.

Id. at 1573-75, 9 U.S.P.Q.2d at 1282-83.

## 5. Reliance on Attorney/Client Privilege

In going forward in its defense in an action for infringement, the defendant on occasion has relied on the attorney-client privilege as a reason for not setting forth an opinion of counsel into evidence. The Federal Circuit first dealt with this issue in *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 230 U.S.P.Q. 81 (Fed.Cir.1986). The district court \*293 made no specific finding of willful infringement and the Federal Circuit viewed this absence as an implied finding of no willful infringement. However, the Federal Circuit reversed and found willful infringement. The alleged infringer was silent as to whether it obtained advice of counsel and the Federal Circuit construed this silence against the alleged infringer, stating that "Stora's silence on the subject, in alleged reliance on the attorney- client privilege, would warrant the conclusion that it either obtained no advice of 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." Id. at 1580, 230 U.S.P.Q. at 91.

However, in *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 2 U.S.P.Q.2d 1915 (Fed.Cir.1987), the Federal Circuit affirmed a finding of no willful infringement when it did not construe the absence of counsel opinion against the infringer.

In *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 7 U.S.P.Q.2d 1606 (Fed.Cir.1988), the Federal Circuit returned to its position in *Kloster*. In *Fromson*, the liability and damages aspects were tried together. Western had refused to answer interrogatories on whether it obtained counsel opinion before it began infringement, or on the content of such opinion, saying it would disclose such matters only if it were found liable for infringement at trial, in essence suggesting a separate trial on willfulness, i.e., as part of a separate trial on damages. The Federal Circuit stated:

That approach may be useful in meeting the attorney-client privilege problem. Here, however, willfulness and damages were tried with liability, and Western did not offer an opinion of counsel. Where the infringer fails to introduce an exculpatory opinion of counsel at trial, a court must be free to infer that either no opinion was obtained or, if an

opinion were obtained, it was contrary to the infringer's desire to initiate or continue its use of the patentee's invention.

Id. at 1572-73, 7 U.S.P.Q.2d at 1611.

### C. Copying of Patent

The Federal Circuit has viewed deliberate copying of the patented design, either literally or under the doctrine of equivalents, as major evidence of willful infringement. *State Indus. v. Mor-Flo Indus.*, 883 F.2d 1573, 12 U.S.P.Q.2d 1026 (Fed.Cir.1989); *Kaufman Co. v. Lantech, Inc.*, 807 F.2d 970, 1 U.S.P.Q.2d 1202 (Fed.Cir.1986).

#### 1. Attempts to Design Around

Even though infringement is found, one factor that may negate willfulness is a bona fide attempt by the alleged infringer to design around the patent. *\*294 Yarway Corp. v. Eur-Control USA, Inc.*, 775 F.2d 268, 227 U.S.P.Q. 352 (Fed.Cir.1985), represented an attempt by the alleged infringer to design around a patent that a sister company of the alleged infringer had licensed to the plaintiff/licensee. The district court held the infringement nonwillful, but further held that the defendants acted in bad faith in attempting to circumvent the license agreement and, thus, increased damages against the defendants based solely on the bad faith. The Federal Circuit reversed, stating:

This court has indicated that the incentive to "design around" patents is a positive result of the patent system.... One of the benefits of a patent system is its so called "negative incentive" to "design around" a competitor's products, even when they are patented, thus bringing a steady flow of innovations to the marketplace. It should not be discouraged by punitive damage awards except in cases where conduct is so obnoxious as clearly to call for them.

Id. at 277, 227 U.S.P.Q. at 358-59; see also *Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 3 U.S.P.Q.2d 1412 (Fed.Cir.1987).

In *State Indus. v. A.O. Smith Corp.*, 751 F.2d 1226, 224 U.S.P.Q. 418 (Fed.Cir.1985), the Federal Circuit reversed a finding of willful infringement. There, State obtained a patent (the '077 patent) on its device which it marketed. Smith obtained one of State's products which had a patent applied for notice and carefully examined and tested it. Smith then designed its own product which had a structure that differed from State's and filed a patent application and subsequently obtained a patent on it (the '355 patent). State viewed Smith's product and then filed a CIP application and subsequent amendment with claims covering Smith's product, the CIP eventually issuing into the patent (the '879 patent) containing the claims in suit. State was able to obtain for those claims the filing date of its earlier '077 patent. The Federal Circuit stated:

Thus, we see the familiar picture of competitors competing, one trying to match a new product of the other with a new product of its own, not copied but doing the same job,

and the other manipulating its secret pending patent application to cover the functionally competitive structure it did not think of but deems to embody its proprietary "inventive concept." This is a classic commercial gamesmanship under the patent system but it is not the kind of behavior courts have categorized in the past as willful infringement, which requires knowledge of the patent.

Conduct such as Smith's, involving keeping track of a competitor's products and designing new and possibly better or cheaper functional equivalents is the stuff of which competition is made and is supposed to benefit the consumer.

Id. at 1235-36, 224 U.S.P.Q. at 424 (emphasis in original).

#### D. Activities Begun Prior to Patent Issuance

An interesting issue, first dealt with in *State Indus. v. A.O. Smith Corp.*, 751 F.2d 1226, 224 U.S.P.Q. 418 (Fed.Cir.1985) arises when the alleged infringer begins his or her activities, later determined to be \*295 infringing, prior to patent issuance. In *State*, the Federal Circuit reversed the district court's finding of willful infringement. Until *State* commenced suit, the only information that Smith had as to any patent position of *State* was a "Patent Applied For" notice in *State's* product literature. In this regard, the Federal Circuit stated:

To willfully infringe a patent, the patent must exist and one must have knowledge of it. A "patent pending" notice gives one no knowledge whatsoever. It is not even a guarantee that an application has been filed. Filing an application is no guarantee any patent will issue and a very substantial percentage of applications never result in patents. What the scope of claims in patents that do issue will be is something totally unforeseeable.

Id. at 1236, 224 U.S.P.Q. at 425. (emphasis in original). The Federal Circuit further stated that "[u]ntil *State* got the '879 patent, 22 days before suit, Smith had a perfect right to make and sell its LIME TAMER, without question, because *State* had no 'patent rights' which covered it. (citation omitted). A patent has no retroactive effect." Id. at 1237, 224 U.S.P.Q. at 425; see also *American Original Corp. v. Jenkins Food Corp.*, 774 F.2d 459, 465, 227 U.S.P.Q. 299, 302-03 (Fed.Cir.1985).

However, in *Power Lift, Inc. v. Lang Tools, Inc.*, 774 F.2d 478, 227 U.S.P.Q. 435 (Fed.Cir.1985), the Federal Circuit affirmed a finding of willful infringement. Here, only nine days elapsed between the issuance of the patent and the filing of the infringement suit. Understandably, Lang cited *State v. Smith*, but the Federal Circuit distinguished the cases:

The difference between this case and *Smith* is that *Smith's* first notice of the 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.

Id. at 482, 227 U.S.P.Q. at 438.

Indeed, the clincher was that, immediately after issuance of the patent, the plaintiff contacted Lang and offered him a license, alleging that Lang was infringing the patent. Lang refused, stating " 'before he would pay [Power Lift] a nickel, he'd see [Power Lift] in the courthouse,' and decided not to stop production of its lift system." Id., 227 U.S.P.Q. at 438.

In *Shiley, Inc. v. Bentley Laboratories, Inc.*, 794 F.2d 1561, 230 U.S.P.Q. 112 (Fed.Cir.1986), the Federal Circuit affirmed a holding of willful infringement and clarified *State v. Smith*, stating "State does not, as Bentley contends, hold that a finding of willful infringement can not stand whenever manufacture of an accused device begins prior to the issuance of a patent. On the contrary, State is in harmony with our prior and subsequent case law, which looks to the 'totality of the circumstances \*296 presented in the case.'" (citation omitted). Id. at 1568, 230 U.S.P.Q. at 115.

Similarly, the Federal Circuit affirmed a finding of willful infringement in *Kaufman Co. v. Lantech, Inc.*, 807 F.2d 970, 1 U.S.P.Q.2d 1202 (Fed.Cir.1986). The lower court found that Kaufman copied the claimed subject matter of the patent before the patent issued. Two weeks after it issued, Kaufman received an infringement notice and two weeks after that Kaufman filed its declaratory judgment action. Kaufman continued to infringe for roughly four months after the patent issued. The Federal Circuit held that the mere fact that Kaufman brought suit is not evidence that there was a reasonable basis for its infringing activity. Also, the president of Kaufman told an executive of Lantech "that he would copy any machine that his customers requested, regardless of whether or not a patent was issued." Id. at 979, 1 U.S.P.Q.2d at 1208-09. Again, a statement like this (similar to the one in *Power Lift*) evidences a total intentional disregard by the alleged infringer for the rights of the patentee, the Federal Circuit appearing to place emphasis on such a statement in making its willfulness determination.

In *Avia Group Int'l Inc. v. L.A. Gear Cal. Inc.*, 853 F.2d 1557, 7 U.S.P.Q.2d 1548 (Fed.Cir.1988), the Federal Circuit affirmed the district court's finding of willful infringement on summary judgment, stating "[t]he fact that an infringer may have started its infringement before the patents issued or before it was aware of the patents does not bar an award of increased damages or attorney fees." Id. at 1566, 7 U.S.P.Q.2d at 1556.

More recently, in *Gustafson Inc. v. Intersystems Industrial Products Inc.*, 897 F.2d 508, 13 U.S.P.Q.2d 1972 (Fed.Cir.1990), the Federal Circuit reversed a finding of willful infringement. Here, the defendant was aware of the plaintiff's patents only as of the date on which suit was filed on each. Id. at 510, 13 U.S.P.Q.2d at 1975. The Federal Circuit stated:

It is obvious that a party cannot be held liable for "infringement," and thus not for "willful" infringement, of a nonexistent patent, i.e., no damages are payable on products manufactured and sold before the patent issued. Whether an act is "willful" is by definition a question of the actor's intent, the answer to which must be inferred from all the circumstances. Hence a party cannot be found to have "willfully" infringed a patent

of which the party had no knowledge. Nor is there a universal rule that to avoid willfulness one must cease manufacture of a product immediately upon learning of a patent, or upon receipt of a patentee's charge of infringement, or upon the filing of suit. Exercising due care, (citation omitted), a party may continue to manufacture and may present what in good faith it believes to be a legitimate defense without risk of being found on that basis alone a willful infringer. That such a defense proves unsuccessful does not establish that infringement was willful ...

\*297 In our patent system, patent applications are secret, and patentees are authorized to sue "innocent" manufacturers immediately after their patents issue and without warning. To hold such patentees entitled to increased damages or attorney fees on the ground of willful infringement, however, would be to reward use of the patent system as a form of ambush.

Id. at 510-11, 13 U.S.P.Q.2d at 1974-75. (emphasis in original).

### III. CONCLUSION

The Federal Circuit, in unifying the U.S. patent laws, has created a pro- patent system. As a result, large damage awards emanating in the district courts have been upheld by the Federal Circuit. Today one must consider the real possibility of having damages against him or her tripled along with an award of attorney's fees as a result of being found a willful infringer. Thus, it is important to understand the Federal Circuit's "totality of circumstances" approach to a finding of willful infringement.

From this approach, it is clear that just because an alleged infringer has in-hand a competent opinion of counsel does not guarantee a finding of no willful infringement. Conversely, just because the alleged infringer has not obtained counsel opinion does not mean that he or she will be found to have willfully infringed. However, the preferable position is to obtain an opinion of counsel.

For an opinion of counsel to be competent the opinion should be carefully reasoned, preferably from a patent attorney, and contain: [1] a detailed literal infringement analysis that compares and contrasts the claims of the patented invention with the potentially infringing method or apparatus; [2] a claim analysis under the doctrine of equivalents based on a review of the prosecution history of the patent; [3] a detailed validity analysis which includes an analysis of the prosecution file history of the patent along with further analysis of other prior art not cited in the file history. Without such detailed supporting analysis in the opinion it is difficult for a defendant to show reasonable reliance on an opinion primarily conclusory in nature. It is also wise to embody the opinion in writing.

Whether the opinion comes from in-house counsel or outside counsel, and whether counsel is a patent attorney are additional factors to be weighed. These factors go to whether the attorney is capable of rendering an independent (unbiased) and competent opinion. In-house counsel may be able to give competent, objective advice because of

greater technical product knowledge and experience. In-house counsel and outside counsel may work together in formulating the opinion, thereby taking advantage of the strengths and positions of each.

Under certain circumstances the withholding of counsel opinion in reliance on the attorney-client privilege could warrant the drawing of \*298 adverse inferences therefrom regarding willfulness. However, it may be possible for an alleged infringer to bifurcate the issues of liability and willfulness and safely withhold opinion of counsel at the liability portion of trial until validity and infringement are proved.

In sum, if the alleged infringer seeks and obtains a competent opinion of counsel that his or her activity is not infringing and/or that the patent is invalid, and the alleged infringer relies in good faith on that opinion, then the alleged infringer will not likely be found to willfully infringe the patent.

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