



PLI'S NINTH ANNUAL INSTITUTE FOR INTELLECTUAL  
PROPERTY LAW

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# Monitoring The U.S. Patents of Competitors: The Willfulness Risks To The Innovator<sup>1</sup>

By

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## I. THE PROBLEM

If you think that an innovator can look at the U.S. patents of its competitors without incurring any legal liability, you are wrong!

When an innovator searches the U.S. patents of competitors and others, the innovator faces the real risk that it must have an expensive and time consuming legal opinion prepared by a competent patent specialist in order to shield itself from willful infringement of the patent in a later dispute. A finding of willfulness allows the judge in her discretion to award damages up to three times actual damages. In “exceptional” cases, including many times a case where willful infringement has been found, the Judge may award attorney fees. Because of this threat, many innovators, especially smaller ones, deliberately do not investigate the patents of their competitors under a calculus that makes better business sense to be ignorant with financial resources as opposed to informed but broke due to the resultant attorney fees required for the legal opinions.

The bargain on which the patent system is based is that the inventor receives exclusive rights to make, use, sell and import the invention.<sup>4</sup> In exchange the inventor must disclose the invention in a form and degree that allows a person of ordinary skill in the art to make and use it without undue experimentation. The supposed benefit for the public is that this bargain encourages inventors to disclose inventions rather than keep them as trade secrets. The innovators benefit because they can build on the work of those patent owners who come before without “reinventing the wheel.” The patent owner can license the innovator under the earlier patent in order to be adequately compensated for its earlier innovation. And the public benefits by accelerated innovation that produces superior products and services at lower prices.

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<sup>1</sup> This paper is intended to promote thought and discussion and to foster change. It is not intended to describe the views or practices of the authors or of Sterne, Kessler, Goldstein & Fox P.L.L.C. The views and thoughts expressed herein should not be attributed to Sterne, Kessler, Goldstein & Fox P.L.L.C. or any of its present or former clients. Information on the firm is available on the web at [www.skgf.com](http://www.skgf.com). Copyright 2003 SKGF. All rights reserved.

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<sup>4</sup> Technically, the right conferred to a patent owner is the right to exclude others from making, using, selling, or importing the invention protected by the patent.

So under this framework, it would seem logical to assume that the innovator could research to his hearts delight the work of those who have obtained earlier U.S. patents as a learning platform from which to innovate. Supporters of a strong U.S. patent system routinely tout this learning benefit as a way to encourage enhanced innovation.

An innovator cannot freely research the U.S. patents of competitors. This defies conventional logic. In short, the public has entered into a contract with the owners of patents for disclosure of the patent information. Unfortunately, the public does not receive the benefit of the bargain for the grant of the right to exclude. This article examines the problem from a practical point of view by showing how the law reached this state and how the rules around this legal area are applied and could be changed. This is not a scholarly paper on the subject - - the authors and several others have written such papers in the past and the reader is directed to this body of work for the detailed historical analysis.<sup>5</sup>

## II. THE FACTORS

An examination of the statutes and the case law on this subject reveals several legal factors that pertain to the calculus of whether willfulness exists and whether enhanced damages and/or attorney fees should be awarded. While these principles may help the reader understand some of the basic rules articulated by the courts, they do nothing to further the innovator's need to understand what behavior it must follow in order to ensure greatest innovation, business stability and shareholder value.

The overarching principle proclaimed by the courts is that there are no hard and fast rules when a court is evaluating the issue of willful infringement. Instead the courts must look at the "totality of the circumstances"<sup>6</sup>. This test sounds eminently reasonable but has in practice devolved into a frenzy of lawyer gamesmanship. Courts often wax poetic about the following factors just prior to a finding willful infringement. These factors include:

1. Did the infringer have actual knowledge of the patent before designing the infringing product?
2. Did the infringer obtain a competent opinion of patent counsel that the patent was either invalid or not infringed?
3. Did the infringer make a good faith attempt to design around the patent?
4. Were the infringer's behavior and actions at trial consistent with a finding of good faith?
5. Did the infringer deliberately copy either the patent or the patented product?
6. Are the resources of the infringer sufficient that they could have avoided infringement?
7. Was the infringement "literal" or under the "doctrine of equivalents"?
8. How long was the infringing misconduct?

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<sup>5</sup> The literature on this topic includes: (1) Matthew D. Powers and Steven Carlson, *The Evolution and Impact of the Doctrine of Willful Patent Infringement*, 51 *Syracuse L. Rev.* 53 (2001); (2) Edwin H. Taylor and Glenn E. Von Tersch, *A Proposal to Shore Up the Foundations of Patent Law That the Underwater Line Eroded*, 20 *Hastings Comm. & Ent. L.J.* (1998), (3) Robert O. Bolan & William C. Rooklidge, *Imputing Knowledge to Determine Willful Patent Infringement*, 24 *Am. Intell. Prop. L. Ass'n. Q. J.* 157 (1996); (4) William C. Rooklidge & Robert O. Bolan, *The Official Gazette and Willful Patent Infringement: Stryker Corp. v. Intermedics Orthopedics, Inc.*, 79 *J. Pat. & Trademark Off. Soc'y* 605 (1997); (5) Jon E. Wright, *Comment, Willful Patent Infringement and Enhanced Damages—Evolution and Analysis*, 10 *Geo. Mason. L. Rev.* 97 (2001), and (6) Robert Greene Sterne and David K. S. Cornwell, *Willful Patent Infringement As A Barrier To Dissemination of Patent Information*, Presented at the Sedona Conference (2002)

<sup>6</sup> *Cent. Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1577 (Fed. Cir. 1983)

9. Did the infringer take remedial steps once the infringement was known?
10. Did the infringer make attempts to conceal the infringement? and
11. Was “causing harm” a motivation for the infringement?

In practice, these factors are diluted by a larger principle. Namely, the Court of Appeals for the Federal Circuit<sup>7</sup> has made two requirements that make many of these willfulness factors meaningless. The first was announced in *Underwater Devices v. Morrison-Knudson Co.* 717 F.2d 1380 (Fed. Cir. 1983), early in the Court’s history. In *Underwater Devices* the Court imposed on accused infringers the obligation to undertake a comprehensive investigation. Simply put in real world terms, for the price of a one-page letter accusing an innovator of patent infringement, the patent owner imposes on the innovator an obligation to undertake an expensive and time-consuming infringement investigation. Such a study includes at a minimum a study of the patent, the file history (administrative record) of the patent and the prior art. Even worse, an innovator who merely learns of a patent through its own survey of the literature and not through actual communication from the patent owner must also perform the same onerous investigation. Such an investigation must be performed *even though* the patent owner may have no intentions to enforce its patent.<sup>8</sup> Many companies take their willfulness obligations seriously. As a result, honest companies - the ones with the most scruples - are forced to mar their balance sheets with the wounds of such investigations.

The Federal Circuit made a second pronouncement that further exacerbates the problem. In 1986, the Federal Circuit ruled that if an accused infringer did not avail itself of the “advice of counsel defense” then either there was no opinion or that the opinion was negative<sup>9</sup>. The *Kloster* case has played havoc with traditional notions of equity. The practical effect of this negative inference rule is that willful infringement will always accompany a finding of infringement unless there is a competent opinion of counsel that was relied on by the infringer. If there is no opinion, or if the infringer elects to preserve the attorney-client privilege and not produce the opinion<sup>10</sup>, the practical effect is similar to the infringer disgorging an opinion from counsel telling the infringer that the patent is valid and infringed.

In *Kloster*, the defendant, “in alleged reliance on the attorney-client privilege,” remained silent about whether it had obtained the advice of counsel upon notification of the infringed patent.<sup>11</sup> The Federal Circuit stated that this warranted “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”.

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<sup>7</sup> The Court of Appeals for the Federal Circuit is the Court that hears all patent appeals throughout the country. This Court was born in the mid-1980s to bring uniformity to the development of the patent laws. Appeals from this Court go to the U.S. Supreme Court.

<sup>8</sup> The patent owner has no obligation to dedicate a patent to the public which it believes may have validity or enforceability issues. Instead, it can pay the maintenance fees and keep the patent in force for its full term. Such a patent, while never enforced, acts as a barrier of entry to innovators because they are not privy to the knowledge of the validity or enforceability issues.

<sup>9</sup> *Kloster Speedsteel AB v. Crucible, Inc.*, 793 F.2d. 1565 (Fed. Cir. 1986)

<sup>10</sup> The waiver issue regarding producing the opinion has produced a myriad of rules concerning the scope of allowed discovery depending on the District Court involved. It has also produced a large body of literature critical of the whole regime. The waiver issue is beyond the scope of this article, except to note that in many courts the prudent innovator must employ two patent counsel, one to litigate the dispute and one to issue the opinion that is produced. This is particularly onerous financially for the individual inventor or emerging company innovator.

<sup>11</sup> 793 F.2d. 1565, 1580 (Fed. Cir. 1986)

Broadly applying the negative inference test to the factors listed above, on one side of the ledger there may be an innovator who innocently comes across a patent on its own. Perhaps, the innovator reviews the patent. As a non-lawyer, the technology appears to be a little different from innovator's commercial technology. The innovator never copied the technology, and never had any bad intentions. However, the innovator undeniably had knowledge of the existence of the patent. This sounds like the actions of an innocent person. If there is infringement, this can not be a willful infringer, can it? After all, a finding of willful infringement requires *intent*. However, on the other side of the ledger, there will be an inference that there is either no opinion or a negative opinion. If there is no opinion, the innovator will be accused of failing to investigate or will be presumed to have a negative opinion. In either case, no amount of good faith will overcome the negative inference required by the *Kloster* court.

The negative inference test coupled with the duty to investigate has led to a boon for patent lawyers and has caused innovative companies to either avoid the patent literature or to risk the undue hardship of having to obtain an opinion letter from counsel.

There is an unintended consequence that has arisen from the development of the law of willful infringement. Specifically, the actual *bona fide* willful infringer can avoid a finding of willful infringement by obtaining a justifying opinion of counsel. Interestingly, some experienced lawyers say in frustration that opinions of counsel are not necessarily drafted to inform the client of its risks, but instead are written as trial exhibits. The audience for the opinion is the judge and jury, not the client. In fact, a strange phenomenon occurs in the real world. When an otherwise willful infringer gets sued for patent infringement, litigation counsel advises the company to get an "opinion of counsel" from a second law firm, as if their litigation counsel's opinion was not good enough. Cynics surmise that the opinion counsel drafts an opinion which "innoculates" the client from a finding of willfulness. The advice given in the opinion letter may or may not be consistent with the advice that the litigation counsel is giving to the client.

Distinguished commentators have written and spoken on the difficulties that companies of all sizes face as they grapple with the issue of willful infringement. Distilled to its essence, the current willfulness regime is not engineered to reward behaviors that encourage innovation. In fact, they discourage innovation. Consider the situation where an innovator becomes aware that its product infringes a patent. The innovator in this position has only a few options. One is that the innovator can voluntarily destroy its infringing product. This is the option advocated by some in the Patent Bar. But as a practical matter a company is not likely to voluntarily destroy its infringing product.

More typically the innovator seeks out a competent patent lawyer to write a plausible "insurance policy" opinion against a finding of willful infringement. Opponents to the current willfulness regime argue that the innovator can shop around and find a patent lawyer willing to sign his or her name to such an opinion. Moreover, Federal District Courts are reluctant to defenestrate an opinion written by an outside counsel. Thus, under this assumption, a company which knows it infringes can commission a patent lawyer to develop legal defenses which both the infringer and the lawyer know to be dubious. While this may not happen often, it is argued that it is naïve to think that it does not. One thing is not deniable. The current regime virtually mandates this behavior. But this behavior should be discouraged. Instead, obtaining true and accurate advice of counsel should and must be encouraged.

### **III. THE FACTORS THAT INNOVATORS CARE ABOUT**

The innovator generally does not care about the legal factors as proclaimed and debated by lawyers. Instead, the innovator wants to know what behavior is required to research competitor patents while avoiding a finding of willful infringement. Under the current regime, an opinion of counsel is universally recommended when the innovator has knowledge of a competitor patent or even the patent of a non-competitor if it is related to products or methods of the innovator. But as argued already this is neither practical nor in the public interest. So what are the real world factors that an innovator is faced with when deciding whether to seek the advice of counsel:

1. Was the innovator actually contacted by its competitor and warned to stop certain behavior?
2. Does the competitor sell a product that is clearly marked with a patent number? Did the innovator know of this product?
3. Did the innovator learn of the patent before the innovator developed its own product?
4. How did the innovator learn about the patent? Was it a routine patent search? Was it a rumor in the industry? Was it through the competitor filing a lawsuit?
5. Does the competitor have to rely on the Doctrine of Equivalents to prove infringement?

These issues will be examined in some detail in the following hypothetical situations.

### **IV. THREE HYPOTHETICAL FACT PATTERNS**

Three hypothetical fact patterns are now presented to appreciate what occurs in the real world. Innovators need to learn about the patents of its competitors. These hypothetical fact patterns, illustrate the typical spectrum of activities that can occur with regard to the innovator researching the competitor patents.

The first hypothetical is called the "pristine innovator" example. Here the innovator has no knowledge of the competitor patent until a database search is run. The innovator does not know of the competitor before the search uncovers the patent. The patent only contains apparatus or system claims, and does not contain method claims. The competitor distributes a product covered by the claims of the patent, and the product is not marked with the patent number in accordance with the patent marking statute. The competitor has not had any communication with the innovator about the patent. In fact, the competitor has no intention of enforcing the patent against any third party because it believes that there are possible validity and/or enforceability defenses. There is no literal infringement of the claims of the patent by the innovator's product, and the only possible infringement that could exist would be under the doctrine of equivalents. The innovator develops its product fully before the patent is uncovered and before it sees the competitor's product.

The second hypothetical is called the "typical innovator" example. Here the innovator knows of the competitor and finds the patent in a database search after hearing through the industry grapevine that there is such a patent. The patent contains apparatus and method claims, and the competitor's product is marked in accordance with the patent marking statute. The competitor has not had any communication

with the innovator about the patent. There may be literal infringement of the patent as well as infringement under the doctrine of equivalents, but there is at least one significant possible patent defense. The innovator is developing its product when it uncovers the patent and sees the competitor's product, and makes some design around changes as a result of studying the patent.

The third hypothetical is called the "copyist innovator" example. Here the innovator knows of the patent because it and the competitor's product are well known in the industry. The patent contains only method claims, and the competitor's product is marked in accordance with the patent marking statute. The competitor and the innovator know each other well, and the competitor mentions the patent without identifying it specifically. The patent is infringed literally, and the innovator copies the embodiment shown in the patent and makes no design around efforts. The innovator's product is only developed after the patent and the competitor's product becomes known to the innovator.

## **V. THE IDEAL WORLD**

The three hypotheticals are now examined from two perspectives: how they would be treated in a typical application of current case law, and how they should be treated under the fundamental public policy assumptions of the U.S. patent system. As you will see, there is a large disconnect between each.

In the first hypothetical, the pristine innovator would be required to obtain an opinion of counsel to insure against a finding of willfulness. Frankly, this is a surprising result to the business and technical world.

This would be the case even where the competitor has a strong reason to believe that the patent would probably be found invalid and/or unenforceable if asserted. Since the owner of a patent has no obligation to dedicate to the public a patent it believes may have serious invalidity or enforceability problems, the owner can decide not to assert the patent but instead use it to scare away others by its mere existence. Under this modified hypothetical, the pristine innovator would not know of the invalidity problem, but would assume the patent is valid under the clear and convincing presumption of validity. Nonetheless, even under these facts the pristine innovator would have to obtain an opinion.

In the ideal world the pristine innovator should not have to obtain an opinion when it proactively investigates the competitor's patent. This is especially the case where the competitor knows of the invalidity and/or unenforceability problems of the patent but keeps them secret. Public policy clearly points to dissemination of patent information. The opinion requirement should not exist as a barrier to this dissemination.

In the second hypothetical, the typical innovator would be required to obtain an opinion of counsel to insure against a finding of willfulness. Again, this is a surprising result to the business and technical world.

The second hypothetical is the typical real world situation. The competitor has not formally notified the typical innovator of the patent and its possible infringement. Instead, the competitor just lets its patents issue, and they then create a barrier of entry because of the cost of opinions to investigate them. This legal result also does not comport with the public policy of the dissemination of patent information.

In the third hypothetical, the copyist innovator would be required to obtain an opinion of counsel to insure against a finding of willfulness. Again, this is a surprising result to many in the business and technical world.

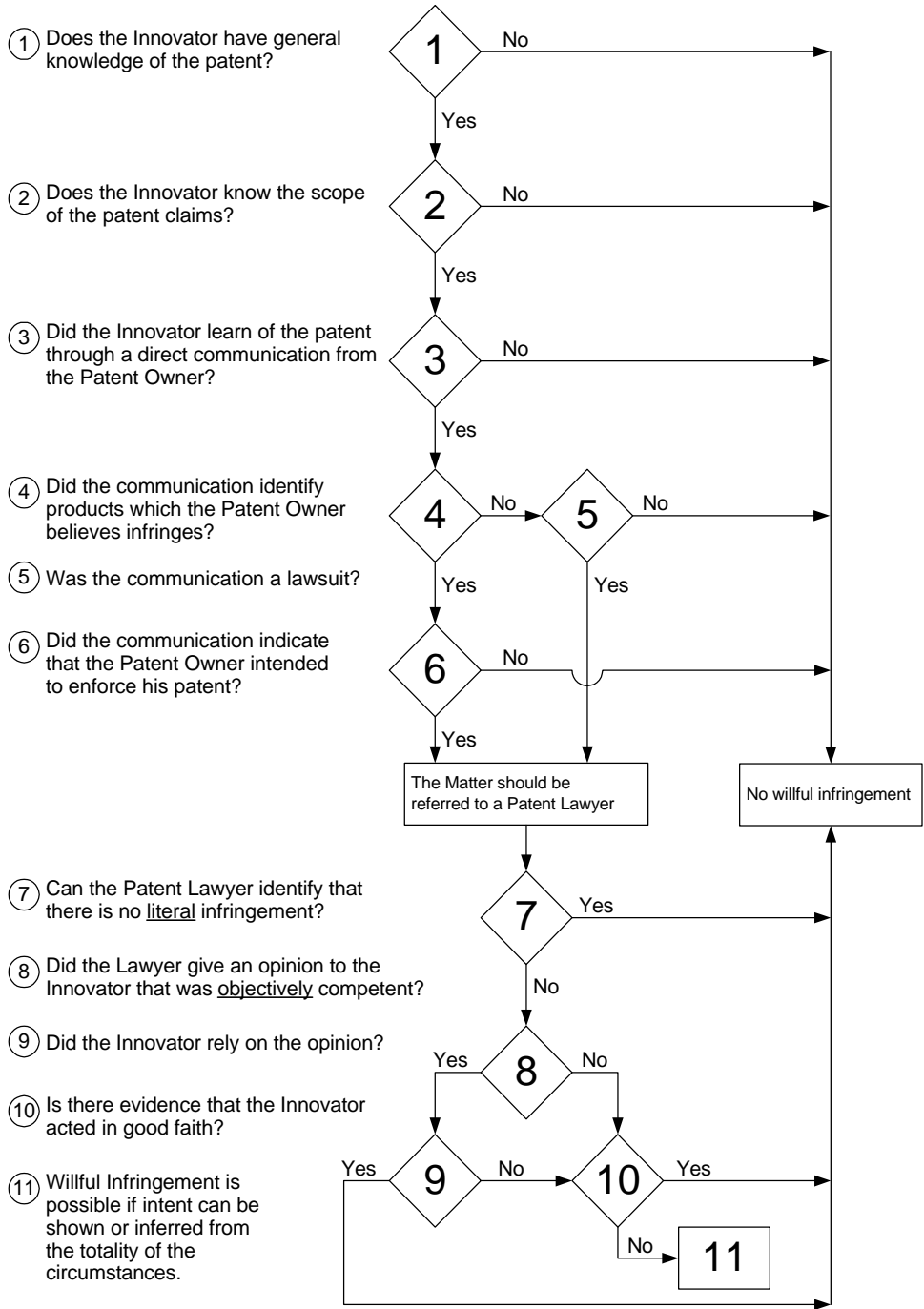
Yes it is true that the copyist innovator has used the competitor's patent to assist in making the infringing copy. But the patent owner has not charged the copyist innovator with actual infringement, something that it could easily do. Why should the competitor be allowed to sit back and not assert its patents and still create willfulness liability? There is a clear difference of opinion as to whether the current legal regime under this hypothetical is appropriate or whether it unduly restricts the dissemination of patent information.

Thus, these three hypotheticals show that the current law makes very problematic the investigation of competitor patents by an innovator even under the most innocuous of circumstances. The shades of gray of what can be done and what cannot seem to be too subtle for the business and technical worlds. They want the information contained in the patents so as not to reinvent the wheel. The law of willfulness is creating inappropriate barriers to the dissemination of patent information to innovators. It needs to be changed so that the basic *quid pro quo* of the patent grant is fully discharged.

## **VI. THE RULE SET**

The following flowchart gives a prospect for one analytical framework which could be used to determine willful infringement. This flow chart should not be confused with the present state of the law.





## **VII. HOW THE PROPER REGIME COULD COME ABOUT**

There are only two ways to change the current legal regime: through decision by the Federal Circuit, or by legislation from Congress.

Change through a Federal Circuit decision is likely not to happen because the fact pattern does not come up on appeal. Consider the fact pattern. The innovator *sua sponte* investigates the patent of a competitor and does not obtain an opinion. Later in time the competitor sues the innovator on the same patent. Usually this suit is preceded by a cease and desist or "softer" letter informing the competitor of the patent. In the other typical fact pattern, the lawsuit is the first time that the competitor communicates with the innovator. In either situation, the court will undoubtedly focus on what the innovator did in terms of an opinion after there is actual communication from the competitor to the innovator about the patent. The court will not likely parse out the facts and hold that the basis of willfulness is solely due to the competitor not obtaining an opinion before the actual communication occurred.

Thus, the Federal Circuit would not have an opportunity to rule on this issue even though its other decisions on willfulness have produced this state of affairs. But the current state of affairs puts companies at risk of being accused of not acting prudently in terms of willfulness by a strike suit lawyer from the SEC class action bar. To protect themselves, many companies, especially smaller ones, seek opinions to shield themselves from a charge of not acting within the business judgement rule. Thus, the current state of affairs is perpetuated with no change in sight from the Federal Circuit.

The legislative approach through Congress is no more practical. The needed legislation would have to be very finely tuned to satisfy the various special interest groups that would weigh into the legislative process. A simple blanket rule of "no willfulness for competitive research of patents" is probably not politically possible. Moreover, Congress is loath to pass legislation on the finer points of patent law, and instead looks to the courts, especially the Federal Circuit, for this fine tuning.

So while there are many who have told the authors that they support the changes suggested by this article, they are pessimistic about a practical way to have them come about.

It is the view of the authors that political pressure must be brought to bear by the business community. It is the innovators and their investors who are being damaged the most by the current state of affairs. These special interest groups must band together and be heard on this important issue.

## **VIII. THE CONCLUSION**

Innovators should be allowed to research the patents of competitors with no fear of willfulness unless there are extenuating circumstances. That rule fosters the bargain of the patent system and benefits the public through greater innovation and lower prices.

The current legal regime benefits patent owners and lawyers and not innovators. It especially hurts individual inventors and start up companies, because the financial burdens of obtaining opinions are disproportionate and adversely impact on investment. It is often said by experts that a disproportionate

amount of innovation and resultant job creation comes from these individual inventors and start ups. Since these groups are so important to a high tech society, they need the most protection from the current legal regime.

But larger companies would greatly benefit as well. It has been said in the patent bar that many larger companies ignored this problem under the assumption that they must investigate the patents of competitors. They simply do not obtain opinions except when the threat of litigation is imminent or has actually occurred. Their larger size makes the willfulness threat less onerous financially.

So the solution to correct the problem appears to be legislation pushed by the business community. It most likely will not come from the Federal Circuit or from the legal community. It needs to come now, because the level of innovation would increase if patents could be freely studied by readers with the most to gain.