

COMMENT

THE AFFIRMATIVE DUTY TO EXERCISE DUE CARE IN WILLFUL PATENT INFRINGEMENT CASES: WE STILL WANT IT

TABLE OF CONTENTS

I.	WILLFUL PATENT INFRINGEMENT.....	176
	A. <i>INTRODUCTION</i>	176
	B. <i>WILLFULNESS</i>	177
	C. <i>THE AFFIRMATIVE DUTY OF CARE</i>	179
II.	THE PROBLEM WITH THIS AFFIRMATIVE DUTY.....	181
	A. <i>CIRCUIT JUDGE DYK'S DISSENT IN THE KNORR- BREMSE CASE</i>	181
	B. <i>OTHER PROPONENTS OF ABOLISHING THE DUTY</i>	184
	C. <i>COSTS ASSOCIATED WITH THE AFFIRMATIVE DUTY</i>	185
III.	UNCERTAINTY IN THE ECONOMIC ANALYSIS OF PATENT INFRINGEMENT	186
IV.	COMPARISON WITH OTHER AREAS OF LAW	188
	A. <i>LAW DICTATING THE PATENT HOLDER'S DUTIES</i>	188
	B. <i>LAW OF COPYRIGHTS</i>	188
	C. <i>LAW OF CONTRACTS</i>	191
	D. <i>PATENT LAW IN OTHER NATIONS</i>	192
	E. <i>LAW OF TRADEMARKS</i>	194
V.	PROPOSED PARTIAL SOLUTIONS.....	196
	A. <i>ELIMINATE THE WILLFULNESS DOCTRINE ALTOGETHER</i>	196
	B. <i>CRIMINALIZE APPROPRIATE ACTIVITIES</i>	197
	C. <i>PRELIMINARY INJUNCTIONS</i>	198
	D. <i>ELIMINATE THE REQUIREMENT TO OBTAIN OPINION OF COUNSEL</i>	200
	E. <i>REDEFINE WILLFULNESS</i>	201
VI.	CONCLUSION.....	202

I. WILLFUL PATENT INFRINGEMENT

A. Introduction

In America, we celebrate our inventors. We put Ben Franklin on money, the Wright brothers on license plates, and MacGyver on TV. Undoubtedly, these people have made our lives better, but that is not exactly why we love them. Many inventions seem to have no true utility in our lives at all. An Internet search on “crazy patents” reveals some of the most useless inventions imaginable if the standard for usefulness is a chance to make lives better, and certainly if the standard is commercial viability.¹ Still, when discussing unusual patents, commentators are likely to use words such as “immortalizing” and “ingenuity.”² If the reason we love inventors is for their creative spirit, then perhaps our patent system should protect not only the economic interests of the patent owners, but the inventive spirit as well.

This article focuses on one area where the patent system has the potential to protect the spirit of the inventor. First the doctrine of willful infringement will be discussed, and then the affirmative duty of due care to which the doctrine gives rise. This duty was appropriately weakened in the recent *Knorr-Bremse* case in the federal circuit by the elimination of the adverse inference rule.³ The dissenting opinion in this case suggests that the affirmative duty should be eliminated altogether.⁴ This article will then enter an analysis of the fundamental notions of the patent law system, which suggests that to comply with the spirit of the law, this affirmative duty should not be eliminated, but properly defined. Alternative solutions to some of the related problems are then proffered.

It is often stated that a patent owner has the “right to exclude others from making, using, selling, offering for sale, or importing” the claimed invention.⁵ This language seems to indicate

1. See, e.g., FreePatentsOnline, Crazy Patents!, <http://www.freepatentsonline.com/crazy.html> (last visited Oct. 13, 2005) (describing such patents as the Beerbrella, U.S. Patent No. 6,637,447 (filed Oct. 19, 2001), used for keeping the sun off your beer, and the User-Operated Amusement Apparatus for Kicking the User's Buttocks, U.S. Patent No. 6,293,874 (filed Jan. 4, 2001), used for buttock kicking).

2. Gary Stix, *Patently Bizarre*, SCI. AM., Oct. 2001, at 28 (noting, “Eccentric inventions may not make their owners rich . . . but the best of the weird will not be forgotten.”).

3. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344 (Fed. Cir. 2004).

4. *Id.* at 1352.

5. ROBERT P. MERGES ET. AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 113 (3d ed. 2003); Brian G. Brunsvold & William H. Pratt, *Intellectual Property Rights – What Are They and How Does a Company Secure Them?*, SB04 ALI-ABA 137, 140 (1996).

that the patent owner must bear the responsibility of actively enforcing his rights to exclude others when an infringement is discovered. In fact, the patent code prescribes a civil action as the mechanism by which the patent owner is to enforce his rights.⁶ One might argue then, that one is free to infringe on a patent owner's rights until and unless the patent owner initiates a civil action. This idea is strengthened by the general rule that the legal owner of an infringed patent is required to be named as a plaintiff in such a suit, even if someone with only an equitable interest in the patent is actually claiming the harm.⁷ If he knows of the patent when deciding whether or not to infringe, a potential infringer will assess the risks and benefits and only refrain from acting when the risk is too great.⁸ This purely economic approach has been condemned by those who believe that such a disregard for patent rights is reprehensible.⁹ The purely economic approach suggests that perpetuating an unnoticed patent infringement is not against the law at all, but is instead a good business decision.

B. *Willfulness*

The court in the recent *Knorr-Bremse* case suggests that widespread disregard for patentees' legal rights undermines the fundamental impetus behind the United States patent system: the incentive for innovation.¹⁰ The doctrine of willful infringement has developed in this country in part to promote the goals of the patent system in the face of the temptation to take advantage of the difficulties of enforcement by the patent holder.¹¹ This doctrine seeks to create an incentive for potential infringers to police their own activities by imposing more serious penalties for patent infringement when the infringer has notice of the patent rights he is infringing.¹² The courts have recognized that it may be difficult to determine whether the infringer has taken

6. 35 U.S.C. § 281 (2000).

7. 69 C.J.S. *Patents* §449. See *Ethicon, Inc. v. United States Surgical Corp.*, 135 F.3d 1456, 1468 (Fed. Cir. 1998) (dismissing the case because a co-inventor, and thus co-owner, was not named as plaintiff despite significant economic harm to licensee).

8. William F. Lee & Lawrence P. Cogswell, *Understanding and Addressing the Unfair Dilemma Created by the Doctrine of Willful Patent Infringement*, 41 HOUS. L. REV. 393, 399 (2004).

9. Paul M. Janicke, *Do We Really Need so Many Mental and Emotional States in United States Patent Law?*, 8 TEX. INTELL. PROP. L.J. 279, 289 (2000).

10. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343 (Fed. Cir. 2004) (citing Advisory Committee on Industrial Innovation Final Report, Dep't of Commerce (Sep. 1979)).

11. See *Ira V. Heffan, Willful Patent Infringement*, 7 FED. CIR. B.J. 115, 115 (1997).

12. See Michael J. McKeon, *The Patent Marking and Notice Statute: A Question of "Fact" or "Act"?*, 9 HARV. J.L. & TECH. 429, 437 (1996).

advantage of the situation and instruct that a finding of willfulness must be based on a “totality of the circumstances.”¹³ A test has been developed to assess the circumstances including the following nine factors:

1. Whether the infringer deliberately copied the ideas or design of another;
2. Whether the infringer, when he knew of the other’s patent protection, investigated the scope of the patent and formed a good faith belief that it was invalid or that it was not infringed;
3. The infringer’s behavior as a party to the litigation;
4. Defendant’s size and financial condition;
5. Closeness of the case;
6. Duration of defendant’s misconduct;
7. Remedial action by the defendant;
8. Defendant’s motivation for harm; and
9. Whether defendant attempted to conceal its misconduct.¹⁴

It is clear that each of these factors seeks to identify conduct that was intentional, disfavored and warrants deterrence.¹⁵ The consequences for a finding of willfulness are identified in two statutes that allow a court to impose enhanced damages. The first allows for an award of up to three times the amount of damages found necessary to compensate for the infringement,¹⁶ and the other authorizes the court to award reasonable attorney’s fees in “exceptional cases.”¹⁷ It is the second factor enumerated above that creates the affirmative duty of care in the potential infringer to “investigate” and form a “good faith belief” that the accused activity is non-infringing.¹⁸ Satisfying this duty will not allow him to escape liability for infringement, but will allow him only to avoid the enhanced damages detailed in these enhancement statutes.¹⁹ This is generally the main factor considered by the courts, despite the mandate for consideration of the totality of the circumstances.²⁰

13. *Gustafson, Inc. v. Intersystems Indus. Prods.*, 897 F.2d 508, 510 (Fed. Cir. 1990).

14. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992) (citations omitted).

15. *See generally* *Knorr-Bremse*, 383 F.3d at 1342.

16. 35 U.S.C. § 284 (2000).

17. 35 U.S.C. § 285 (2000).

18. *See* *Read*, 970 F.2d at 827.

19. *See* *McKeon*, *supra* note 12, at 437.

20. *See* *Heffan*, *supra* note 11, at 115.

C. *The Affirmative Duty of Care*

The affirmative duty of care was clearly stated in the case of *Underwater Devices, Inc. v. Morrison-Knudsen Co.*²¹ The facts of that case are straightforward. Morrison-Knudsen was involved in a bidding competition for a contract involving ocean pipelines protected by patents owned by Underwater Devices, Inc. (UDI).²² UDI sent a letter to all bidders for the contract informing them of the patents and offering a license for a fee of \$200,000.²³

When Morrison-Knudsen was awarded the contract, the in-house attorney did not consult a patent attorney, but recommended that Morrison-Knudsen “refuse to even discuss the payment of a royalty.”²⁴ He based his recommendation on the assumption that an article in an engineering publication describing the patented devices would invalidate the patents as it predated the patents in question by more than one year.²⁵ He further described his strategy when he speculated that UDI would not want to litigate the matter, because courts had recently invalidated 80% of the patents claimed to be infringed,²⁶ and he believed UDI would likely be unwilling to risk having the patents declared invalid as valid patents allowed them to collect large license fees.²⁷ The lawyer here seemed to advise his client that it was fine to continue their possibly infringing activity in part because it would simply be too much trouble for the patent owners to sue.

Morrison-Knudsen proceeded with the project on the advice of its counsel and did not order the file history for the patents until well after work began.²⁸ The file history of the patents would have revealed that the patents were valid, since UDI had applied for the benefit of an earlier filing date which predated the engineering article.²⁹

21. 717 F.2d 1380 (Fed. Cir. 1983). The affirmative duty stated in the holding of this case is appropriate only where the defendant has actual knowledge of the infringing activity. This is only one of the scenarios in which willfulness may be found, *see* Lee & Cogswell, *supra* note 8, at 424, but it is the scenario in which the duty is clearest.

22. *Underwater Devices*, 717 F.2d at 1384.

23. *Id.*

24. *Id.* at 1384-85.

25. *Id.* The patent code creates a time bar on patent applications of one year after the subject matter is described in a printed publication. 35 U.S.C. § 102(b) (2000).

26. *Underwater Devices*, 717 F.2d at 1385. This percentage was accurate at the time the memo was sent, but has been falling in recent years and may now be as low as 20%. *See* Glynn S. Lunney, Jr., *E-Obviousness*, 7 MICH. TELECOMM. & TECH. L. REV. 363, 373 (2001), available at <http://www.mttl.org/volseven/Lunney.pdf>.

27. *Underwater Devices*, 717 F.2d at 1385.

28. *Id.* at 1390.

29. *Id.* at 1385-86.

The court ruled that when “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,” and added that a component of the duty was to “seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity.”³⁰ Willfulness and therefore enhanced damages were found to be proper in this case because Morrison-Knudsen did not satisfy its duty to obtain *competent* legal advice, which would have included an investigation into the file history of the patent.³¹ It may seem that the attorney for Morrison-Knudsen acted negligently in failing to investigate the file history of the patents, but the proper focus should be on the behavior of the defendant, not its attorney.

The duty to exercise due care in the willful patent infringement case can be said to be a duty to acquire “actual knowledge” where there exists a “reason to know.”³² One of the boundaries of what is considered a reason to know was explored in the case of *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*³³ There, Ford’s patent staff became aware of a patent owned by Shatterproof Glass but did not recognize the significance of the patent.³⁴ As a result, Ford failed to acquire an infringement opinion and to notify the correct people on the development team of their own company.³⁵ The Federal Circuit agreed with Ford in holding that the patent staff’s knowledge of the patent did not give rise to the affirmative duty because Ford had no actual notice.³⁶ It is clear then that the affirmative duty does not arise from the slightest possibility of infringement. Rather, *Shatterproof Glass* can be distinguished from *Underwater Devices* by recognizing the specificity of the information involved. UDI sent a letter identifying the patents and describing the activity that would amount to infringement without a license.³⁷ Ford, however, was simply aware of the existence of the patent in question due to its policy of monitoring patent activity.³⁸

Although the holding of *Shatterproof Glass* indicates that the affirmative duty did not arise,³⁹ the court could have just as

30. *Id.* at 1389-90.

31. *Id.* at 1390.

32. A. Samuel Oddi, *Contributory Copyright Infringement: The Tort and Technological Tensions*, 64 NOTRE DAME L. REV. 47, 73 (1989).

33. *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613 (Fed. Cir. 1985).

34. *Id.* at 628.

35. *Id.*

36. *Id.* at 628-29.

37. *See Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1384 (Fed. Cir. 1983).

38. *Shatterproof Glass*, 758 F.2d at 628.

39. *Id.* at 629.

2005] *AFFIRMATIVE DUTY TO EXERCISE DUE CARE* 181

easily held that the affirmative duty did arise, and that it had been fully satisfied with the same effect. The duty described in *Underwater Devices* is a duty of “due” care.⁴⁰ It would be reasonable to specify simply that more care is “due” when more specific information is available, or that more care is “due” when the patent owner provides the information himself. Such a formulation is pleasing since it creates a less burdensome duty. The duty to “investigate”⁴¹ is minor where the critical information is already known.

II. THE PROBLEM WITH THIS AFFIRMATIVE DUTY

A. *Circuit Judge Dyk’s Dissent in the Knorr-Bremse Case*

The affirmative duty described by the *Underwater Devices* case has been discussed extensively in the case law⁴² and has become a fixture in American patent law. However, the affirmative duty rule has been criticized for its effect when considered in conjunction with the adverse inference rule.⁴³ The adverse inference rule states that where a defendant in a willful infringement case obtained an opinion letter, but declined to disclose it at trial as a privileged attorney-client communication, the jury could infer that the content of the letter was adverse to the defendant’s case and the advice contained was not followed.⁴⁴ The adverse inference rule creates an unfair situation for a defendant whose opinion letter actually does support their case on the willfulness issue, but may have subjected them to an unfair prejudice on the liability issue.⁴⁵ A defendant in this situation would have to choose between disclosing the opinion letter and suffering the prejudice, or declining disclosure and suffering the adverse inference.⁴⁶ It is not the imposition of the affirmative duty itself that creates this dilemma, it is the rule that the affirmative duty includes a mandate to obtain the opinion letter in the first place.

The *Knorr-Bremse* case involved the importation of a brake system for heavy commercial vehicles (manufactured legally by a

40. *Underwater Devices*, 717 F.2d at 1389-90.

41. *Id.*

42. *See, e.g.*, *Studiengesellschaft Kohle M.B.H. v. Dart Indus., Inc.*, 666 F. Supp. 674, 687 (D. Del. 1987); *Gillette Co. v. S. C. Johnson & Son, Inc.*, 15 U.S.P.Q.2d (BNA) 1795, 1798 (D. Mass. 1990).

43. *See* Matthew D. Powers, *The Evolution and Impact of the Doctrine of Willful Patent Infringement*, 51 SYRACUSE L. REV. 53, 108 (2001).

44. Robert Neuner, *Willful Infringement*, 457 PRACTISING L. INST./PATENT LITIG. 177, 180 (1996).

45. *Id.*

46. *See* Lee & Cogswell, *supra* note 8, at 434.

foreign company not covered by the United States patent) by Dana Corp. that was covered by a patent owned by Knorr-Bremse.⁴⁷ Dana initially was notified orally about possible patent disputes while the patent in question was still pending.⁴⁸ When the patent issued, Dana was notified in writing of the infringing activity, but it continued to operate trucks in the United States although it had not yet sold any of the brake systems and had yet to make a profit.⁴⁹

When litigation began, Dana claimed it had not sought legal counsel, but had relied on the opinions produced for Haldex (the company from which it had imported the brake systems) and failed to produce any opinion letter at all.⁵⁰ The district court found it was “reasonable to conclude that such opinions were unfavorable.”⁵¹

The majority in the *Knorr-Bremse* case recognizes the unfairness and clearly overrules any precedent supporting the adverse inference rule.⁵² Judge Dyk recognizes that although the adverse inference rule and the affirmative duty rule are related, they are in fact separate issues, and dissents to the continued majority support of the affirmative duty rule.⁵³ The main reason for his dissent seems to be that he questions the compatibility of the rule with recent Supreme Court cases holding that “punitive damages can only be awarded in situations where the conduct is reprehensible.”⁵⁴

Judge Dyk cites two cases in particular.⁵⁵ The first is *BMW v. Gore*, which states that “the most important indicium of the reasonableness of a punitive damages award is the degree of reprehensibility of the defendant’s conduct.”⁵⁶ Then the factors used to determine the degree of reprehensibility are listed. These include the following:

1. Whether the harm caused was physical or merely economic;
2. Whether the conduct displayed indifference toward the safety or health of others;

47. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1340-41 (Fed. Cir. 2004).

48. *Id.* at 1340.

49. *Id.*

50. *Id.* at 1342.

51. *Id.*

52. *Id.* at 1337.

53. *Id.* at 1348.

54. *Id.* at 1348-49.

55. *Id.* at 1348 (citing *BMW of N. Am. Inc., v. Gore*, 517 U.S. 559, 575 (1996); *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408 (2003)).

56. *Id.* 1348 (citing *BMW of N. Am. Inc.*, 517 U.S. at 575).

3. Whether the target of the conduct was financially vulnerable;
4. Whether the conduct involved an isolated incident or was repeated; and
5. Whether the conduct stemmed from intentional malice or by mere accident.⁵⁷

It is arguable that the conduct found by the defendants in *Knorr-Bremse* and the *Underwater Devices* cases simply do not qualify as reprehensible in light of these factors. The conduct in each was an isolated incident, motivated by an economic business decision in which the patent holder was placed at no particular disadvantage because of any financial vulnerability.

The next case cited by Judge Dyk is *State Farm v. Campbell*, which follows the *Gore* case and adds that the punitive damages in a tort action must be properly proportionate to the compensatory damages awarded.⁵⁸ This raises a particular concern in a case like *Knorr-Bremse* where no compensatory damages were awarded, but only the punitive award of attorney's fees was given.⁵⁹ Judge Dyk disagrees with the majority view that attorney's fees are compensatory and a fair remedy in appropriate cases.⁶⁰ He cites authority that tends to demonstrate that enhanced damages under 35 U.S.C. § 284 are punitive,⁶¹ but does not cite authority indicating that an award of attorney's fees under 35 U.S.C. § 285 is also punitive. The award of attorney's fees therefore, even Judge Dyk would acknowledge, is not subject to the same constitutional objection that the treble damages are. However, only a minor inference is required to extend this authority to attorney's fees since it is the finding of willfulness that allows treble damages under § 284,⁶² and also the finding of willfulness that makes a case "exceptional" under § 285.⁶³

57. *Id.* (citing *BMW of N. Am., Inc.*, 517 U.S. at 576-77).

58. *Id.* at 1347 (citing *State Farm Mut. Auto. Ins. Co.*, 538 U.S. at 426).

59. *Id.* at 1347.

60. *Id.* at 1348-49.

61. *Id.* at 1348 (citing *Sensonics, Inc. v. Aerosonic Corp.*, 81 F.3d 1566, 1574 (Fed. Cir. 1996) ("[E]nhanced damages are punitive, not compensatory"); *Beatrice Foods Co. v. New Eng. Printing & Lithographing Co.*, 923 F.2d 1572, 1579 (Fed. Cir. 1991) ("Under our cases, enhanced damages may be awarded only as a penalty for an infringer's increased culpability.")).

62. *See, e.g.*, *Aro Mfg. Co. v. Convertible Replacement Co. Inc.*, 377 U.S. 476, 508 (1964); *Smith Corona Corp. v. Pelikan, Inc.*, 784 F.Supp. 452, 479 (M.D. Tenn. 1992); *Avia Group Int'l, Inc. v. L.A. Gear Cal., Inc.*, 853 F.2d 1557, 1566 (Fed. Cir. 1998) (stating "[o]ne purpose of an increased damage award is to deter willful patent infringement by punishing the willful infringer.").

63. *See, e.g.*, *Modine Mfg. v. Allen Group, Inc.*, 917 F.2d 538, 543 (Fed. Cir. 1990); *Ernster v. Ralston Purina Co.*, 757 F. Supp. 1030, 1032 (E.D. Mo. 1991) (explaining that

This tendency to extend the veil of punitive damages to an award of attorney's fees is problematic, since attorney's fees may be thought of as contributing to making the aggrieved party whole.⁶⁴ It is conceivable to imagine an infringer (especially when the infringer is a competitor of the patent holder) willfully engaging in infringing activities solely for the purpose of harming the patent owner.

B. *Other Proponents of Abolishing the Duty*

Judge Dyk's justification for abolishing the affirmative duty is primarily based on the theory that imposing punitive damages is contrary to Constitutional Due Process.⁶⁵ Others have proposed more economic justifications. The Federal Trade Commission has recommended that legislation be enacted that limits willful infringement to cases involving either deliberate copying or actual written notice from the patentee.⁶⁶ There are concerns that the current state of the law creates situations where it is seemingly advantageous for a potential infringer to purposefully remain ignorant about the extent of the patent in question to avoid any extra liability.⁶⁷ This is dangerous, not only to the potential infringer, but also to the patent system's goal of promoting innovation through disclosure.⁶⁸ Potential infringers may avoid actually reading the patents and not be innovative in attempting to design around the patent claims.⁶⁹

Others have suggested that when there is a subjective finding of willful infringement,⁷⁰ the duty should be eliminated since there is no evidence that the imposition of the duty and the corresponding threat of enhanced damages actually has any effect of deterrence.⁷¹ This is not surprising when one considers that § 284 limits treble damages to three times compensatory damages,

when a court decides to deny attorney's fees under this statute it must explain why it does not consider the case exceptional).

64. See, e.g., *Oakley v. Fireman's Fund of Wisconsin*, 470 N.W.2d 882 (Wis. 1991).

65. *Knorr-Bremse*, 383 F.3d at 1350.

66. FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 31 (2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

67. *Id.* at 28-29.

68. *Id.*

69. *Id.*

70. For an explanation of the difference between a subjective and objective finding of willfulness, see Lee & Cogswell, *supra* note 8, at 424-25.

71. COMM'N ON INTELLECTUAL PROP. RIGHTS IN THE KNOWLEDGE BASED ECONOMY, NAT'L RESEARCH COUNCIL, A PATENT SYSTEM FOR THE 21ST CENTURY 119 (Stephen A. Merrill et al. eds., 2004), available at <http://www.nap.edu/html/patentsystem/0309089107.pdf>.

but the benefit of infringement could be extremely large.⁷² Still others have recommended that defenses to a finding of willfulness be developed, such as a “purge defense,” which would allow a potential infringer to feel some certainty that they have acted in good faith.⁷³

Finally, some scholars have suggested that the consequences of willfulness have created an incentive for technology developers to avoid reading published patents in order to decrease their chances of willfully infringing.⁷⁴ The problem is that this interferes with the disclosure function of patent law.⁷⁵

C. *Costs Associated with the Affirmative Duty*

One cost that affects even the most sophisticated clients is the distortion of legal advice.⁷⁶ Although this problem was much more severe before the *Knorr-Bremse* case abolished the adverse inference rule, the fundamental reasoning still applies. A company will place a heavy premium on obtaining an opinion letter that is favorable, since they know that they may later need it to support their case for non-willfulness.⁷⁷ As a favorable opinion letter could be useful in a way besides actually advising the client, the company may justifiably prefer the letter to remain silent on legitimate challenges to its case, as long as the letter did in fact contain legitimate support for its case.⁷⁸

A related problem is the distortion of legal advice once the litigation begins. Since the determination of willfulness is not a static inquiry, the attorney must be careful not to communicate anything to the client that would undermine the previously drafted opinion letter.⁷⁹ Although this break in communication may be well intentioned, it may have the effect of making it more difficult for the parties to settle the case because of needlessly imperfect information.⁸⁰

It has already been discussed how the willfulness doctrine could encourage engineers to attempt to remain ignorant of pat-

72. David M. Schneck, *Setting the Standard: Problems Presented to Patent Holders Participating in the Creation of Industry Uniformity Standards*, 20 HASTINGS COMM. & ENT. L.J. 641, 648 (1998).

73. James C. Lydon, *A Purge Defense to Willful Patent Infringement*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 392, 393 (1998).

74. Mark A. Lemley & Raqesh K. Tangri, *Ending Patent Law's Willfulness Game*, 18 BERKELEY TECH. L. J. 1085, 1100 (2003).

75. *Id.*

76. *Id.* at 1103.

77. *Id.*

78. *Id.*

79. *Id.* at 1107.

80. *Id.*

ents.⁸¹ A related cost is that of the engineers that do not follow or receive this advice.⁸² Simply put, it is expensive to disseminate this advice to engineers that are reading patents with no awareness that they are doing anything of legal significance.

III. UNCERTAINTY IN THE ECONOMIC ANALYSIS OF PATENT INFRINGEMENT

Consider a company that receives a notice of possible infringing activity with an accompanying request for licensing fees. Ideally, this company would consider several factors in deciding how to respond. One of these would be the strength of the patent in question.⁸³ Having a strong patent which had survived judicial challenges as to validity would convince the company to pay a higher licensing fee than having a weak patent which the company believes may be invalid.⁸⁴ It would seem that if the company were certain the patent was invalid, it should refuse to pay any license fee at all, but in reality, the company must consider the likelihood and the cost of any litigation arising from the disputed claim. The likelihood of the litigation would depend on the particular circumstances and is represented as a multiplication factor associated with the cost.⁸⁵ The cost of potential litigation may be anticipated by existing data. A survey conducted by the American Intellectual Property Law Association considered cases with less than \$1 million in dispute and found the median cost through the end of discovery was \$190,000 and through the end of the suit was \$300,000.⁸⁶ Other data suggests that generally, attorney's fees alone in patent litigation commonly exceed \$1 million.⁸⁷ With fees commonly this high, it is clear why even a small prospect of litigation might deter a possible infringement. Of course, this point is clearer in the case of willful infringement where the infringer may be liable for the plaintiff's attorney's

81. *Id.* at 1100.

82. *Id.*

83. Judge T.S. Ellis, Distortion of Patent Economics by Litigation Costs, Address at the 1999 CASRIP Summit Conference, in 5 CASRIP PUBLICATION SERIES: STREAMLINING INT'L INTELLECTUAL PROPERTY 22(1999), available at <http://www.law.washington.edu/casrip/Symposium/Number5/pub5atcl3.pdf>.

84. *Id.*

85. See, e.g., *Am. Hosp. Supply Co. v. Hosp. Prod. Ltd.*, 780 F.2d 589 (7th Cir. 1986). Judge Posner explains that the correct comparison factor is not the harm, but rather the harm multiplied by the probability of the harm occurring. *Id.*

86. John A. Jackson, *Managing and Resolving Legal Issues in Technology: A Report from the Albany Law School Science and Technology Law Center Project*, 9 ALB. L.J. SCI. & TECH. 317, 336 n.102 (1999).

87. Nancy N. Yeend & Cathy E. Rincon, *ADR and Intellectual Property: A Prudent Option*, 36 IDEA 601, 604 (1996).

2005] *AFFIRMATIVE DUTY TO EXERCISE DUE CARE* 187

fees as well as his own.⁸⁸ It has been suggested that the uncertainty inherent in the damages awarded for patent infringement serves to promote the goal of innovation on the part of the potential infringer.⁸⁹

Now consider a letter that does little more than suggest in a circumspective manner that there may be a valid patent and there may be infringing activity. This is often the case because a patent owner frequently will write a letter in such a manner as to trigger the possibility of defining any further activity by the recipient as willful while at the same time attempting to preclude the possibility that the recipient will initiate an action to obtain a declaratory judgment.⁹⁰ Such an action would allow the recipient of the letter to gain an advantage by choosing a more favorable forum. This advantage has been empirically demonstrated to enhance a plaintiff's chance of winning by 14% in such cases.⁹¹

A letter simply suggesting the possibility of patent infringement and requesting a license fee is sufficient to create consequences under 35 U.S.C. 287(a).⁹² However, this same letter is insufficient to create an actual controversy that would give rise to an action for a declaratory judgment.⁹³ Furthermore, a request from the possible infringer that the patent owner review drawings made to confirm that the new design is outside the scope of the patent is understandably rarely honored.⁹⁴

It must be noted that the uncertainty inherent in the patent system does also carry some benefits.⁹⁵ Uncertainty regarding the amount of monetary damages to be awarded does tend to stimulate innovation.⁹⁶ The information contained in these letters will indicate the amount of certainty each party has. This could be a basis for determining the level of care that is due in light of the affirmative duty to provide it.

88. 35 U.S.C. § 285 (2000).

89. See generally Ian Ayres & Paul Klemperer, *Limiting Patentees' Market Power Without Reducing Innovation Incentives: The Perverse Benefits of Uncertainty and Non-Injunctive Remedies*, 97 MICH. L. REV. 985 (1999).

90. See Lemley & Tangri, *supra* note 74, at 1090 n.11.

91. *Id.*

92. *Scholle Corp. v. Blackhawk Molding Co.* 133 F.3d 1469, 1472 n.1 (Fed. Cir. 1998).

93. *Id.* (citing *SRI Int'l, Inc. v. Advanced Tech. Lab., Inc.* 127 F.3d 1462, 1469-70 (Fed. Cir. 1997), Declaratory Judgment Act, 28 U.S.C. § 2201 (1994)).

94. *Id.* (citing *Int'l Harvester Co. v. Deer & Co.*, 623 F.2d 1207, 1213 (7th Cir. 1980)).

95. See generally Ayres, *supra* note 89, at 986.

96. *Id.* at 988-89 (explaining how uncertainty and delay may actually provide an incentive for innovation by encouraging the behaviors which are best suited to accommodate these seemingly undesirable factors).

IV. COMPARISON WITH OTHER AREAS OF LAW

Judge Dyk recognized that the doctrine of willful patent infringement does not exist in a vacuum and requires consideration of constitutional findings from other areas of law.⁹⁷ He was speaking of direct conflicts with another area of applicable law,⁹⁸ but to comprehend the problem it is useful to understand the rights and duties of parties in similar situations when considering a change to the current law. In more general terms, a comparison with related areas of law will shed some light on the most basic justifications for current legal principles which may be relevant to the affirmative duty of due care.

A. *Law Dictating the Patent Holder's Duties*

The first logical comparison when considering the potential infringer's duties are the duties of the patent holder himself. The patent holder has a duty to enforce his rights in a timely manner as evidenced by the accepted assertion of a laches defense.⁹⁹ The laches defense is available to a defendant whose infringement was known to the plaintiff who fails to assert his claim in a timely manner and the delay results in prejudice to the alleged infringer.¹⁰⁰ This defense generally only bars damages for past infringement, but in the extreme case may even bar prospective relief in a willful infringement case.¹⁰¹ One could argue that this duty in the patent holder is analogous to the affirmative duty of due care in the infringer. Each party should be expected to assume some responsibility for a reduction in infringement. An elimination of the affirmative duty would unbalance this distribution of the responsibility.

B. *Law of Copyrights*

Perhaps the general area of law most similar to patent law in motivation is the law of copyrights. Both patent and copyright law are derived from the same constitutional clause,¹⁰² which

97. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1348 (Fed. Cir. 2004).

98. *Id.* (speaking particularly of the due process concerns).

99. Jean F. Rydstrom, *Laches as a Defense in a Patent Infringement Suit*, 35 A.L.R. Fed. 551 (2004).

100. *Id.* (citing *Sunbeam Prods. v. Wing Shing Prods. (BVI) Ltd. (In re AI Realty Mktg. of N.Y., Inc.)*, 293 B.R. 586 (Bankr. S.D.N.Y. 2003)).

101. See, e.g., *Standard Oil Co. v. Rohm & Hass Co.*, 589 F. Supp. 264 (S.D. Tex. 1984).

102. U.S. Const. Art. I, § 8, cl.8. Specifically, this constitutional provision gives Congress the power "To promote the Progress of Science and useful Arts, by securing for lim-

2005] *AFFIRMATIVE DUTY TO EXERCISE DUE CARE* 189

states that the motivation for both is to advance science and the arts.¹⁰³ This is also an appropriate area of law to compare with patent law, since courts in copyright cases have interpreted willfulness inconsistently and even in ways inconsistent with statutory provisions.¹⁰⁴ This provides a similar level of uncertainty in the copyright regime.

Damages for willful infringement in copyright law may be increased by courts up to a sum of \$150,000.¹⁰⁵ Interestingly, the statute also provides for a reduction of statutory damages down to \$200 for a finding of innocence.¹⁰⁶ These statutes do not define willfulness, so the definition is subject to judicial interpretation as it is in patent law.¹⁰⁷ Some courts in copyright cases, however, attempt to find willfulness in only the most culpable of infringers in the clearest cases.¹⁰⁸ Given these generalizations about copyright law, it would seem that findings of willfulness would be more common and more serious in patent cases than copyright cases. To determine if this is appropriate, an examination of the differences in the structure of the two areas of law is necessary.

The main focus of American copyright law is the benefit conferred on the public due to the labors of authors, and merely secondary is the concern for providing an author with a reward for his labors.¹⁰⁹ While patent law prohibits the unauthorized use or sale of patented items regardless of independent creation, copyright law seeks to prevent actual copying of any work.¹¹⁰

While some scholars have called for a copyright willfulness test similar to the test used in patent law in order to consolidate all the various copyright damages theories,¹¹¹ it is arguable that these differences demand a different test.¹¹² The leading case in copyright law that adopts a test where the infringer's knowledge is used to establish willfulness is *Fitzgerald Publishing Co. v.*

ited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." *Id.* It should be noted that this provision explicitly states its purpose, but only implies the means of achieving this purpose; namely economic incentives for the authors and inventors.

103. *Id.*

104. Jeffrey M. Thomas, *Willful Copyright Infringement: In Search of a Standard*, 65 WASH. L. REV. 903, 903 (1990).

105. 17 U.S.C. §504(c)(2) (2000).

106. *Id.*

107. Thomas, *supra* note 104, at 906-07 (noting that neither Congress nor the Supreme Court has defined willfulness, leaving the lower courts to define the term).

108. *Id.* at 907-09.

109. CRAIG JOYCE ET AL., COPYRIGHT LAW § 1.02 (6th ed. 2003).

110. *Id.*

111. Thomas, *supra* note 104, at 903-04.

112. *Id.*

*Baylor Publishing Co.*¹¹³ In that case, the defendant reprinted comic books with altered copyright notices.¹¹⁴ The defendants claimed reliance on a contract with the plaintiffs and co-defendants, granting the right to reprint the comic books, that had been terminated by the time the defendant became aware of it.¹¹⁵ The court held that reliance on the contract was unreasonable since the defendant failed to obtain an opinion from counsel.¹¹⁶ Also, the court found the infringement was willful since the defendant knew that it had no right to change the copyright notice according to the contract on which it relied.¹¹⁷

In copyright law, a contract was sufficient to impute knowledge on the parties. In patent law, however, it is not so clear that knowledge should be imputed by an infringement notice letter, since these letters are often drafted with the intent to confuse in an effort to preserve the exclusivity in the right of the patent holder to bring suit on the infringement action.¹¹⁸ Perhaps a more appropriate formulation would be for patent law to borrow the “knowledge plus” standard from copyright law. One court has formulated this standard as knowledge plus outrageous conduct.¹¹⁹

Copyright law also contains several other factors that enable courts to determine if knowledge and therefore willful conduct is present. These factors include reckless disregard and negligence.¹²⁰ Even without actual knowledge of infringement, courts have found willfulness because of the difficulty in determining a defendant’s subjective state of mind.¹²¹ There is some suggestion that these findings are of actual willfulness where the willfulness in the conduct is derived from the defendant’s purposeful avoidance of an attorney’s opinion.¹²² This may be an appropriate alternative to the affirmative duty, since it would embody the real meaning of willfulness and excuse patent infringers who have a good faith belief that their activity is not infringing and do not even know they have a duty to obtain an opinion letter. It may be appropriate for patent law to transform the affirmative duty

113. 807 F.2d 1110 (2d Cir. 1986).

114. *Id.* at 1112.

115. *Id.* at 1114.

116. *Id.*

117. *Id.*

118. Lemley & Tangri, *supra* note 74, at 1090 n.11.

119. *Original Appalachian Artworks, Inc. v. J.F. Reichert, Inc.*, 658 F. Supp 458 (E.D. Pa. 1987) (incorporating the standard into copyright law from the general tort context from *Dreyer v. Arco Chemical Co.*, 801 F.2d 651 (3rd Cir. 1986), which concerned an employer’s willful age discrimination).

120. *See Thomas, supra* note 104, at 908.

121. *Id.* at 908 n.41.

122. *Id.* at 908.

to seek an opinion letter into a simple factor in the willfulness issue.

C. *Law of Contracts*

Although it is clear that willful patent infringement is a tort and not a contract issue,¹²³ the arrangement is easily described as contractual. The patent holder could be said to have agreed to disclose the details of his innovation in exchange for society's promise to respect the patent holder's temporary monopoly.¹²⁴ A fundamental difference to consider is that contract law is bipolar in that both parties must assent to make the contract enforceable despite their differences.¹²⁵ Accordingly, both parties must agree any time the rights and duties of either party change.¹²⁶ This is clearly not the case where a threat letter can unilaterally impose an affirmative duty of an accused infringer to at least consult an attorney before continuing any activity specified in the letter.

The contractual theory to consider is the theory of efficient breach. This theory suggests that a party to a contract will increase the overall benefit to society if it purposefully breaches the contract when it recognizes that it will profit more from the breach than the other party will suffer.¹²⁷ This theory exists because contract law has become increasingly dominated by an emphasis on law and economics, rather than standards of fairness and morality.¹²⁸ In general, a promisor can breach freely and willfully as long as he is prepared to pay expectation damages.¹²⁹

It has been suggested that damages in the patent infringement context could be effectively applied to compensate the patent holder to put him in the position he would have been in had the infringement not occurred by awarding lost profits or lost royalties.¹³⁰ In such a system, a potential infringer who stands to profit more from the infringement than the patent owner would lose, could benefit society by infringing. This proposition

123. See *In re Magnavox Co.*, 627 F.2d 803, 805 (7th Cir. 1980) (stating that the courts have not resorted to the "fiction of a contract" to restore lost profits in patent infringement cases).

124. See MERGES ET AL., *supra* note 5, at 113.

125. Curtis Bridgeman, *Corrective Justice in Contract Law: Is There a Case for Punitive Damages?*, 56 VAND. L. REV. 237, 252 (2003).

126. *Id.*

127. Craig S. Warkol, *Resolving the Paradox Between Legal Theory and Legal Fact: The Judicial Rejection of the Theory of Efficient Breach*, 20 CARDOZO L. REV., 321-22 (1998).

128. *Id.* at 333; see also Robert A. Hillman, *The Crisis in Modern Contract Theory*, 67 TEX. L. REV. 103, 116-18 (1998).

129. See Bridgeman, *supra* note 125, at 263.

130. Roger D. Blair & Thomas F. Cotter, *Rethinking Patent Damages*, 10 TEX. INTELL. PROP. L.J. 1, 8-9 (2001).

does not stand when one considers that the patent owner may often stand to lose only the reasonable license fee, which the parties would likely have to negotiate.¹³¹ The case for an efficient patent infringement therefore falters because the solution is to negotiate a license fee, and not infringe unless one considers the benefit to society in the incentive innovation by the patent holder and the benefits of the incentives to negotiate on the part of the potential infringer.¹³²

The comparison of contract law to patent law suggests that where the parties are better able to protect themselves, they should have greater freedom to act as they please. A patent holder or infringer may be more vulnerable, which requires both parties to restrict their behavior.

D. Patent Law in Other Nations

It is clear that the U.S. patent system should reflect the values held dear in this county.¹³³ One example proving this contention is that the United States embraces a “first to invent” rule.¹³⁴ This rule may be invoked when deciding which inventor to reward when two patents have been filed for the same subject matter.¹³⁵ Consistent with the American idea that it is creativity that should be rewarded rather than diligent adherence to formalities (such as promptly filing the patent application), the American patent law system rewards the first to invent rather than the first to file.¹³⁶

It has been said that “. . . [t]he United States stands alone in awarding punitive damages for patent infringement based on the perceived willfulness of the defendant’s conduct.”¹³⁷ There are reasons why other nations elect not to embrace this practice, some of which stem from the differences in the legal systems in general and others which are based on policy grounds. In the United Kingdom, for example, the losing party pays most of the opposing party’s costs and is sometimes required to pay the opposing party’s attorney’s fees.¹³⁸ While the United States courts

131. *Id.*

132. *Id.*

133. See Janicke, *supra* note 9, at 279.

134. *Id.*

135. *Id.* at 281.

136. See *id.* at 282-83.

137. Larry Coury, *C'est What? Saisie! A Comparison of Patent Infringement Remedies Among the G7 Economic Nations*, 13 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1101, 1118 (2003).

138. *Id.* at 1126 (citing Ladas & Parry LLP, *Litigation in the United Kingdom* (2002), http://www.ladas.com/Litigation/ForeignPatentLitigation/UK_Patent_Litigation.html (claiming that in general, the prevailing party can expect to recover 2/3 of the expenses)).

2005] *AFFIRMATIVE DUTY TO EXERCISE DUE CARE* 193

would call an award of attorney's fees exceptional in nature,¹³⁹ the United Kingdom courts do not. More interesting is the United Kingdom's treatment of willfulness. Rather than enhancing damages for a showing of willfulness, courts in the United Kingdom are statutorily authorized to reduce damages where there is a finding of innocence.¹⁴⁰ The courts are instructed not to award any damages to compensate the patent holder for losses suffered where the infringer had no "reasonable grounds for supposing, that the patent existed."¹⁴¹ An infringer in the United Kingdom may be entitled to retain the benefits reaped from infringing a patent as long as he remains innocent.

Japanese patent law also presents a very different system than that of the United States. Until 1998 in Japan, the patent infringer was only liable for the amount of damages that he received as profit or a reasonable royalty as a result of the infringement.¹⁴² Also, Japanese patent law allows a court to reduce damages except in the case of willfulness or gross negligence.¹⁴³ In addition, Japan imposes criminal penalties for patent infringement as well as civil penalties.¹⁴⁴ It would seem that Japan has infused a sense that infringement is wrong into the penalty part of the patent infringement system, but the criminal sanctions are enforced by the prosecutors who are really disinterested and tend to enforce the sanctions infrequently.¹⁴⁵ Japan's patent penalties are such that infringement is assumed to be willful, and there is an opportunity for reduction of penalties upon a showing of innocence.¹⁴⁶

It would seem that willful infringement in either Japan or the United Kingdom is the standard from which damages may be reduced. Thus, these nations do not stress prevention of innocent infringement, unlike the United States' goal of encouraging innovation through patent investigation.¹⁴⁷

In general, the patent system of a nation is part of a larger system of innovation.¹⁴⁸ It will work best when it is in tune with

139. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1347 (Fed. Cir. 2004).

140. See *Coury*, *supra* note 137, at 1125.

141. See *Patents Act, 1977*, c. 37, § 62(1) (Eng.).

142. See *Coury*, *supra* note 137, at 1143.

143. Japanese Patent Law art. 102.

144. Article 196(1) of Japan's patent law of 1953 provides for a fine of up to 5,000,000 yen and imprisonment up to 5 years for patent infringement. See *Janicke*, *supra* note 9, at 288 n.44.

145. *Janicke*, *supra* note 9, at 288.

146. *Id.*

147. See *Lydon*, *supra* note 73, at 396.

148. *Janicke*, *supra* note 9, at 283.

the prevailing culture of the country that it is trying to serve.¹⁴⁹ American culture favors strong successful individuals and has a tendency to make heroes out of inventors, who are rewarded with strong patents.¹⁵⁰

It may be helpful to evaluate the patent systems in some of the less developed countries as they are building their patent systems to meet their national goals and posture themselves for international trade. Statistics concerning the research occurring in India indicates that scientists conduct more academic research than industrial research.¹⁵¹ Because of the lack of skilled positions available for scientists, many have left for jobs in the United States.¹⁵² Due to this displacement of Indian citizens, India was careful not to grant exclusive rights to import a patented product since India must import so much of its technology to make up for the displaced technological talent.¹⁵³ It seems the less developed countries must mold their patent systems to accommodate economic realities while the United States may be more free to focus on growth and innovation.

E. *Law of Trademarks*

There is good reason to consider trademark law in analyzing patent law since both have similar legal motivations.¹⁵⁴ Unlike copyright law, whose main focus is the benefits to society created by the author's labors,¹⁵⁵ trademark law is centered on protecting profits of companies and the economic interests of consumers.¹⁵⁶ The main goal of trademark law is to avoid consumer confusion when buying in commerce.¹⁵⁷ Damages available to a victim of trademark infringement explicitly include (1) the defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.¹⁵⁸ An award for the second two of these seems to indicate that there is an intention to do more than put the ag-

149. *Id.*

150. *Id.* (citing Scott Erickson, *Patent Law and the New Product Development: Does Priority Claim Basis Make a Difference?*, 36 AM. BUS. L.J. 327 (1999)).

151. Herbert O'Toole & Le-Nhung McLeland, *Patent Systems in Less Developed Countries: The Case of India and the Andean Pact Countries*, 2 L.J. & TECH. 229, 238 (1987).

152. *Id.*

153. *See id.*

154. Robert O. Bolan & William C. Rooklidge, *Imputing Knowledge to Determine Willful Patent Infringement*, 24 AIPLA Q.J. 157, 179-80 (1996).

155. *See* Joyce, *supra* note 109, at 3.

156. *Id.*

157. *See generally* Shashank Upadhye, *Trademark Surveys: Identifying the Relevant Universe of Confused Consumers*, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 549, 552 (1998) (discussing the effort to reduce confusion of trademarks among consumers).

158. 15 U.S.C. § 1117(a) (2000).

2005] *AFFIRMATIVE DUTY TO EXERCISE DUE CARE* 195

grieved party in as good a position as they would have been had there been no infringement, less the costs of enforcing their rights. However, attorney's fees are only available in "exceptional" cases.¹⁵⁹ Although the Lanham Act¹⁶⁰ does not explicitly require bad faith as an element for collecting any of these damages, some courts require evidence of bad faith or inequitable conduct before awarding an accounting of a reasonable royalty or the defendant's profits.¹⁶¹ Courts rely on the "wide discretion" granted them by the Lanham Act "to fashion an appropriate remedy."¹⁶²

The courts deciding trademark cases have the ability to use this wide discretion to include bad faith or willfulness since there are no long-term social goals that need to be considered. Although Congress did not intend to include bad faith as an element for damages at the time they drafted the Lanham Act, they have remained silent on the issue at every opportunity to alter this judicial construction.¹⁶³ Wide discretion naturally translates to uncertainty, which is more appropriate in the trademark context than in the patent context where promotion of the sciences is a primary goal. In addition, wide discretion is appropriate where the courts acknowledge, as they do in trademark law, that no one party has an affirmative duty to prevent trademark infringement.¹⁶⁴ Rather, the courts distinguish between the duty of a defendant to avoid infringement and the freedom a plaintiff has to choose whether to prevent infringing activity.¹⁶⁵ In *Coca-Cola v. Snow Crest Beverages*, the sellers of mixed drinks including rum and cola had a duty to avoid substituting a less expensive alternative when a customer ordered a rum and Coke.¹⁶⁶ Although Coca-Cola may have been aware of this practice, it did not owe any duties to prevent it.¹⁶⁷

159. *Id.*

160. *Id.*

161. James M. Koelmay, Jr., *A Practical Guide to Monetary Relief in Trademark Infringement Cases*, 85 TRADEMARK REP. 263, 269 (1995).

162. *Id.* (citing *BASF Corp. v. Old World Trading Co.*, 41 F.3d 1081, 1095-96 (7th Cir. 1994)).

163. Danielle Conway-Jones, *Remedying Trademark Infringement: The Role of Bad Faith in Awarding an Accounting of Defendant's Profits*, 42 SANTA CLARA L. REV. 863, 924 (2002).

164. David Hricik, *Remedies of the Infringer: The Use By the Infringer of Implied and Common Law Federal Rights, State Law Claims, and Contract to Shift the Liability for Infringement of Patents, Copyrights and Trademarks*, 28 TEX. TECH L. REV. 1027, 1042 (1997) (citing *Coca-Cola v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946)).

165. *See Coca-Cola*, 64 F. Supp. at 989.

166. *Id.*

167. *Id.*

In patent law, the patent holder does not seem to have the same freedom to simply do nothing. The immediate needs of the consumer are not an issue in patent law where in fact the consumer may immediately benefit from patent infringement because of increased competition and the resultant drop in prices.¹⁶⁸

V. PROPOSED PARTIAL SOLUTIONS

A. *Eliminate the Willfulness Doctrine Altogether*

Perhaps the most drastic but simplest way to solve some of the problems associated with the willfulness doctrine is to eliminate it completely.¹⁶⁹ Since willfulness has been defined through judicial construction, courts could eliminate the doctrine without violating the enhancement statutes.¹⁷⁰

Although the largest problem created by the willfulness doctrine has already been eliminated by the *Knorr-Bremse* Case,¹⁷¹ there are other problems besides the adverse inference rule which could be solved. For instance, there would no longer be an incentive for engineers to avoid reading patents,¹⁷² thereby promoting the goal of the patent system to disseminate knowledge. Also, it would eliminate the concern that a patent owner would take advantage of the fact that he could create an affirmative duty in the possible infringer simply by sending a threat letter.¹⁷³ This could also result in the promotion of technology in that it would reduce the number of cases in which a company pays a license fee unnecessarily, simply to avoid the uncertainty of litigation.

However, there are problems that would be created by the elimination of the willfulness doctrine. A patent holder who prevails in an infringement suit and receives a reasonable license fee would be under-compensated by at least the amount of his attorney's fees, as well as any opportunity costs foregone in order to participate in the litigation.¹⁷⁴ Furthermore, a total elimination of the willfulness doctrine would place the possible infringers in a

168. See William A. Drennan, *Changing Invention Economics by Encouraging Corporate Inventors to Sell Patents*, 58 U. MIAMI L. REV. 1045, 1049 (2004) (indicating drug prices may be reduced by patent infringement).

169. Lemley & Tangri, *supra* note 74, at 1109.

170. *Id.* at 1109 n.69.

171. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1341 (Fed. Cir. 2004) (referring to the elimination of the adverse inference rule).

172. Lemley & Tangri, *supra* note 74, at 1109.

173. *Id.* at 1090.

174. *Id.* at 1109-10.

2005] *AFFIRMATIVE DUTY TO EXERCISE DUE CARE* 197

position of power that could be exploited.¹⁷⁵ A possible infringer who received a threat letter would have less of an incentive to comply immediately with a license agreement because a reasonable license fee is all he would likely be liable for retrospectively.¹⁷⁶ There would be some incentive for the recipient of a threat letter to negotiate a license because courts are likely to award damages that are higher than the parties would likely have negotiated.¹⁷⁷ The reason they do this was stated in *Panduit Corp. v. Stahlin Bros. Fibre Works*.¹⁷⁸ “Except for the limited risk that the patent owner, over years of litigation, might meet the heavy burden of proving the four elements required. . . the infringer would have nothing to lose, and everything to gain. . . .”¹⁷⁹ The court mentioned its previous statement that the infringer would be in a “heads-I-win, tails-you-lose” position.¹⁸⁰ The court also expressed a concern that this situation would impose a “compulsory license” policy upon every patent holder.¹⁸¹ This analysis performed by the *Panduit* court reveals the courts already have a method of de-incentivizing willful infringement in the case where reasonable license fees are awarded.

Some scholars have suggested that reserving the issue of willfulness until after the patent in question has been found valid and there has been a finding of infringement would be a substitute for eliminating the willfulness doctrine.¹⁸² Both schemes acknowledge the issue of willfulness is too pervasive in the litigation process.¹⁸³

B. *Criminalize Appropriate Activities*

Some commentators have suggested that reprehensible activities should be dealt with by the criminal system.¹⁸⁴ It is said that this change could make patent litigation affordable.¹⁸⁵ Other countries employ this method, and it would not be entirely out of line with the American trend of celebrating inventor he-

175. *Id.* at 1110.

176. *Id.* at 1111.

177. *See, e.g.,* *Fromson v. W. Litho Plate & Supply Co.*, 853 F.2d 1568, 1576 (Fed. Cir. 1988).

178. 575 F.2d 1152, 1158 (6th Cir. 1978).

179. *Id.* at 1158.

180. *Id.* (citing *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1257 (6th Cir. 1972)).

181. *Id.* at 1158.

182. *See* Heffan, *supra* note 11, at 115.

183. *See id.* at 115-16.

184. Janicke, *supra* note 9, at 296.

185. *Id.*

roes and punishing those who seek to gain an unfair advantage. If the American culture could not stomach such a substantial change, perhaps professional grievance systems could deal with such activities.¹⁸⁶

C. Preliminary Injunctions

One might argue an affirmative duty of care on the part of the alleged infringer is not necessary due to the availability of a preliminary injunction in a patent infringement suit.¹⁸⁷ The availability of such an injunction has been increased by a reduction in the standard of evidence from “beyond question”¹⁸⁸ to a “reasonable likelihood given the preponderance of evidence.”¹⁸⁹ The number of preliminary injunctions pursued and granted has grown significantly at the district and appellate levels since the relaxation of this evidence standard.¹⁹⁰ To obtain a preliminary injunction, the patent holder must demonstrate that the balance of four factors favors the injunction:

1. Whether the patent owner will have an adequate remedy at law or will be irreparably harmed if a preliminary injunction does not issue;
2. Whether the patent owner has at least a reasonable likelihood of success on the merits;
3. Whether the threatened injury to the patent owner outweighs the threatened harm that the injunction may inflict upon the alleged infringer; [and]
4. Whether the granting of a preliminary injunction will serve the public interest.¹⁹¹

It seems that where there is uncertainty about whether a patent is infringed, the duty to resolve the uncertainty properly lies with the patent holder to file a lawsuit and pursue a prelimi-

186. *Id.*

187. See Ramsey D. Shehadeh & Marion B. Stewart, *An Economic Approach to the “Balance of Hardships” and “Public Interest” Tests for Preliminary Injunction Motions in Patent Infringement Cases*, 619 Practising L. Inst/Patents Litig. 393, 398 (2000).

188. *Atlas Powder Co. v. Ireco Chems.* 773 F.2d 1230, 1233 (Fed. Cir. 1985).

189. Shehadeh & Stewart, *supra* note 187, at 398 n.2.

190. *Id.* at 398.

191. *Id.* at 399 (citing John G. Mills, *The Developing Standard for Irreparable Harm in Preliminary Injunctions to Prevent Patent Infringement*, J. PAT. & TRADEMARK OFF. SOC’Y 51-76 (1999) (citing *Illinois Tool Works, Inc. v. Grip-Pak, Inc.*, 906 F.2d 679, 681 (Fed. Cir. 1990))).

nary injunction.¹⁹² This strategy would be unlikely to significantly change the alleged infringer's willingness to investigate independently the merit of the claim, because the cost of litigating even this preliminary matter is likely higher than obtaining an infringement opinion and negotiating a license fee with the patent holder.¹⁹³ The result is that preliminary injunctions are only employed when there is a legitimate dispute over the existence of infringement. Perhaps a more lenient standard allowing for more potential infringers to initiate suit would acknowledge "the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain."¹⁹⁴

Another strategy to corral the patent system back into appropriate operations would be to allow the defense of independent invention to motions for preliminary injunctions.¹⁹⁵ Preliminary injunctions when sought by the plaintiff patent holder can be so problematic that the defendant faces the "financial equivalent of nuclear winter."¹⁹⁶ The preliminary injunction is a dominating tool for larger companies and patent licensing firms whose business is to enforce patent rights aggressively.¹⁹⁷ The reason preliminary injunctions are so devastating to smaller companies is that they could conceivably drive them out of business.¹⁹⁸ With the stakes so high for the smaller company, a settlement is often reached prematurely for fear a preliminary injunction will leave it powerless at the negotiating table later on.¹⁹⁹

Aggressive patent enforcement has become a multi-billion dollar industry.²⁰⁰ This is problematic because ideally the patent law should be used to promote innovation rather than for predatory reasons. The problem is so pervasive that even universities have joined in the practice of purchasing large portfolios of patents intending to enforce them aggressively.²⁰¹ With regard to

192. Vincent Chiappetta, *Defining the Proper Scope of Internet Patents: If We Don't Know Where We Want to Go, We're Unlikely to Get There*, 7 MICH. TELECOMM. & TECH. L. REV. 289, 353-54 (2001).

193. LEE CARL BROMBERG, 1 BUSINESS TORTS IN MASSACHUSETTS §§ 6.10.5-9 (Mass. C.L.E., Inc. 2002).

194. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

195. See generally Michelle Armond, *Introducing the Defense of Independent Invention to Motions for Preliminary Injunctions in Patent Infringement Lawsuits*, 91 CAL. L. REV. 117, 121 (2003).

196. Brenda Sandburg, *Trolling for Dollars*, SAN FRANCISCO RECORDER, July 30, 2001, at 1.

197. Armond, *supra* note 195, at 120.

198. *Id.*

199. *Id.* at 120-21.

200. Sandburg, *supra* note 196, at 1.

201. See William L. Schaller, *Growing Pains: Intellectual Property Considerations for Illinois Small Businesses Seeking to Expand*, 35 LOY. U. CHI. L.J. 845, 914 n.395 (2004)

willfulness, the same remedy can be used to curb this opportunistic behavior and conform the patent system to a more satisfactory concept of willfulness. Allowing a complete defense, not merely a factor to be considered, to a motion for a preliminary injunction would give a realistic chance of reaching the litigation on the merits to those defendants that were not deliberately infringing.²⁰² Ultimately, it seems the availability of a preliminary injunction is at best an expensive and unreliable substitute for the affirmative duty of care where none of the burden is shifted to the infringer.

D. *Eliminate the Requirement to Obtain Opinion of Counsel*

The *Knorr-Bremse* court seemed willing to address the question of whether there should be any adverse inferences drawn from an accused infringer's failure to obtain legal advice upon receipt of a threat letter.²⁰³ The court also asked the parties to brief the question of whether a substantial defense to infringement could negate a finding of willfulness even though it was unsuccessful.²⁰⁴ These questions seem to contemplate adopting an objective standard for finding willfulness.²⁰⁵ An objective standard would relieve the accused infringer of the expense of obtaining a legal opinion when he had a good faith belief that the accused activity was actually non-infringing.²⁰⁶ This standard would be more in line with the general tort conception of willfulness focusing on the state of mind of a reasonable infringer rather than the artificially conceived state of mind dictated by procedural actions of the parties.²⁰⁷

Another option would be to shift the burden of obtaining a legal opinion onto the patent holder. This opinion could be included in the threat letter, which would specifically describe the infringing action. It could be the mechanism for allowing an accused infringer to initiate an action for a declaratory judgment, which would promote competition for the use of ideas that are

(citing Margaret Cronin Fisk, *Ivory Towers Fire Back Over Patents: More Schools Are Suing Businesses*, NAT'L L.J., Aug. 26, 2002, at A1). Schools are generally using this method to recoup research investments. *Id.*

202. *See generally*, Armond, *supra* note 195, at 139.

203. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1337 (Fed. Cir. 2004).

204. *Id.*

205. Lemley & Tangri, *supra* note 74, at 1116 (providing a description of the objective standard for willfulness).

206. *Id.*

207. *Id.*

really in the public domain.²⁰⁸ This would be a sufficient deterrent for patent holders to send threat letters with little merit. It would also be more in line with the idea that a patent does not in itself confer a right to exclude competitors from competition, only the right to “try” to exclude them.²⁰⁹

Even if the accused infringer seeks an opinion letter and refuses at trial to disclose the contents, as allowed under the *Knorr-Bremse* decision without an adverse inference, the court may still need to evaluate the competency of the letter. In one case, the accused infringer obtained a letter stating, “I have every reason to believe that the validity of the aforesaid patent cannot be maintained and that it will be declared to be null and void by the court handling the litigation.”²¹⁰ The court held that this letter was conclusory and without support by analysis and would therefore not suffice to establish a good faith reliance.²¹¹ The *Read* court mentioned that a good test of whether the advice given is genuine and not self-serving is to determine if the defenses asserted in the letter are supported by evidence in the trial.²¹² This test may have lost some of its effectiveness, now that parties will presumably disclose the contents of their opinion letters less often since no adverse inference attaches for refusing to do so. It may make sense effectively to eliminate the requirement now that it will be more difficult for a court to determine if it is self-serving.

E. *Redefine Willfulness*

The patent law definition of willfulness, which makes a party into a willful infringer where it adopts a product in good faith and only later discovers facts that undermine their good faith belief, is arguably arbitrary.²¹³ While companies actually do re-evaluate their decisions about whether or not to sell a product as new information is gathered, this is an unrealistic and heavy burden to impose.²¹⁴ Once a company decides to sell a product it will invest in materials and personnel, so the decision

208. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

209. Lemley & Tangri, *supra* note 74, at 1111 n.76 (citing Carl Shapiro, *Antitrust Limits to Patent Settlements*, 34 RAND J. ECON. 391 (2003)).

210. *Kori Corp. v. Wilco Marsh Buggies and Draglines, Inc.*, 761 F.2d 649, 656 (Fed. Cir. 1985).

211. *Id.*

212. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 829 (Fed. Cir. 1992).

213. See Lemley & Tangri, *supra* note 74, at 1116 (citing *Pall Corp. v. Micron Separations, Inc.*, 66 F.3d 1211, 1221-22 (Fed. Cir. 1995) (stating that patent infringement is “a continuing tort, and an action even innocently begun does not automatically retain its purity as circumstances change.”)).

214. *Id.* at 1117.

to continue selling the product contains at least the extra variable of sinking these costs, which is not a factor in the initial decision to make the product.²¹⁵ A company that has made a large investment in a product would naturally want to be much more certain that the activity is infringing and perhaps the courts could recognize this fact by redefining willfulness. The classic target of willfulness law in the patent context is the “wanton and malicious pirate.”²¹⁶ At times, the Federal Circuit has acknowledged that copying the patent product is worse than discovering later that the independently created product infringed on a patent.²¹⁷ In *Electro Med. Sys.*, the court denied an award of enhanced damages even though there was a finding of willfulness because the infringer had not copied the patented product.²¹⁸

One major benefit of redefining willfulness to include only the state of mind of the infringer at the time of the conception of the product in question is that a company would not need to obtain a new costly opinion letter each time new information was discovered.²¹⁹ One minor but interesting benefit would be the effect it would have on what has been called a “submarine patent.”²²⁰ Submarine patents are based on a continuation application drafted specifically to cover the targeted invention after a competitor puts it on the market.²²¹ The patent holder may have bad intentions, and the infringer might be charged with willfulness even though it developed the product innocently.²²² The use of submarine patents has long been criticized for being an unfair form of competition.²²³ The reformulation of the willfulness definition would put an end to this predatory practice, which many feel is a blatant misuse of the patent system in this country.

VI. CONCLUSION

Clearly, there is a great deal of uncertainty in the outcome of a patent infringement case, especially at the time a notice of infringement might be sent. Although it is difficult to define, there is an optimal (non-zero) level of uncertainty that will maximize

215. *Id.*

216. *Seymour v. McCormick*, 57 U.S. 480, 488 (1853).

217. *See, e.g., Electro Med. Sys. v. Cooper Life Scis., Inc.*, 34 F.3d 1048, 1058 (Fed. Cir. 1994).

218. *Id.*

219. Lemley & Tangri, *supra* note 74, at 1119-20.

220. *Id.* at 1120.

221. *Id.*

222. *Id.*

223. *Id.*

2005] *AFFIRMATIVE DUTY TO EXERCISE DUE CARE* 203

the benefits of the many goals of the patent system. However, not all aspects of an infringement case are unpredictable. It is all but certain that in any litigated patent case there will be a claim of patent invalidity.²²⁴ One commentator suggested that he had never heard firsthand or secondhand of any case that did not involve such a claim.²²⁵ Lawmakers should be tasked to use the specific instances of certainty or uncertainty to create the outcomes that satisfy the general goals of the patent law in this country. A general reduction in uncertainty would seem to accomplish this by allowing companies to devote themselves to developing technology, rather than trying to evaluate the probabilities that are important to making business decisions, but seem to have no relevance in patent litigation. At any rate, there are many ways for an accused infringer to deal with the uncertainty, and an example would include purchasing insurance coverage.²²⁶

Since Judge Dyk's main concern about the affirmative duty centers on the punitive nature of treble damages,²²⁷ it would be appropriate to deal with only the treble damages rather than eliminating the entire affirmative duty to exercise due care. The affirmative duty when applied only to the award of attorney's fees makes sense, especially when applied to both parties. If an affirmative duty were also imposed on patent holders, this would allow patent holders to draft clear and meaningful notice letters while at the same time preventing them from creating unsubstantiated "threat" letters. Hopefully, imposing the duty on both parties would aid in ending the distortion of legal advice that occurs when a sophisticated party attempts to capitalize on the relative un-sophistication of their adversary.

There is still a place for the affirmative duty in American patent law, but it needs to be reshaped in a way that recognizes that Americans value innovation highly and does not undercut their efforts of independent creation. In addition, the goal of pre-litigation investigation into the validity of a threat letter should be divided more evenly between the patent holder and the accused infringer. It is currently too simple for a patent holder to accuse another of infringement since the threat letter does not have to be explicit. Since there are no consequences, there is the possibility that the patent holder will get away with some unscrupulous behavior.

224. Lemley & Tangri, *supra* note 74, at 1092.

225. *Id.* at 1092 n.17.

226. Thomas J. Stueber, *Insurance Coverage for Patent Infringement*, 17 WM. MITCHELL L. REV. 1055, 1056 (1991).

227. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1350-51 (Fed. Cir. 2004).

The affirmative duty either needs to be less specific, thereby enabling sophisticated businesses recognizing a predatory threat letter a simple alternative to an expensive legal opinion letter, or more specific, demanding that the patent holder do his fair share of the investigation and share his results with the accused so they can know the extent of their alleged infringement. This scheme would allow both the accused infringer and the patent holder to more confidently assess their risks and get on with the business of providing goods and services for their customers and promoting the sciences for society.

Harold A. Borland

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