

Willful Patent Infringement and Treble Damages: The Reason for Legal Opinions

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So, you've just learned that a competitor has a patent on a product you want to make—what do you do?

Patent attorneys are frequently called upon to advise how to steer clear of the patent rights of others. This is often accomplished by rendering patent invalidity and non-infringement opinions. Opinions help avoid the risk of exposure to increased litigation damages.

You can learn of others' patent rights in several ways:

- You can be the unfortunate recipient of a demand letter charging infringement, or a letter simply putting you on notice of the patent.
- A salesperson can learn of a patent through casual conversation with their counterparts from a competing business.
- Patents can come to light during product development research or during patent searching.
- You can “inherit” knowledge of a patent by acquisition of a company or its assets, or by a merger.
- You can read about the issuance of a patent to a competitor in a press release, or by research about the competitor, or through a watch service that monitors your competition.

Once you learn of the existence of a patent, what are your duties?

There is no legal duty to investigate whether a competitor has patents. In fact, some lawyers suggest that it may be better not to search for competitors' patents, because of the possible problems that can occur once you learn of the existence of a problematic patent. However, once you have knowledge of patents that you might infringe, legal duties arise. This knowledge may also make you liable for increased damages if you are found to be infringing the patents.

The patent laws authorize a court to increase the damages in patent infringement lawsuits up to three times the amount found or assessed. This is known as the “treble damages” award. A decision to increase damages is discretionary with the court, but is usually exercised only in cases of willful and wanton infringement or bad faith litigation. Fortunately, an increase in damages is inappropriate when an infringer mounts a good faith and substantial challenge to the validity of the patent or the existence of infringement.

The most common basis for increased damage awards is willful infringement. Beginning in 1983, the Court of Appeals for the Federal Circuit handed down a number of decisions

concerning willfulness and emphasized the importance of obtaining the advice of counsel to avoid a finding of willfulness. The Federal Circuit court has stated the legal duty as follows—a person with actual notice of another’s patent rights has an affirmative duty to exercise due care to determine whether the person’s acts will be infringing, including the duty to seek and follow competent legal advice before beginning activity that may constitute patent infringement.

What factors are involved in “willful infringement” of a patent?

The courts often enter awards of increased damages where the infringer acted in wanton disregard of the patentee’s patent rights, that is, where the infringement is “willful.” Courts consider the “totality of the circumstances” in determining willfulness. Acting on patent counsel’s timely and competent advice will often shield an infringer from willful infringement. Absence of advice from counsel suggests, but does not mandate, a willfulness finding.

The paramount determination in deciding to grant enhanced damages and the amount of such enhanced damages is the egregiousness of the defendant’s conduct based on all the facts and circumstances. Perhaps the most significant action that can be taken to demonstrate acceptable commercial conduct is to obtain an opinion of counsel that the patent is not infringed or is invalid.

How can you avoid potential exposure for increased damages?

Although there is no hard and fast rule that an opinion letter from patent counsel will necessarily avoid a finding of willful infringement, it is clear that having an opinion can be extremely important if litigation occurs on a patent on which you are “on notice”. A well-reasoned opinion of counsel that the patent is invalid or that the patent is not infringed is the best way to minimize the risk of increased damages.

The case law is clear that the presence or absence of an opinion of counsel is a key factor that courts consider in deciding whether to award increased damages. The failure to seek and carefully follow the advice of competent counsel has frequently been a key factor supporting a willfulness finding. In one case where an infringer learned the existence of the patent before it began manufacturing, the court found that the infringer had an affirmative duty to obtain a validity and infringement opinion.

If you obtain and act on your counsel’s competent invalidity or noninfringement advice, courts will most often refrain from finding willful infringement, even if you ultimately lose the litigation and are found infringing. However, circumstances such as deliberate copying, concealment of apparently infringing activity, and other factors may suggest willfulness even though you obtained an invalidity or noninfringement opinion from counsel. This is more likely to happen if the court views the opinion as less than competent or complete (that is, not “well reasoned”), or finds that you did not in fact follow or rely upon your counsel’s opinion. In one famous case, *Polaroid Corp. v. Eastman Kodak Company* (1990), the Massachusetts District Court refused to find Kodak’s infringement of seven Polaroid instant photography

patents willfully infringed. Seven years before producing its first commercial instant photography product, Kodak retained a patent law firm to conduct patent clearance studies. The attorneys considered over 250 Polaroid and non-Polaroid patents in the technology and rendered over 67 written and many other oral opinions on the patents. After the Court entered an injunction, Kodak withdrew from the instant camera market—and has not since re-entered this market.

In a later damages phase trial, Polaroid contended that Kodak's infringement was willful even though Kodak had obtained many validity and noninfringement opinions. The Court found that Kodak consulted its attorneys early and often as it developed its instant photography system. The attorneys examined Kodak's products, sometimes requested additional tests in order to understand how the technology worked, and carefully studied the patents. The study involved review of the patents' prosecution histories and the prior art. All together, the attorneys reviewed hundreds of claims in the 250 patents. Even though the attorneys' advice simply turned out to be incorrect concerning a few of the patents, a finding of willful infringement was avoided.

The bottom line—if you are planning a new product development effort and have discovered a patent or patents that you might infringe, or if you have been put on notice of someone's patent rights, it is good business practice to obtain an opinion of counsel. This opinion should be obtained before undertaking or continuing any activity that might be considered infringement. The lack of a well-reasoned opinion of counsel can result in a finding of willful infringement and increased damages if you are sued for patent infringement and wind up on the losing end.

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