Patent Dispute Primer —Part 1

Patent Infringement Basics All Attorneys Should Know

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This is the first in a three-part series designed to educate attorneys of all experience levels about the basics of patent infringement disputes so that they can understand and guide their clients when these issues arise. Part 1 explains the foundations of patent disputes, including potential consequences of and strategies for avoiding patent infringement.

For many new attorneys, and even experienced ones, the world of patent infringement is shadowy, unfamiliar, and filled with unusual rules. Patent disputes can be high-risk, high-reward, bet-the-company litigations—and they don't just affect large technology providers or aggressive companies that provoke litigation by intentionally copying others' technology. Companies of all sizes and in all industries can become immersed in patent litigation. And because patent infringement can happen regardless of intention—and even if a defendant never knew of the patent it is accused of infringing[1]—patents are an ever-present threat. Infringement accusations regularly target anything from a company's core product and service lines to collateral parts of the business, such as websites, advertisements, mobile apps, and online and other payment methods. Patents often exist on technologies that appear so well-known and ubiquitous that one assumes they are free to use.

Another common misconception is that only inventors or companies engaged in using a patent can sue for infringement. This is not true. Patents are regularly bought and sold, and that has led to a proliferation of businesses that exist solely to buy up patents, seek licensing payments from companies they accuse of using those patents, and sue if they refuse to enter into a license agreement. These types of entities are often called "non-practicing entities" or, derogatorily, "patent trolls." These entities are often well-funded (often by litigation funders investing in patent litigation), well-organized, and represented by sophisticated counsel, and thus cannot be ignored.

Therefore, Colorado companies that never expect to deal with patents could nevertheless find themselves involved in a patent dispute. It is therefore helpful for all attorneys to understand some of the fundamentals of patent infringement disputes, what the risks are, and how to avoid them. This article is the first of a three-part primer on the basics of patent disputes. This first installment explains the potential consequences of patent infringement claims, how infringement may occur, and how to reduce the risk of infringement.

The Risks of Patent Infringement

A company found to have infringed a patent could face an injunction or money damages (or both). A federal court can issue and enforce orders barring the sale of infringing products and services.[2] Preliminary injunctions can be entered at the outset of the case and remain effective while the case is pending. Permanent injunctions can be entered at the end of the case and last for the duration of the infringed patents, potentially grinding business to a halt.

Notably, courts are not the only bodies that can issue injunctions for patent infringement. The International Trade Commission (ITC), a federal administrative agency, has the authority to decide cases concerning the alleged importation of infringing products.[3] The ITC's administrative judges can bar companies from importing infringing products and order the US Border Patrol to prevent such products from entering the United States at any port of entry. While at first glance that may seem irrelevant to companies involved in domestic manufacturing, consider that ITC cases often involve components of larger products that are assembled in the United States.

In addition to the threat of injunction, federal courts can award monetary damages to compensate for infringement.[4] These damages are most often measured as a "reasonable royalty"—that is, the amount of a royalty that an infringer should have paid to the patent

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owner as compensation for using the patent. Damages can go back as far as six years prior to the lawsuit being filed, assuming the patent was in force during that prior period of time. And in certain situations, courts can order prospectively that infringers must pay a "running royalty" on future sales of infringing products until the patent expires.

Sometimes, damages can be calculated in an even more lucrative way. In cases between competitors, where a plaintiff can establish that the defendant's infringement caused it to lose sales or revenues (e.g., through price erosion), an infringing defendant could be required to compensate a plaintiff for its "lost profits."[5]

Regardless of how damages are measured in a given case, it is becoming routine for patent litigation to result in eight-, nine-, or sometimes even ten-figure damages awards. For instance, in 2024, there were numerous large damages verdicts in patent cases, including a verdict in excess of $445 million.[6]

When considering these potential risks, it is important to reiterate that in order to prevail on a patent infringement claim, the patent owner need not show that the accused infringer was aware of the patent or intended to infringe.[7] They simply must prove that the patent is being infringed. But in cases where the patent owner does prove that infringement was intentional, the infringer faces additional risk. In "exceptional" cases—including cases of willful infringement—courts may increase a damages award by up to three times.[8]

What Exactly Is a Patent, and What Rights Does It Grant?

Having discussed the risks of infringement, it is helpful to take a step back and clarify what exactly a patent is. At a high level, a patent is a property right. The fundamental concept is that when an inventor discloses her invention to the world in the form of a patent, that inventor is awarded with the right to a monopoly over the use of that technology for a defined period of time. This concept is built into the US Constitution: "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[9] Modern patents are governed by a variety of laws, including most notably the Patent Act and the more recent America Invents Act.[10]

To obtain a patent, an inventor must submit an application to the US Patent and Trademark Office (USPTO), a federal agency. The USPTO can grant patents for any "new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof . . . ."[11] Patents can cover both physical items (apparatuses) as well as systems and methods of performing certain steps. They can also cover plants (e.g., fruits and vegetables) and chemical/pharmaceutical compounds.[12] Under present law, a successful utility patent applicant is granted a patent that can last for 20 years from its original filing date.[13] If anyone else wants to use the patented technology, they need the patent owner's permission, which most commonly occurs in the form of a license agreement.

Tens of thousands of patents are granted every year by the USPTO.[14] In 2020, approximately 388,900 patents were granted.[15] Most contemporary patents cover small parts of larger products and systems. And, inversely, most complex products involve hundreds, if not thousands, of patented technologies.

Examiners at the USPTO evaluate patent applications and decide which applications are approved to become a granted patent. It can take years for a patent to be examined—this is why some products have a "patent pending" designation.

Patents can be many pages long, but by far the most important part is found at the end in a list of numbered paragraphs, each of which is called a "claim." The claims define the scope of the monopoly right in the patent, and one patent may have dozens or more claims. Almost all of the text in a patent that comes before the claims exists to help interpret and define the claims.[16]

What Is Patent Infringement?

Patent infringement means that a defendant, without the patent owner's permission, has made, used, sold, or imported something that practices everything in at least one claim of a patent.[17] You don't have to practice all of the claims to infringe a patent; one claim is enough to support a finding of infringement. But you do have to perform everything in a single claim to infringe that claim.

In addition, a company may infringe a patent by inducing or contributing to another party's performing of the claim. This is called indirect infringement, and the general idea is that a company should not escape infringement merely by intentionally directing others to perform parts of the patent claim.

Additionally, there is a legal theory called the "doctrine of equivalents" that could result in liability even if the accused product does not exactly practice the patent in the precise way described in the claims. Under the doctrine of equivalents, "a product or process that does not literally infringe upon the express terms of a patent claim may nonetheless be found to infringe if there is equivalence between the elements of the accused product or process and the claimed element of the potential invention."[18] The standard is that infringement may be found if the accused product performs substantially the same function as the claimed product, in substantially the same way with substantially the same result.[19]

Avoiding Patent Infringement

Companies seeking to avoid patent infringement sometimes think they should seek out any potential patents they might infringe and make sure they don't infringe. The reality is that it is impossible for a company to do so. There are too many patents, covering too many types of technologies, to even attempt to analyze all of them. But there are a few things that a company can do to help analyze and limit its risks.

First, companies should take seriously communications alleging patent infringement, as that is the primary way they may be initially approached. Patent owners who use their own patents are generally required to mark their products with the patent number. With some important exceptions (including when a patent covers a method rather than a product), when a patent holder fails to mark its own patent-practicing product, they cannot get damages until the accused infringer is actually aware of the patent.[20] Therefore, in certain circumstances, damages may begin to accrue if a warning letter

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is sent to the accused infringer identifying the exact patent, or when the defendant receives notice of the patent when a complaint is filed. This rule flows from the basic bargain underlying patents: There must be fair notice of the patent before damages begin to accrue.

If a company is already aware of a patent, there are some options that may help mitigate the risk of an infringement claim. One is to work with counsel knowledgeable about patent law to develop a "design-around"—that is, a redesign that makes certain tweaks that ensure a product does not practice all of the claims of the patent. But a word of caution: Trying to perform a design-around without working with counsel is risky and could create complications down the road because the company may be unable to rely on the attorney-client privilege to prevent the disclosure of its design-around concepts and communications.

Additionally, many companies seek an "opinion of counsel," in which an attorney formally analyzes whether a company infringes the patent or whether the patent is invalid and should not have been granted by the USPTO in the first instance. Opinions of counsel can, however, be a double-edged sword. They may be a somewhat helpful tool to help defeat a claim of willful infringement (and, by extension, treble damages). But on the other hand, relying on the opinion during litigation requires the client to give a broad waiver of the attorney-client privilege on this subject. For this reason, opinions of counsel are typically prepared by attorneys other than those who will represent a company in patent litigation. Whether or not the benefit of an opinion of counsel is worth the risk will need to be evaluated on a case-by-case basis by knowledgeable counsel familiar with patent litigation.

Conclusion

Patent infringement lawsuits carry a high risk for Colorado companies. It can be beneficial to consult with an attorney familiar with patent law who can help spot potential pitfalls and develop a holistic strategy to prevent infringement. Part 2 of this series will discuss best practices for when a patent owner directly accuses your client of infringing a patent.


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NOTES

1. *See Glob.-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754, 761 n.2 (2011) ("Direct infringement has long been understood to require no more than the unauthorized use of a patented invention. (Citations omitted.) Thus, a direct infringer's knowledge or intent is irrelevant.").

2. *See* 35 USC § 283. Prior to the US Supreme Court's 2006 decision in *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006), injunctions were commonly granted as a remedy for patent infringement. The *eBay* decision made injunctions more difficult to obtain, especially in lawsuits where the parties are not competitors in the marketplace. *eBay* clarified that, to obtain an injunction, a patent holder must satisfy the familiar four-factor test for injunctions in other, non-patent contexts. Specifically, the patent holder must show "(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction." *Id.* at 391. Notably, in the past few years, there has been pushback to reverse the *eBay* decision and return to a system where injunctions are commonly granted, including through proposed legislation such as the RESTORE Patent Rights Act of 2024. The bill would add a rebuttable presumption that an adjudged patent infringement should be remedied through injunctive relief. *See* H.R. 9221, 118th Cong. (introduced July 30, 2024).

3. *See* Section 337 of the Tariff Act of 1930, 19 USC § 1337.

4. *See* 35 USC § 284.

5. *See Mentor Graphics Corp. v. EVE-USA, Inc.*, 851 F.3d 1275, 1285 (Fed.Cir. 2017) (describing factors to obtain lost profits).

6. *See, e.g.*, *Netlist, Inc. v. Micron Tech. Inc.*, No. 2:22-cv-00294, 2024 U.S. Dist. LEXIS 73227 (E.D.Tex. Apr. 18, 2024).

7. *See supra* note 1.

8. 35 USC § 284.

9. U.S. Const. art. I, § 8, cl. 8.

10. Leahy-Smith America Invents Act, 35 USC §§ 1 et seq.

11. 35 USC § 101.

12. There are also "design patents"—a separate type of patent not discussed herein covering an ornamental feature of a product. Design patents have a term of 15 years.

13. 35 USC § 154(a)(2).

14. *See* US Patent Statistics Chart, Calendar Years 1963–2020, https://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm.

15. *See id.*

16. For reference, a sample patent is available from the USPTO at https://www.uspto.gov/sites/default/files/documents/patent-format-sample.pdf. The claims appear on page 5.

17. 35 USC § 271(a).

18. *Warner-Jenkins Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 21 (1997).

19. *Id.* at 40.

20. 35 USC § 287.