



The two sides of 'efficient patent infringement'

The technique involves a calculation to weigh the benefits of infringing against the risks and costs of a liability finding.

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In recent articles and commentaries, authors have theorized a growing trend of large corporations allegedly engaging in a business technique known as “efficient infringement.” This technique, the authors have argued, involves a calculation by which a company weighs the benefits of manufacturing or selling a product patented by a third party against the likelihood a court will hold it liable for infringement. According to the theory, if the benefits outweigh the costs, the company will infringe.

The use of a cost-benefit analysis to determine whether the risk of infringing outweighs the costs of developing a noninfringing alternative is rooted in contract law. In a typical example, a party to a contract will find a breach more “efficient” if its profits arising from the breach exceed the damages owed to the nonbreaching party. Applied to patent law, the costs or risks involved require an understanding and analysis of patent law. For example, one would assess the likelihood of a court or jury finding infringement; finding the applicable patent claims not



invalid; finding the patent not unenforceable; issuing a remedy more severe than payment of a reasonable royalty; issuing an injunction; and finding willful infringement, thereby opening the door to potential treble damages and attorney fees.

Recent case law has arguably modified (and increased) the burden of obtaining

two remedies that can deter would-be efficient infringers—injunctions and enhanced damages. These modifications, along with changes to aspects of infringement and invalidity law, arguably may facilitate more “efficient infringement.” But although the bar may have been lowered, the risk of infringing is still real.

Indirect infringement was arguably restricted by the U.S. Court of Appeals for the Federal Circuit in *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006) (en banc). There, the court held that a patent owner must show that the alleged infringer “knowingly induced infringement, not merely knowingly induced the acts that constitute direct infringement.” *Id.* at 1306. The added requirement of specific intent arguably raises the burden of proving infringement, and thus recovering damages. But see *Global-Tech Appliances Inc. v. SEB S.A.*, No. 10-6, 2010 WL 2629783, at *1 (U.S. Oct. 12, 2010) (granting certiorari to review the standard of intent).

Infringement by equivalence was arguably restricted by the U.S. Supreme Court in *Warner-Jenkinson Co. Inc. v. Hilton Davis Chemical Co.*, 520 U.S. 17 (1997). There, the Court enunciated the “all elements” rule,

finding that “the doctrine of equivalents must be applied to individual elements of the claim, not to the invention as a whole.” *Id.* at 29. In the same opinion, however, the Court rejected attempts to strengthen prosecution-history estoppel. *Id.* at 30-31. See also *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co. Ltd.*, 535 U.S. 722, 737-38 (2002) (rejecting a complete bar of equivalence following a narrowing amendment). Furthermore, despite this perceived shift in the law (or clarification of precedent), the burden of proving infringement remains the same: a preponderance of the evidence.

In *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398 (U.S. 2007), the Supreme Court addressed the test for obviousness, one available defense for invalidating a patent. In that case, the Court rejected the “rigid” application of the teaching, suggestion or motivation test and explained that an “expansive and flexible” approach should be applied. *Id.* at 415. Although a more flexible obviousness analysis arguably enhances the ability to prove a patent invalid, patents are still presumed valid and must be proven invalid by clear and convincing evidence. See 35 U.S.C. 282. Efforts to eradicate this “presumption of validity” for prior art not considered by the U.S. Patent and Trademark Office have failed to date, but this issue will be before the Supreme Court sometime next year. See *Microsoft Corp. v. I4I L.P.*, No. 10-290, 2010 WL 3392402, at *1 (U.S. Nov. 29, 2010) (granting certiorari). Regardless, juries often give deference to official acts of the federal government, such as the issuance of a patent or the affirmance of patentability during re-examination.

The strength and availability of remedies serve to deter would-be infringers. The Supreme Court addressed the standard for issuing injunctions against patent infringement in *eBay Inc. v. MercExchange LLC*, 547 U.S. 388 (2006). There, the Court rejected the near-automatic grant of injunctions, holding that the four factors common to injunctive relief must be considered. Nevertheless, the factors still frequently favor an injunction against competitors when the loss to a patent holder is arguably the greatest.

Finally, in *In re Seagate Technology LLC*, 497 F.3d 1360, 1368 (Fed. Cir.

2007), the Federal Circuit eliminated a potential infringer’s affirmative duty to “exercise due care to determine whether or not he is infringing” another’s patent rights. Instead, the Court established a recklessness standard for willful infringement. Eliminating the duty of due care and increasing the burden of proving willfulness (which opens the door to enhanced damages (up to treble) and attorney fees) arguably reduces the deterrence enhanced damages have on would-be infringers. However, a willfulness finding can now label the exercise of business judgment as “reckless,” which may, according to some, pave the way to shareholder suits.

ANOTHER SIDE TO THE STORY

Despite the trend, much deterrence remains to discourage would-be efficient infringers. As indicated, the burden of proving infringement has remained constant, the presumption of a patent’s validity remains, injunctions are arguably favored among competitors and companies will likely hesitate to willfully infringe and be labeled “reckless.” Furthermore, the high cost of legal fees and the reality that courts may impose higher-than-bargained-for royalty rates similarly provide deterrence.

Some proponents of the efficient-infringement theory liken the technique to the “theft” of patents. They argue that existing patent laws are ineffective to prevent such “theft,” and larger corporations are able to outmuscle small businesses. In reality, their objections appear to lie with the following nonpatent rules of law: the American Rule, under which each party pays its own attorney fees, and corporate and antitrust laws, pursuant to which the monetary size of corporations is largely unlimited (subject to protections against certain anti-competitive or monopolistic behavior).

In addition, a comparison to theft overlooks the differences between rights in tangible and intangible property. For tangible, personal property, the taking analysis is typically clear. The owner either still has the property or it does not. For intangible patent rights, assessing a deprivation of rights, or infringement, is seldom black and white. Determining the scope of a patent typically requires claim interpretation, which is often complex

(both legally and technically).

In truth, parties today are more likely to commit to actions, without patent licenses, that may infringe another’s patent than they were 15 years ago. This is a present reality, which the case law has reflected to an extent. For example, given the current nature of technology and the patent system, a single product may be covered by more patents today than in the past (e.g., integrated products with multiple functions). Product clearance may require noninfringement or invalidity opinions for dozens of patents (or more), each bearing significant cost. Yet such opinions were necessary to defend against willful infringement under pre-*Seagate* law (under the duty of due care). In *Seagate*, the Court heightened the willfulness standard to reckless behavior, which some say more accurately identifies infringement that is deliberate. Still, in refuting a charge of willfulness under the recklessness standard, opinions of counsel remain very useful.

Moreover, the conditions do not appear to be dire, as some proponents of the efficient-infringement theory contend. The armor afforded by patents and remedies for infringement remain strong, especially in the case of deliberate copying. Many of the perceived changes in the case law may simply be clarifications of existing precedent. In any event, patents still have injunctive force (which is arguably most effective when asserted against competitors). The imminence of trial in a patent case still provides the risk and uncertainty that often motivates settlement. Finally, patents have not been “monetized” or had their potentially available damages capped in the same manner as other areas of law.

Thus, although the risk to patent holders (especially small businesses) has been identified by proponents of the efficient infringement theory, the existing law still affords protection.

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