IP Due Diligence: Patentability vs. Patent Infringement

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M&A transactions often require IP due diligence investigations when technology is involved, and it can be critically important to understand issues like what technology is owned by a company, what technological developments are in the pipeline that can be protected with patents, and whether the company has freedom-to-operate by making and selling their current or planned goods and services without infringing another's patent rights. Understanding the difference between patentability and patent infringement is important to understanding the overall IP position.

At first glance, "patentability" and "patent infringement" are similar terms, but in actuality they have very different meanings and it is important to be clear on those differences. For example, even if your invention is deemed patentable, that designation does not automatically mean a product embodying your invention would not infringe another's patent.

If you are granted a patent (meaning a patent application was filed, it was examined by a patent office, the examiner deemed the invention "patentable", and a patent was granted) you do not simultaneously acquire the affirmative right to use or practice the invention. Rather, a granted patent gives you, the patent owner, the right to exclude others from making, using, selling, or importing, the invention or more specifically a product or service embodying the invention. However, someone else may have obtained a patent that covers some portion of your product or service, which would prevent you from having freedom-to-operate.

For example, assume you are the inventor of the automobile. The basic components that you think of, design, and implement yourself are the automobile frame and body, which sits on four wheels, is steerable with a steering wheel, and is powered by an engine. You apply for, and receive a patent, claiming "an automobile with four wheels, a steering wheel, and an engine." However, before you invented the automobile, and unknown to you, Inventor B invented and patented the engine. Both of these patents are possible. Inventor B's engine patent was obtained before you invented the automobile, so there was no prior art teaching an engine. At the time the engine patent application was filed by Inventor B, it was new and nonobvious relative to any of the known prior art. However, it only covered an engine itself, not what to do with the engine. Then you came along and you figured out the other components that resulted in the invention of the automobile (the body, the four wheels, the steering, plus the engine). Your automobile was new and nonobvious relative to the prior art of the engine. Just because the engine existed, there was nothing about the engine that would necessarily lead one to think of the automobile. So you are able to patent the automobile, which includes the engine.

To make, use, and sell automobiles, you need to make, use, and sell engines as a component of the automobile. By making, using, or selling an engine, you are infringing Inventor B's patent on the engine. So you either cannot proceed, or you need to obtain from Inventor B a license to the patent on the engine (or to buy the patent from Inventor B, or if they sell engines then buy your engines from Inventor B) in order to proceed with making, using, or selling automobiles. Inventor

B, on the other hand, can make, use, or sell engines as long as he is not doing so together in automobiles, because you own the patent rights to automobiles. To infringe your patent, Inventor B would have to make and/or sell not only the engine, but also the body, the wheels, and the steering mechanism, as required by the claims of your patent.

It is also important to note that the patentability analysis looks at all things that would qualify as prior art (e.g., publications, products, public disclosures, patents, etc.). Whether or not an invention is patentable over the prior art requires looking at everything that is taught in these prior art documents and items. So, if a patent examiner is using another patent as a prior art reference to argue that your invention is not patentable, the examiner is allowed to consider and use anything in the patent reference (the detailed description, the summary, the figures, etc.) to determine whether it "teaches" your invention. Likewise, published patent applications are equally relevant as prior art as a granted patent; what is important in considering patentability is the information described anywhere in the document, whether or not an examiner has reviewed it and allowed a patent.

In contrast, the patent infringement analysis looks only at the "Claims" section of a granted patent. The "Claims" section of a patent is found at the end of the patent in the form of numbered paragraphs beginning with "Claim 1" and going on from there. To infringe a patent, a product or service must contain all of the elements of at least one claim of the granted patent. In the example of the automobile patent, if Inventor C makes, uses, or sells an automobile that has only three wheels, and your granted patent requires in "Claim 1" that the automobile have "four wheels", then Inventor C's automobile does not infringe your patent. This is true even if in the detailed description in your patent you discuss the possibility that your automobile could have three wheels or four wheels. If the claims at the end of your patent only specify a requirement of four wheels, not three, then there is no patent infringement. This is why patent attorneys spend a lot of time and effort to understand all variations of an invention. Conscientious patent attorneys try to draft claim sets that are broad enough in scope to capture obvious variations of an invention, but not so broad as to be un-patentable over the prior art that an examiner may uncover and use against the inventor during patent prosecution. As a quick aside, the way a patent attorney would deal with the three versus four wheel problem above is to claim "at least three wheels" in the patent claim, which would include three, four, or more wheels.

Patentability is about whether the claims at the end of the patent application have enough distinguishing requirements to be considered directed to a new and nonobvious invention in view of any prior art that is known and considered during the examination process by the patent examiner. The patent examiner compares the claims of the patent application with any relevant prior art they can find. If the claims are too broad, then a negotiation ensues between the applicant and the examiner, adding limitations to the claims to narrow down the scope and distinguish the claimed invention from the known prior art.

Patent infringement is about whether the requirements of the claims of a granted patent (not a pending application) are entirely met by the accused product or service. To be infringed, all requirements of at least one claim must be met by the infringing product or service.

In the M&A context, when technology will be essential to future growth, it is important to ask the target company for an assessment of the likely patentability of key technologies in the pipeline, to also ask whether a freedom-to-operate review has been performed to establish if the technology can be practiced, and finally to verify whether the company has been approached by any patent owners regarding infringement of another's patent rights.

For more information about patentability versus patent infringement, IP due diligence, or any patent or intellectual property related matter, please contact **Sean D. Detweiler**.