

Defending Patents Abroad

BY CHRISTOPHER M. NEUMEYER

Patents enjoy an exalted position in American law. They are enshrined in the Constitution (U.S. Const., art. I, § 8, cl. 8), and protections in the federal Patent Act allow inventors to control the use of their inventions while earning a tidy profit. (See 35 U.S.C. §§ 1-376.)

But the world is not perfect. When copycats seek to take advantage of others' creativity without paying for the privilege, patent owners often end up frustrated in their enforcement efforts. The frustration only increases when objectionable manufacturing, sales, and distribution take place overseas. If foreign copycat products then enter the United States, what can be done to bring the copiers (or the importers) to justice—particularly if the moneyed defendants do business only in foreign countries?

DIRECT INFRINGEMENT

Section 271(a) of the Patent Act makes it unlawful to make, use, offer to sell, or sell any patented invention within the United States—

or to import into the United States any patented invention during the term of the patent—without authority from the patent owner (35 U.S.C. § 271(a)). Although any liability for direct infringement must be based on acts committed within the United States, it is often unclear precisely where the offending conduct occurred. For example, the place where a device is made or used may be pinpointed with ease, but the place where a sale is consummated can be much harder to define.

Indeed, there is no mechanical test for determining the locus of a sale. The issue turns on various factors, such as: where a sales agreement is negotiated and executed; the location of the contracting parties; where the purchase orders and invoices originate; the points of payment and delivery; the shipment route; and geographically relevant contractual terms.

A manufacturer's knowledge that customers will import infringing goods into the United States is in itself generally insufficient to establish liability for direct infringement. In one case, a Japanese company was sued for manufacturing silicon

wafers in Japan that allegedly infringed a U.S. patent. Although the defendant sold the wafers exclusively to a Japanese customer, the defendant placed shipping labels on the products indicating a U.S. destination and communicated with the customer's American subsidiary to assist in shipping the goods here. Nonetheless, the court refused to hold the manufacturer liable for infringing sales, because it found that all the sales occurred in Japan (*MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F3d 1369 (Fed. Cir. 2005)).

However, even delivery outside the United States does not necessarily preclude a finding of infringement. Thus, when a Canadian company purchased infringing goods from China and sold them to U.S. customers but made all deliveries "f.o.b. Canada" (so title was transferred in that country), the Federal Circuit rejected the argument that the place of sale was where title changed hands. Because the defendant knowingly sold to customers located in this country, the court found sufficient evidence that sales occurred here (*LightCubes, LLC v. Northern Light Products, Inc.*, 523 F3d 1353 (Fed. Cir. 2008)).

In another case, a Hong Kong company manufactured infringing products in China and delivered them in Hong Kong. Still, the court found infringing U.S. sales because the defendant had manufactured the goods with North American electri-

CLE CENTER

You can now earn MCLE credit without leaving your computer. Go to www.callawyer.com and click on CLE Center for access to dozens of articles and tests on a range of topics.

GENERAL CREDIT

MCLE CREDIT

Earn one hour of MCLE credit by reading the article and answering the questions that follow. Mail your answers with a check for \$32 to the address on the answer form. You will receive the correct answers with explanations and a certificate within six weeks. Price subject to change without notice.

CERTIFICATION

The Daily Journal Corp., publisher of *California Lawyer*, has been approved by the State Bar of California as a continuing legal education provider. This self-study activity qualifies for Minimum Continuing Legal Education credit in the amount of one hour of general credit.

MCLE

cal fittings, affixed U.S. trademarks on the goods, and stated U.S. destinations on the invoices (*SEB v. Montgomery Ward*, 594 F.3d 1360 (Fed. Cir. 2010)).

Direct infringement liability may also arise from offers made within the United States to sell infringing goods. However, as with sales of goods, it can be difficult determining where the offer occurred. The leading case involves several U.S. and foreign entities that collaborated on a bid to supply construction equipment to the Chinese government. The plaintiff (who owned a U.S. patent related to the equipment) contended that the defendants' offer to sell infringed his patent. Despite the fact that the defendants had met several times in the United States before they submitted their bid, the court found insufficient evidence that the offer was made on American soil. Among other factors, the court noted that all negotiations took place in China; the bid proposal was finalized in Hong Kong; and the deal was signed in China. The court explained that an offer to sell is defined "according to the norms of traditional contractual analysis," and that the evidence didn't establish that the defendants had made an offer to sell within the United States (*Rotec Industries, Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1255 (Fed. Cir. 2000)).

Even when an offer to sell infringing goods is made within the United States, though, courts are split on whether that fact alone will support liability if the sale itself never occurs, or if it is consummated outside the country. One case involves a Hong Kong company that was sued for "offers to sell" that it made in Asia, notwithstanding that it never sold products in or into the United States (*Cybiotronics v. Golden Source*, 130 F. Supp. 2d 1152 (C.D. Cal. 2001)). The court ruled for the defendants, holding that direct infringement cannot be premised solely on an offer to sell within the United States, "unless the sale that is contemplated by the 'offer' is or will also be consummated within the United States." (130 F. Supp.

2d at 1171.) But other courts have held that the sale contemplated by the offer need not take place in the United States or be intended to take place here. (See *Wesley Jessen Corp. v. Bausch & Lomb, Inc.*, 256 F. Supp. 2d 228, 234 (D. Del. 2003).)

Direct infringement may also be based on the importation of infringing goods. While the Patent Act does not define *import* and the term has received little interpretation, one court concluded that merely sending representative samples into the country qualifies as importation. The case involved a Taiwan company that manufactured allegedly infringing goods in China and sold them to U.S. retailers, but delivered the goods in China. However, the defendant admitted to shipping several units to Underwriters Laboratories (UL) in the United States to obtain UL approval. The court explained: "Although sending products to the United States to obtain UL approval may not, on its own, be a sale or offer to sell ... to say that [the defendant] did not import those [products] sent to UL would defy logic since there is no evidence that anyone else played any role in their delivery to UL." (*Fellowes v. Michelin Prosperity Co.*, 491 F. Supp. 2d 571, 583 (E.D. Va. 2007).)

PATENTED PROCESSES

Even if the end product does not infringe a U.S. patent, the Patent Act makes it unlawful to sell, offer to sell, or import into the United States a product made by a patented process without authorization. The governing section (35 U.S.C. § 271(g)) was enacted in the 1980s to discourage companies from moving their manufacturing overseas in order to exploit U.S. process patents.

As with section 271(a), a defendant cannot be held liable under section 271(g) solely on the basis of extraterritorial conduct. Thus, one court dismissed a process-infringement action against a company manufacturing goods in China, allegedly pursuant to a U.S. patented process, because the defendant

only sold and delivered the goods in China, notwithstanding that the goods later made their way into the United States (*Pfizer Inc. v. Aceto Corp.*, 853 F. Supp. 104 (S.D.N.Y. 1994)). Another court granted the same result when a company manufactured goods in Japan, allegedly using a U.S.-patented process, but only sold the goods in Japan, notwithstanding that its customers later imported them into the United States (*Tec Air, Inc. v. Nippondenso Mfg. U.S.A., Inc.*, 1997 WL 49300 (N.D. Ill.)).

In addition, section 271(g) contains exceptions from liability if the imported device either is materially changed by subsequent processes, or becomes a trivial and nonessential component of another product.

ACTIVE INDUCEMENT

When the facts do not support a direct infringement or patent process claim, it may still be possible to hold a foreign entity liable for active inducement under section 271(b). That section reads simply, "Whoever actively induces infringement of a patent shall be liable as an infringer." (35 U.S.C. § 271(b).)

Active inducement requires both intent to cause infringement, and affirmative acts to encourage infringement—such as by advertising an infringing use or instructing how to engage in an infringing use. Mere knowledge of infringement by others is not sufficient; wrongful affirmative acts also are required. But unlike direct infringement, an inducement claim may be based solely on extraterritorial conduct, provided the plaintiff can prove direct infringement by another party (*Wing Shing Prod. (BVI), Ltd. v. Simatelex Manufacturing Co., Ltd.*, 479 F. Supp. 2d 388 (S.D.N.Y. 2007)); *Honeywell International, Inc. v. Acer America Corp.*, 655 F. Supp. 2d 650 (E.D. Tex. 2009)).

When making a claim for active inducement, circumstantial evidence of intent to infringe may be sufficient—including evidence of a failure to investigate, failure to explore design-around solutions, failure to take remedial steps,

and failure to seek legal advice. Though a defendant has no affirmative duty to obtain a legal opinion from outside counsel, failure to obtain an opinion may be one factor when evaluating intent to infringe or intent to induce infringement. On the other hand, the fact that a defendant obtained a noninfringement legal opinion before embarking on allegedly infringing activities won't necessarily overcome evidence of intent to infringe. (See *nCube Corporation v. Seachange International, Inc.*, 436 F3d 1317 (Fed. Cir. 2006).)

Testimony is also relevant. In one case, a jury heard the defendant's founders explain why they did not believe they were infringing, had the opportunity to assess their credibility, and decided they lacked the requisite intent. The appellate court found no basis to overturn that finding (*Kinetic Concepts, Inc. v. Blue Sky Medical Group, Inc.*, 554 F3d 1010 (Fed. Cir. 2009)).

Noninfringing uses may also bear on the issue. In several cases, courts have declined to find liability for inducing infringement, despite potentially infringing uses of the accused products, because the products were also capable of noninfringing uses. (See *Acco Brands, Inc. v. ABA Locks Manufacturing Co., Ltd.*, 501 F3d 1307 (Fed. Cir. 2007); *Warner-Lambert Co. v. Apotex Corp.*, 316 F3d 1348 (Fed. Cir. 2003).) Still, the U.S. Supreme Court has explained, in the context of copyright infringement, "Where an article is 'good for nothing else' but infringement ... there is no injustice in presuming or imputing an intent to infringe." (*MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).)

But what constitutes intent to infringe? In 2006 the Federal Circuit held that a finding of intent to cause infringement requires that the defendant knew of the patent (*DSU Medical Corp. v. JMS Co., Ltd.*, 471 F3d 1293, 1304 (Fed. Cir. 2006)). Then, just three months later, a different panel from the Federal Circuit held that actual knowledge of the patent is not required and that conscious disregard of a known

risk of infringement may suffice (*SEB v. Montgomery Ward*, 594 F3d 1360). In the SEB case, there was no evidence that the defendant actually knew of the patent in question, but the jury heard evidence that the defendant had purchased the plaintiff's device and copied it, and that the president of the defendant firm was well versed in the U.S. patent system but failed to present exculpatory evidence. The court deemed that showing sufficient and affirmed the jury's verdict of inducement. To resolve the uncertainty between those two standards of intent, last October the U.S. Supreme Court granted certiorari in the SEB case (now captioned *Global-Tech Appliances, Inc. v. SEB S.A.*); the case will be argued February 23 and a decision is expected by the end of June.

CONTRIBUTORY INFRINGEMENT

Even if a defendant cannot be held liable under the above theories, it may be possible to establish liability for con-

tribute infringement under section 271(c) of the Patent Act. To make out that claim, however, the plaintiff must also prove direct infringement by a third party. (35 U.S.C. § 271(c).)

Section 271(c) makes it unlawful to sell, offer to sell, or import into the United States with knowledge that the component was specially made or adapted for use in an infringing product or method. An exemption is made for staple articles of commerce capable of substantial noninfringing use, but such use must be more than occasional, far-fetched, impractical, experimental, or hypothetical. The trier of facts may be asked to consider the frequency and practicality of the purported noninfringing use.

With electronic devices that incorporate increasingly more features and components, it can be difficult to evaluate whether a particular component is capable of substantial noninfringing use. The Federal Circuit grappled with that issue in *Ricoh Co., Ltd. v. Quanta Computer Inc.* (550 F3d 1325 (Fed. Cir. 2008)) and in *Lucent Technologies, Inc. v. Gateway, Inc.* (580 F3d 1301 (Fed. Cir. 2009)). In the former case, the court decided a Taiwanese defendant could not avoid infringement liability simply by embedding a special-purpose component adapted to perform a patented method into a larger product with additional features that perform noninfringing functions. In the latter case, the court further restricted the "staple article of commerce" defense, holding that (with respect to computer software) the proper inquiry should not be whether the entire software package has noninfringing uses, but whether the particular, accused feature has noninfringing uses.

Of course, when pursuing a patent claim against a foreign entity, a U.S. patent owner must surmount potential hurdles pertaining to jurisdiction, venue, service of process, evidence, and ultimately—if successful—collection. For that reason, many aggrieved patent owners opt to forgo damages and instead seek an exclusion order to bar the goods from American markets through International Trade Commission proceedings. However, if recovering compensation is paramount, patent owners faced with an extraterritorial violation of their rights should not rule out the possibility of recovering damages based on the theories set forth above. ☪

Christopher M. Neumeyer is director of the legal department at Lite-On Technology in Taiwan.

When making a claim for active inducement, circumstantial evidence of intent to infringe may be sufficient.

MCLE