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Lynda Calderone Contributes to Law360's Expert Analysis Column on Expanding US Patent Rights To Capture Foreign Actions

Law360

September 24, 2015

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This article originally ran in the Law360 Expert Analysis section.

It is a fundamental principle of patent law that each country’s patent grant is enforceable only within its borders. However, a global economy and global business cooperation lead to a need for regulating and providing enforcement opportunities that address actions that cross borders. This leads to laws in various countries, including the U.S., that try to address foreign activity that crosses over borders and infringes a patent claim governed by that country’s lawful patent granting rights, but that do not inappropriately overstep the bounds of another country’s sovereignty.

In the U.S., national intellectual property laws regulate the manufacture, use and sale or exchange of technology and goods within the U.S., but can also provide extraterritorial reach. For example, application of certain aspects of the patent infringement statute can be extended to foreign actions through “importation.” Trade secret laws regulate trade secret theft both through many different states’ laws based on the Uniform Trade Secrets Act, and through federal government statutory enforcement remedies, such as the enhanced penalties available under the Foreign and Economic Espionage Penalty Enhancement Act when trade secrets are misappropriated for the benefit of foreign entities.

Further, current law arguably supports a lack of patent exhaustion (“first sale doctrine”) when sales occur in the U.S. even after a first sale overseas, provided the initial foreign sale is otherwise within a lawful license restriction. However, this extraterritorial extension of U.S. patent law by lack of patent exhaustion could change in the very near future now that the Federal Circuit Court of Appeals has issued an order for an en banc hearing on this precise issue in Lexmark Int’l v. Impression Products Inc., Appeal Nos. 2014-1617, 2014-1619 (Fed. Cir. Apr. 14, 2015). This hearing will revisit the patent exhaustion doctrine in view of the U.S. Supreme Court’s latest decision on copyright exhaustion in Kirtsaeng v. John Wiley & Sons Inc., 133 S. Ct. 1351 (2012) and several prior patent decisions, Quanta Computer Inc. v. LG Electronics Inc., 553 U.S. 617 (2008), Jazz Photo Corp. v. International Trade Commission, 264 F.3d 1094 (Fed. Cir. 2001) and Mallinckrodt Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Circ. 1992).

With respect to the infringement statute section in the Patent Act, the first opportunity for extraterritorial reach comes from the basic act of importation under the direct infringement section, of 35 U.S.C. §271:

> [W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States, or imports into the United States any patented invention during the term of the patent therefor, infringes ...
>
> .

35 U.S.C. §271(a).

Other areas of the statute for seeking enforcement include §§271(f), (g), which open the statute to cover liability for supplying components overseas that are assembled in a manner that would infringe if the assembly were carried out in the U.S. The place to start when seeking extraterritorial reach is to examine the actions that take place in an alleged infringement fact pattern and identify where such actions occur — within and/or outside of the U.S.

Even aside from the foreign “assembly” provisions, in cases of direct infringement, extraterritorial reach arises when evaluating the scope of damages. In evaluating foreign actions, courts properly operate to consider the U.S. presumption against extraterritoriality of its patent laws. This principle was applied in the context of lost profits in 2013 in Power Integrations Inc. v. Fairchild Semiconductor International Inc., 711 F.3d 1348 (Fed Cir. 2013). Power Integrations argued it had established U.S. infringement, and was entitled to all foreseeable lost profits damages stemming from that infringement, including damages from lost sales overseas following loss of sales in the U.S. The court held that even such sales losses overseas were “foreseeable” under general damages principles, the damages assessment could not be extended to cover foreign sales or other actions that were occurring in their entirety overseas. While patentees are entitled to adequate compensation under 35 U.S.C. §284, what constitutes the underlying act of “infringement” according to U.S. patent statutes must extend to only U.S. actions. Thus, a line is drawn in this case that extraterritorial reach of damages will not extend to cover lost profits from actions that wholly occur overseas.

The Federal Circuit revisited this reasoning in the context of assessing whether foreign sales may be taken into account in assessing the value of a reasonable royalty in the “hypothetical negotiation” analysis between a willing licensor and licensee based on underlying infringing acts that occurred in the U.S. under §271(a). In Carnegie Mellon Univ. v. Marvell Tech. Grp. Ltd., 2014-1492 (Fed. Cir. Aug. 4, 2015, rev. Aug. 6), the direct infringement actions included U.S. “use” of a patented method in making microchips. Marvell requested a judgment as a matter of law to strike inclusion in the damages assessment consideration of sales of microchips overseas stemming from use of the method in the U.S., when such microchips themselves were never used or sold in the U.S.

The court held that “§ 271(a) provides the basis for drawing the needed line. It states a clear definition of what conduct Congress intended to reach — making or using or selling in the United States or importing into the United States, even if one or more of those activities also occur abroad.” The presumption against extraterritoriality limited the scope of which microchips having a related foreign action would be included in the assessment. The court included microchips which were either “used” in or “imported” into the U.S., even though other actions impacting such chips may have occurred overseas. Further, microchips could also be included in the assessment, if, on remand, facts supported that their “sale” occurred from the U.S. Thus, U.S. actions can bring in royalty-based damages even when other actions occur overseas, so long as a related U.S. action occurred. Further, one can always try to prove that, even in the presence of some foreign activity, a “sale” that may in some ways be viewed as a foreign sale or a sale involving foreign action, under proper factual circumstances is a U.S. “sale” for invoking the U.S. patent infringement statute sections.

Patent infringement from assembling components under §§271(f) and (g) can also be relied upon for extraterritorial enforcement. 271(f)(1) is directed to situations involving supply of “components” to be assembled overseas where assembly would be infringing if it occurred in the U.S., wherein the supply involves active inducement and the presence of intent and knowledge when such components are combined overseas. Section 271(f)(2) involves sales of a component overseas that is made especially for an assembly with no substantial non-infringing use, and in a knowing and intentional combination. While the statutes appear to track language similar to the indirect infringement Sections, 271(b) and (c), they differ in their focus on foreign action. The case law surrounding §271(f) involves a series of contradictory cases, beginning with Eolas Techs. Inc. v. Microsoft Corp., 33 F.3d 1325 (Fed. Cir. 2005). In Eolas, §271(f) was applied in the context of a computer software invention drawn to a computer medium having software code thereon. The software was exported from the U.S. on a master disc to install on a foreign computer, and the court held that the software code qualified as a "component" of the software invention, even though software is an intangible item. It reasoned there was no "tangibility" requirement for a "component" under §271(f).

This case was followed by NTP Inc. v. Research in Motion Ltd., 418 F.3d 1282 (Fed. Cir. 2005). The court examined §271(f) as applicable to method claims. In this case, the Federal Circuit distinguished Eolas as relating to whether a "component" can be intangible software, even though software is itself a series of steps. The NTP court held that §271(f) did not apply to the method claims, and said further, it found it hard to conceive of a situation where it would apply to a method, because a method includes only actions. In NTP, the court held that the supply of handheld devices and a redirector to U.S. customers did not amount to providing a "component" of the method claims.

In a later case, Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co., 434 F.3d 1357 (Fed. Cir. 2006), at issue was the supply of catalyst to overseas affiliates for use in an infringing process. The District Court held that 271(f) would not apply to the process claim, relying on NTP. The Federal Circuit initially held that 271(f) did apply to the supply of catalyst as a "component" when directly supplied to the foreign affiliates to make ethylene oxide, distinguishing the facts of NTP as not supplying components of a method to be carried out directly. A hearing en banc was requested but denied, and a dissent to the denial was registered by Judge Alan Lourie who characterized Eolas as applying to an intangible component of a computer product, and more directly characterized NTP as holding that §271(f) did not apply to methods. He reasoned that Union Carbide was not correctly decided by the court when applying it to the supply of catalyst for a method.

Following Union Carbide, the U.S. Supreme Court decided Microsoft Corp. v. AT&T Corp., 550 U.S. 437 (2007). The Supreme Court evaluated whether liability can be found under 271(f)(1) when software code was shipped from the U.S. to a foreign manufacturer on a master disc, and then copied by the foreign manufacturer for installation on computers made and sold overseas (the same situation in Eolas). The Court held that software is only a "component" when loaded on tangible media. In evaluating whether a components were "supplied" from the U.S., the court found there was no "supply" of components as only copies were installed to assemble foreign computers, and only the master disc was provided to the foreign manufacturers. To the extent the Eolas court found copying of software subsumed in the supply of software, the Supreme Court disagreed with the understanding and found that the presumption against extraterritorial enforcement of U.S. laws required a strict view of what could qualify as a "component" or the "supply" thereof overseas.

Based on Microsoft, the Federal Circuit in Cardiac Pacemakers Inc. v. St. Jude Medical Center Inc., 576 F.3d 1348 (Fed Cir. 2009) confirmed that §271(f) does not apply to method claims and officially overruled Union Carbide and Eolas to the extent they suggested otherwise. More recently in Promega Corp. v. Life Techs. Corp., 773 F.3d 1338 (Fed. Cir. 2014), the court evaluated the application of §271(f) and held that a single component of a kit sent overseas for assembly and sale would satisfy the statute if it was a "substantial portion" of the components. Further, the court distinguished the language of the indirect inducement provision, §271(b), by noting that the intentional act in §271(f) is that of supplying component(s) for assembly not inducing infringement of another, and so in §271(f) liability need not require presence of an unrelated entity.

Under §271(g), "[w]hoever ... imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer." Thus, §271(g) may be used to try to block use of an infringing process overseas when selling the resulting product in U.S. There is not a large number of case decisions based on §271(g). However, one recent case is instructive, Zoltek Corp. v. U.S., 672 F.3d 1309 (Fed. Cir. 2012). This case involved an appeal from the Court of Claims on a federal contracting liability issue. The infringement allegations were based on method claims having a step of carbonizing fibers (that occurred in Japan) and steps for processing into sheets (that occurred in the U.S.). The resulting products were used in fighter jets by Lockheed under government contract rights. The U.S. attempted to avoid liability on several grounds and most specifically by limiting the exemption of sovereign immunity in 28 U.S.C. §1498 for government patent infringement only to application of §271(a) direct infringement, arguing liability cannot arise against the U.S. for any foreign actions. The Federal Circuit held that liability would not be limited to §271(a) or that view would eviscerate the congressional intent behind §271(g) and 28 U.S.C. §1498 (which does not mention direct or indirect liability) as well as §1337 of the Tariff Act, which blocks importation or sale of goods made by a U.S. process patent at the International Trade Commission. The court held that if a process is carried out overseas and the product is sold here, §271(g) liability will still apply even if the action is not blocked by §271(a) importation. While the process at issue was partly performed in Japan, the products resulting from the process were viewed as sufficient to "embody" the process and were imported into the U.S. or "used in" the U.S.

Thus, §271(g) serves as another extraterritorial basis for enforcement, and one should consider its use when evaluating knock-offs made in part or completely overseas and then imported, if they are made according to a U.S. patented process. Section 271(g) enforcement reinforces the remaining importance of product-by-process and other method claims.

Finally, a further example of recently extended extraterritorial reach lies in TianRui Group v. ITC, 661 F.3d 1322 (Fed. Cir. 2011). This case involved an ITC action under 19 U.S.C. §337 of the Tariff Act. The ITC found that it had authority to block importation of articles into the U.S. that were made in China and to investigate the matter as a trade secret misappropriation with the goal of protecting domestic industries from injuries arising out of unfair competition in the domestic marketplace. While no U.S. manufacturer was currently using the protected process, an injury to the "industry" in question, as defined by the court, was still found. A new process was being used in the U.S. and the old process was licensed to three Chinese manufacturers. TianRui sought a license, but it did not obtain one. Instead, it hired away employees trained on the process, knowing it to be proprietary. A joint venture was formed by TianRui to market wheels made from the old process in the U.S. Injury to the present "industry" was found due to direct competition in the U.S. by the imported products made according to the old proprietary process even if the U.S. industry was no longer using it.

Thus, when looking to fully exploit U.S. patent rights when foreign actions are involved, a careful analysis of an infringement situation should involve review of all foreign actions in view of each section of §271. Parties should also evaluate whether foreign actions can be considered in damages assessments, and whether trade secret laws can be relied upon to bar importation by the ITC or give rise to a civil action or government enforcement action. Further, U.S. patent attorneys should consider such laws drafting claims and in evaluating their clients' foreign manufacturing and importation actions, use of foreign affiliates or entities, and the potential of any third-party agreements or foreign competitors.

ATTORNEYS MENTIONED

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