MAY/JUNE 2021
VOLUME 27 NUMBER 3

IP Litigator®

DEVOTED TO INTELLECTUAL PROPERTY LITIGATION & ENFORCEMENT

Edited by Gregory J. Battersby and Charles W. Grimes

FEATURES

Court Competition and its Harmful Effects on Patent Law 1
Jonas Anderson and Paul Gugliuzza

PTAB's *Fintiv* Test and the Use of Stipulations in Parallel District Court Litigation 8
Nathan Sportel

The Pros and Cons of Asserting U.S. Patents against Foreign Companies 12
Steve McBride and John Presper

Strategic Considerations in Parallel Trade Secrets Actions 17
Jessica Nall and Erin Shields

Objective Indicia of Nonobviousness: A "Totality of the Evidence" Approach or a "Prima Facie Framework"? 23
Richard Kurz and Isaac Kim

COLUMNS

Practice Areas 26
Patent Litigation
Trademarks: Recent EU Case Law Analysis

Praxis 33
Federal Circuit Report
PTO Practice
Discovery

Wolters Kluwer

Executive Editors
Gregory J. Battersby **Charles W. Grimes**

Editor-in-Chief
Michelle Houle

Battersby Law Group, LLC, 25 Poplar Plain Road, Westport, CT 06880 (203) 454-9646

Advisory Board

United States

Edward V. Anderson
Sheppard, Mullin, Richter & Hampton, LLP
Spiro Bereveskos
Woodard Emhardt
Bruce Bernstein
Bernstein, Litowitzm Berger & Grossmann, LLP
James Bikoff
Silverberg, Goldman and Bikoff
William H. Brewster
Kilpatrick & Townsend
Brian D. Coggio
Fish & Richardson
David G. Conlin
Edwards Wildman
Margaret A. Esquenet
Finnegan, Henderson, Farabow, Garrett & Dunner, LLP
Edmund J. Ferdinand, III
Ferdinand IP
Edward V. Filardi
Skadden Arps
Thomas R. Fitzgerald
Christensen O'Connor Johnson Kindness
Donald F. Frei
Wood Herron & Evans
James Galbraith
Kenyon & Kenyon
John C. Jarosz
Analysis Group Economics, Inc.
Paul R. Juhasz
Juhasz Law
Jeffrey L. Laytin
Laytin Verner, LLP
Jeffery I. D. Lewis
Patterson, Belknapp, Webb & Tyler, LLP
Gregg Marrazzo
Estee Lauder
Michael D. McCoy
Alston & Bird
William T. McGrath
Davis McGrath, LLC
Andrew I. McIntosh
Bereskin & Parr LLP
George D. Medlock, Jr.
Alston & Bird, LLP
Bruce C. Morris
Beirne, Maynard & Parsons LLP
Russell L. Parr, CFA, ASA
IP Metrics
Mark V. B. Partridge
Partridge IP Law
Paul A. Ragusa
Baker & Botts
Mark Schonfeld
Burns & Levinson LLP
Neil Smith
Ropers, Majeski, Kohn & Bently, PC
Mark S. Sommers
Finnegan Henderson Farabow Garrett & Dunner, LLP
John F. Sweeney
Locke Lord, LLP
Rudy Telscher
Husch Blackwell
Rod Thompson
Farella Braun & Martel, LLP
Edward E. Vassallo
Fitzpatrick Cella Harper & Scinto

International

C.V. Chen
Lee & Li
Andros Chyrsiliou
Chrysiliou Moore Martin
Luis H. de Larramendi
Elzaburu
Dedar Singh Gill
Drew & Napier
Joaquim Goulart
Dannemann, Siemsen, Bigler & Ipanema Moreira
Min Han
Woo, Yun, Yang, Jeong & Han
Martin Köhler
Reimann Osterrieth Köhler Haft
Martin Köhler
Dike Bronstein Roberts & Cushman
Miguel B. O'Farrell
Marval O'Farrell & Mairal
Anthony Prenol
Blake Cassels & Graydon
Jonathan Radcliffe
Nabarro Nathanson

Content Manager: Christine Vincent

Managing Editor: Saranraj Kuppan

Copyright © 2021 CCH Incorporated. All Rights Reserved.

IP Litigator® (ISSN 1086-914X) is published bimonthly by Wolters Kluwer, 28 Liberty Street, New York, NY 10005, (212) 771-0600. This material may not be used, published, broadcast, rewritten, copied, redistributed or used to create any derivative works without prior written permission from the publisher. Printed in U.S.A. POSTMASTER: Send address changes to IP Litigator, Distribution Center 7201 McKinney Circle Frederick, MD 21704.

IP Litigator is sold with the understanding that it is not engaged in rendering legal counseling or other professional service. If legal counseling or other professional assistance is required, the services of a competent practitioner in the relevant area should be sought.

Subscription Services: Current subscribers with questions about service or to make address changes call **(800) 783-4903.**

Other Customer Services: To purchase back issues of *IP Litigator,* from within the past 12 months only, to order a subscription, or to get information about other Wolters Kluwer products call **(800) 638–8437.**

Permission requests: For information on how to obtain permission to reproduce content, please go to the Wolters Kluwer website at *www.WoltersKluwerLR.com/policies/permissions-reprints-and-licensing*.

Purchasing reprints: For customized article reprints, please contact *Wright's Media* at 1-877-652-5295 or go to the *Wright's Media* Web site at *www.wrightsmedia.com.*

Editorial Offices: To speak with the editor; to ask questions or comment on newsletter content call **(203) 733-7653.**

Articles, comments, or ideas for themes: The editors welcome the submission of articles, as well as questions and comments on matters published and suggestions for future themes, which should be addressed to: Gregory J. Battersby, 25 Poplar Plain Road, Westport, CT 06880 (203) 454-9646.

The Pros and Cons of Asserting U.S. Patents against Foreign Companies

Steve McBride and John Presper

Stephen McBride is a Senior Attorney practicing at Oblon, McClelland, Maier & Neustadt, LLP in Alexandria, Virginia. Mr. McBride has litigated numerous patents, from pre-trial investigations through trial and appeal, in a number of forums, including U.S. District Courts, the PTAB, and the International Trade Commission. Mr. McBride's practice focuses on patents in the high-tech, software, Internet, and telecommunications fields. See https://www.oblon.com/stephen-mcbride.

John F. Presper is a partner at Oblon, McClelland, Maier & Neustadt, LLP in Alexandria, Virginia He represents and advises clients involved in patent and other intellectual property disputes in federal court, the International Trade Commission, and the U.S. Patent and Trademark Office. See https://www.oblon.com/john-f-presper.

In today's global economy, U.S. patent holders are increasingly faced with infringing activities performed by foreign entities with few, if any, direct contacts in the United States. This leaves U.S. patent holders with a decision of whether to sue the foreign entity or another entity (such as a downstream customer or U.S. affiliate) that has more U.S. contacts than the foreign entity.

Suing the entity with more U.S. contacts is much more straightforward with respect to extraterritorial issues, but there are a number of other considerations that might make this impractical. For example, if the U.S. patent holder is a competitor of the foreign infringer, they may both be competing for the same U.S. customers, and the patent holder may want to avoid suing its own potential customers. Similarly, suing the foreign company's downstream customers may not completely stop the foreign company's infringement.

The U.S. patent holder can also sue the foreign infringer directly. While suing a purely foreign entity for patent infringement raises a number of extraterritorial issues, there are a number of available avenues for the U.S. patent holder to assert its patent rights. This article discusses some of the practical considerations for pursuing infringement against a foreign entity.

Personal Jurisdiction

Personal jurisdiction is a threshold question for any lawsuit, especially those involving foreign entities. Before addressing substantive patent law issues, parties should always consider whether a U.S. court can exercise personal jurisdiction over the defendant. In most patent litigations involving multinational corporations or global supply chains, defendants will have some contacts with the United States, but this is not always the case.[1]

Fed. R. Civ. P. 4(k)(2) is the federal long-arm statute for the United States. It often applies where a foreign entity lacks minimum contacts with individual states, but has sufficient contacts with the United States as a whole to support personal jurisdiction.[2] The test for personal jurisdiction under Rule 4(k)(2) considers whether: (1) the defendant purposefully directed its activities at residents of the forum; (2) the claim arises out of or relates to the defendant's activities with the forum; and (3) assertion of personal jurisdiction is reasonable and fair.[3]

For patent cases, the personal jurisdiction analysis often focuses on purposeful availment.[4] If the foreign defendant has no actual contacts with the United States (*e.g.*, has no offices or employees in the United States, has not visited the United States, and does not advertise or directly sell into the United States), courts often analyze purposeful availment under the "stream of commerce" theory. Under this theory, a foreign defendant may be subject to personal jurisdiction in the United States simply by placing a product in the stream of commerce anywhere in the world so long as the defendant takes an action that is purposefully directed toward the United States.[5]

A full discussion of personal jurisdiction is beyond the scope of this article, except to emphasize that the analysis should be performed at the outset in every case involving foreign defendants. If potential personal jurisdiction issues exist, patent owners should consider suing alternative entities, such as customers or U.S. affiliates of the foreign entity or bringing suit in an alternative venue such as the International Trade Commission (ITC) as discussed below.

Infringement

Assuming personal jurisdiction exists over a proposed defendant, the next step is to determine whether viable theories of infringement allow for recovery against that defendant. Historically, U.S. patent law has had a strong presumption against extraterritorial application.[6] However, this presumption is tempered by the patent infringement statute, 35 U.S.C. § 271, which has a number of subsections that apply to activities occurring in whole or in part outside the United States, as well as case law that allows for relatively broad application of U.S. patent law to foreign entities.

Direct Infringement

For example, 35 U.S.C. § 271(a) (the direct infringement statute) applies to entities that "offer[] to sell" or "sell" goods within the United States, or "import" goods into the United States. Courts have held that each of these activities may occur primarily outside the United States.

SEB S.A. v Montgomery Ward & Co.[7] illustrates the scope of direct infringement under § 271(a). In *SEB*, the defendant Pentalpha was a Hong Kong company that manufactured the allegedly infringing deep fryer products in Hong Kong. Pentalpha sold these products to its customers free on board (f.o.b.) Hong Kong or China (meaning the customers were responsible for shipping the products from Hong Kong or China to the United States). These customers later imported and sold the deep fryers in the United States. The Federal Circuit affirmed a jury verdict of direct infringement as to Pentalpha based on § 271(a) sales or offers to sell. The court, citing existing Federal Circuit precedent, "rejected the notion that simply because goods were shipped f.o.b., the location of the sale for the purposes of § 271 must be the location from which the goods were shipped."[8] The Federal Circuit acknowledged factors like Pentalpha affixing the American trademarks of its customers to the infringing deep fryer products, manufacturing the deep fryers with North American electrical fittings, and Pentalpha invoices identifying delivery to U.S. destinations as supporting the jury's verdict of direct infringement. Thus, Pentalpha's manufacture of products in Asia in accordance with its customers' requests (which its customers then imported into the United States) was enough to find liability based on "sale" of the products in the United States.

In *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Construction USA, Inc.,*[9] defendant Maersk made an offer to sell an allegedly infringing product to another company that took place in Norway. The product was to be sold, delivered, and used in the United States. The court considered whether, under § 271(a), "offer to sell . . . in the United States" means the location of the offer to sell, or the location that the actual sale would take place. The Federal Circuit held that the latter was the case, explaining that:

> The statute precludes "offers to sell . . . within the United States." To adopt Maersk USA's position would have us read the statute as "offers made within the United States to sell" or "offers made within the United States to sell within the United States." First, this is not the statutory language. Second, this interpretation would exalt form over substance by allowing a U.S. company to travel abroad to make offers to sell back into the U.S. without any liability for infringement. [] This company would generate interest in its product in the U.S. to the detriment of the U.S. Patent Owner, the type of harm that offer to sell within the U.S. liability is meant to remedy. *Id*. These acts create a real harm in the U.S. to a U.S. patentee.[10]

Under *Transocean*, any offer for sale of a product that infringes a U.S. patent and contemplates the infringing product eventually being sold in the United States may be an act of direct infringement. Thus, foreign companies that are negotiating for potential sales of infringing articles in the United States may be liable for direct infringement under § 271(a) even if the actual sale never materializes.

Finally, 35 U.S.C. § 271(g) is another subsection to consider if infringing activities are occurring outside of the United States. Under §271(g), importing, selling, or offering to sell a product in the United States where that product is manufactured outside of the United States using an infringing process may constitute infringement even if the product itself does not infringe. So, if a foreign company manufactures a product using a process covered by a U.S. patent, then sells that product to a customer who then imports the product into the United States, the customer may be liable for infringement under § 271(g) even if the product itself does not infringe a U.S. patent.

Indirect Infringement

Indirect Infringement—and specifically inducement under 35 U.S.C. § 271(b)—can lead to even greater geographic scope for U.S. patent infringement. Inducement can be shown where (1) the conduct being induced by the defendant constitutes direct infringement by another, and (2) the alleged inducer knowingly induced infringement and possessed the specific intent to encourage another's infringement.[11] Notably, there is no requirement that the inducement occur within the United States.

Thus, so long as there is direct infringement and the intent to induce on behalf of the indirect infringer, inducement can occur anywhere in the world. As discussed previously, the direct infringement itself need not be located in the United States, so the inducement may relate to activities performed wholly outside of the United States.

O2 Micro Int'l Ltd. v. Beyond Innovation Tech. Co.[12] illustrates this scope. In *O2 Micro,* a foreign defendant with no apparent ties to the United States was held liable for inducement even though there were several degrees of separation between the defendant and direct U.S. infringer. The defendant BiTEK was an Asian company that manufactured "current inverter controllers" in Taiwan. These controllers were sold to BiTEK customers in Asia and those customers combined them with other circuit components to create "inverter control modules."[13] These modules were then sold by BiTEK's customers to companies like Samsung and LG, who incorporated them into LCD displays, like televisions, that were manufactured in Asia and then imported into the United States. At a bench trial, the judge found that BiTEK induced infringement of its downstream customers like Samsung and LG. The Federal Circuit upheld the infringement finding.

Similarly, in *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*,[14] the foreign defendant's knowledge that the infringing product might be imported into the United States by downstream customers was enough for the Federal Circuit to affirm a jury verdict of inducement. The defendant Fairchild argued that it sold the accused products to customers overseas into a worldwide distribution system without any actual knowledge of where the accused products ultimately end up. However, the Federal Circuit found that circumstantial evidence was sufficient for the jury to find inducement: designing chips to meet U.S. energy standards, providing demonstration boards containing the infringing chips to potential U.S. customers, and maintaining a technical support center in the United States. The court stated that "hard proof that any individual third-party direct infringer was actually persuaded to infringe" is not required.[15] A foreign business that runs a facially geographically-neutral operation may therefore be liable for induced infringement if circumstantial evidence indicates its activities are directed at least in part to the United States.

These cases and others indicate that, given the right set of facts, entities that are several steps removed in the supply chain from any U.S. contacts may be liable for patent infringement in the United States. Patent holders should be aware that there may still be avenues of recovery against such foreign entities.

Damages

Patent damages is one area where extraterritorial scope has grown over the last few years. Traditionally, patent damages were only available for activities that occurred within the geographic boundaries of the United States. However, the Supreme Court's opinion in *WesternGeco LLC v. ION Geophysical Corp.*[16] expanded that scope.

In *WesternGeco*, the Supreme Court expanded plaintiff's lost profit damages to include the defendant's foreign profits. WesternGeco had sued competitor ION under § 271(f) for manufacturing the components of WesternGeco's patented system and shipping those components abroad for foreign customers to assemble and use. At trial, WesternGeco proved infringement and that it lost ten contracts that were negotiated and performed outside the U.S. to ION due to the infringement. The jury awarded WesternGeco lost profit damages for the ten lost contracts, and the district court denied ION's post-trial motion to set aside the verdict. The Federal Circuit, relying on existing precedent that foreign lost profit damages were not recoverable under § 271(a), reversed the district court.

The Supreme Court reversed the Federal Circuit, holding that, at least for damages under § 271(f), foreign lost profits are recoverable. In doing so, the Supreme Court looked to the second step of the Supreme Court's two-step framework for deciding questions of extraterritoriality: whether the case involves "a domestic application of the statute." The Supreme Court analyzed 35 U.S.C. § 284 (the patent damages statute) in light of § 271(f) and concluded that the case did in fact involve a domestic application of the statute. The Supreme Court explained:

> [T]he focus of § 284, in a case involving infringement under § 271(f)(2), is on the act of exporting components from the United States. In other words, the domestic infringement is "the objec[t] of the statute's solicitude" in this context. The conduct in this case that is relevant to that focus clearly occurred in the United States, as it was ION's domestic act of supplying the components that infringed WesternGeco's patents. Thus, the lost-profits damages that were awarded to WesternGeco were a domestic application of § 284.[17]

Even though the contracts that formed the basis of the lost-profits damages were negotiated and performed entirely outside the United States, the fact that the infringement under § 271(f) was domestic meant that the lost profit damages resulting from that infringement were a result of a permissible domestic application of the damages statute.

The *WesternGeco* decision raises important decisions regarding whether foreign lost profits (or even reasonable royalties) are generally available for other subsections of § 271. This issue was appealed to the Federal Circuit in the *Power Integrations* case, where the plaintiff argued that the analysis of *WesternGeco* would also permit recovery of damages for direct infringement under § 271(a) as to both reasonable royalties and lost profits.[18] Unfortunately *Power Integrations* settled before reaching a decision.

If the Federal Circuit were to agree with similar arguments in the future, many damages claims could be significantly larger. As a result, patentees should consider a broader geographic scope of damages going forward.

Discovery

One practical consideration for filing a lawsuit against a foreign entity is the availability and practicality of obtaining discovery over the foreign defendant. One of the biggest drawbacks to suing a foreign defendant is that discovery can be time consuming and expensive, if it is even available. Many (but not all) countries make some forms of discovery available for U.S. litigants, either through the Hague Convention or through standalone treaties with the United States. However, this discovery is often limited in comparison to U.S. discovery (for example, some countries may only allow a deposition and no document discovery) and it can take six months or more for authorization from the target country. These factors also tend to increase the cost of foreign discovery.

Because of these issues in obtaining discovery, U.S. patent owners should carefully consider whether they need to sue a foreign entity and whether other U.S.–based entities should be included as defendants. For example, the patent owner may decide to forego suing the foreign entity in favor of suing that entities' downstream customers that do business in the United States. Alternately, the patent owner may decide to include U.S. affiliates or subsidiaries of the foreign entity as defendants, either alone or in addition to the foreign entity. These and similar strategies may allow the patent owner to minimize or avoid the delay and expense of seeking foreign discovery.

Alternative Venues

The United States has several alternate venues that may make be worth considering when proceeding against foreign entities, depending on the ultimate goals and budget for the matter. One forum is the U.S. International Trade Commission (ITC.). Patent owners can file complaints at the ITC alleging that certain products being imported into the United States infringe their patent(s). If the patent owner is successful in proving infringement, the ITC may issue an exclusion order prohibiting any infringing articles from being imported into the United States. An exclusion order can have the practical effect of enjoining the defendants (referred to as "respondents" in the ITC) from importing their products into the United States. This can be an effective remedy regardless of where the respondent is located or what ties the respondent has with the United States.

The ITC investigation resembles district court litigation, with discovery, dispositive motion practice, and a trial-like hearing. One advantage for patent owners is that the ITC tends to move very quickly and will not stay proceedings for *inter partes* reviews (IPRs) at the U.S. Patent and Trademark Office. However, the process can be expensive, the patent owner must have a "domestic industry" related to the patent (meaning the patent owner must sell—or license the patent to an entity that sells—products practicing the patent), and the patent owner cannot obtain traditional damages from the ITC. Instead, the patent owner must leverage the threat of an exclusion order for purposes of settlement.

Another program that may be useful in certain situations is Amazon's Utility Patent Neutral Evaluation Program. Under this program, patent owners can request that Amazon evaluate whether products being sold on its Web site infringe the patent owner's patent. Amazon appoints a neutral patent evaluator (typically a third-party patent attorney) who takes submissions from both the patent owner and product manufacturer. If the neutral patent evaluator determines that the product infringes, Amazon will remove the product. The main advantages of this process are its relatively low cost (a potentially refundable $4000 fee, plus attorney fees) and quick speed (around 3 months on average). The downside is, *inter alia*, that the program only applies to goods sold on Amazon (meaning manufacturers can still sell through other channels), there are no damages available, and the patent owner waives its right to recover against Amazon. In addition, the patent owner can only address infringement of just one claim of a utility patent. The seller can then respond regarding non-infringement and/or the only other defense available—prior sale of the infringing product more than one year before the earliest effective filing date of the eligible patent. This had led some sellers to attempt to fabricate prior-sales evidence by exploiting evidentiary loopholes in the program, which Amazon has recently implemented certain rule change to rectify. Still, if the primary infringement is occurring through Amazon, this program gives patent owners the ability to cheaply and quickly enforce their patent.

Conclusion

Suing foreign entities for patent infringement can present a host of issues for U.S. patent owners. Fortunately, U.S. patent laws have a fairly broad international reach. With the proper strategy, patent owners can often obtain desired results against many foreign entities with almost no contacts in the United States.

1. *See, e.g., Tech. Patents, LLC v. Deutsche Telekom AG*, 573 F. Supp. 2d 903, 913–14 (D. Md. 2008).
2. *See, e.g., Touchcom, Inc v Bereskin & Parr*, 574 F.3d 1403, 1414–15 (Fed. Cir. 2009).
3. *M-I Drilling Fluids UK Ltd. v. Dynamic Air Ltd*., 890 F.3d 995, 1000, (Fed. Cir. 2018).
4. *Id.*, 890 F.3d at 1000–03.
5. *Asahi Metal Indus. Co. v. Superior Court of Cal*., 480 U.S. 102, 112 (1987).
6. *See, e.g., Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 441 (2007) ("Foreign conduct is generally the domain of foreign law, and in the patent area, that law may embody different policy judgments about the relative rights of inventors, competitors, and the public.").
7. 594 F.3d 1360 (Fed. Cir. 2010).
8. *Id.* at 1375.
9. 617 F.3d 1296 (Fed. Cir. 2010).
10. *Id.* at 1309.
11. *See, e.g., Global-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754 (2011); *DSU Med. Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1305–06 (Fed. Cir. 2006).
12. 449 F. App'x 923 (Fed. Cir. 2011) (unpublished).
13. *Id.* at 925.
14. 843 F.3d 1315 (Fed. Cir. 2016).
15. *Id.* at 1335.
16. 138 S. Ct. 2129 (2018).
17. *Id.*, at 2138 (internal citations removed).
18. *See, e.g., Power Integrations, Inc. v. Fairchild Semiconductor Intl.,* No. 19-1246 (Fed. Cir. Dec. 3, 2018).

Wolters Kluwer
IP Litigator
Distribution Center
7201 McKinney Circle
Frederick, MD 21704

To subscribe, call 1-800-638-8437 or order online at www.WoltersKluwerLR.com.

May/June 2021/10041522-0270