Overlooked Patent Cases: Foreign Activity Liability, Damages

By **Daniel Moffett, Karina Moy and Golda Lai** (September 30, 2021)

Daniel Moffett

Karina Moy

Golda Lai

In most cases, a patent holder's right to collect damages and exclude others from practicing the claims of a U.S. patent stops at the border. Accordingly, the vast majority of patent litigation involves alleged infringing activity and sales within the U.S.

Patent owners, therefore, may overlook theories of liability and damages for foreign activity that are available under the Patent Act and recent case law. Moreover, because cases focusing on foreign activity are less common, the jurisprudence is less settled. This article looks at several issues unique to foreign activities and examines recent district court activity relating to those issues.

Alleging Infringement for Exporting Software Under Section 271(f)

Title 35 of the U.S. Code, Section 271(f), makes the export of unassembled components of a patented invention a distinct act of infringement, expanding the scope of potentially infringing acts.

Specifically, Section 271(f)(1) "addresses the act of exporting a substantial portion of an invention's components," while Section 271(f)(2) "looks to the act of exporting components that are specially adapted for an invention."[1]

A key portion of successfully pleading each of these theories of liability, therefore, is identifying the exported components, which recent cases suggest may be more difficult in the context of software.

In particular, because the U.S. Supreme Court in the 2007 Microsoft Corp. v. AT&T Corp. decision has stated that software in the abstract, i.e., "detached from an activating medium," cannot be a component under Section 271(f),[2] plaintiffs seeking to allege infringement of software-related patents must plead facts in a way that characterizes the component as more than abstract software code.

In addition, it may be difficult for a plaintiff to identify specific components being exported and combined, without more information about its competitor's product.

The difficulty plaintiffs may face in alleging infringement of exported software systems is illustrated in a recent U.S. District Court for the Northern District of California case. In June, the court in People.ai Inc. v. SetSail Technologies Inc. dismissed the case for failure to state a claim under Section 271(f) and (g) where the plaintiffs failed to allege any facts regarding what the components under Section 271(f) were, much less how those were combined.[3]

The patents at issue addressed data-analytics software that optimizes customer-relationship management.[4] The court stated at the outset that "software in the abstract can be neither a component, as required by Section 271(f), nor a manufacture, as required by Section 271(g)."[5]

Furthermore, the court found that the pleadings included only "conclusory, boilerplate insertions" alleging infringement based on foreign activities and contained "no further information regarding activities outside the U.S."[6] Given the lack of detail, the court dismissed the case with allowance to file an amended complaint.

Other district courts, however, have been more lenient with plaintiffs alleging infringement under Section 271(f), at least at the initial pleading stage. In Decurtis LLC v. Carnival Corp., for example, the U.S. District Court for the Southern District of Florida in January denied a motion to dismiss even though the complaint only generally alleged certain hardware and/or software as the components and did not state with specificity what the hardware and/or software were.[7]

The court stated that "there is no requirement that a patentee has to identify and plead the underlying component(s) of an infringing system."[8] The court acknowledged that although the complaint may be unclear as to how a component was later combined, such issues should be resolved during discovery.[9]

Section 271(f) is an important tool for plaintiffs to capture infringing activity that occurs in part beyond the U.S. borders, but as People.ai Inc. illustrates, pleading infringement under this provision is not without its challenges. A complaint pleading infringement under Section 271(f) should allege as much specificity as possible regarding the identity of infringing components including how they are combined in an infringing system.

But even if the precise identity of the alleged components and the exact theory as to how they are combined is not known at the pleading stage, recent cases suggest that, in the software context, alleging broad categories of components, e.g., hardware and/or software, may be sufficient, provided that the specific components to be combined are not otherwise identifiable at the time.

However, plaintiffs should not allege facts that suggest that the component under Section 271(f) is nothing more than abstract software code, detached from any medium.

Burden Shifting Under Section 271(g) Infringement

Title 35 of the U.S. Code, Section 271(g), confers liability to infringers who make products with a patented process outside the U.S. and then import those products into the U.S. A unique aspect of alleging infringement under this provision is the availability of a rebuttable presumption of infringement, such that the burden of proof on the issue shifts from a patent owner to an alleged infringer.

Specifically, under Section 295 of the Patent Act, a product is presumed to have been made by a patented process if the court finds (1) a substantial likelihood that the product was made by the patented process, and (2) the plaintiff has made a reasonable effort, but ultimately was unable, to determine that the product was made by the patented process.

This provision was intended to address the challenge many patent owners confront when seeking information about the nature of processes used by foreign manufacturers.[10]

As the U.S. Court of Appeals for the Federal Circuit recognized in the Nutrinova Nutrition Specialties & Food Ingredients GmbH v. International Trade Commission decision in 2000, the burden-shifting mechanism of Section 295 is both advantageous to a patentee and useful to the trial court seeking to rein in a noncooperative defendant.[11]

Succeeding in invoking this provision, however, is not an easy task. Congress has cautioned that the rebuttable presumption under Section 295 is not to be "casually established," and plaintiffs have rarely succeeded in shifting the burden in district courts.[12]

Success, however, is not impossible. In July, in Dasso International Inc. v. Moso North America Inc., a magistrate judge in the U.S. District Court for the District of Delaware recommended granting plaintiffs' motion for a presumption under Title 35 of the U.S. Code, Section 295.[13]

The court evaluated the two prongs required under Section 295 and determined that the first prong was met because the evidence collected up to that point demonstrated a substantial likelihood of infringement.[14]

As to the second prong, the court found that the plaintiffs made reasonable efforts to determine that the product was made by the patented process, including seeking documentation of the accused process, which defendants did not provide, and seeking to inspect at least one of the factories in China performing the accused process, which the defendant opposed.[15]

The court also noted that the defendant's expert, who was the only person to visit the relevant factory in China, did not know, or take steps to determine, certain details of the accused process. The court stated that the defendant "cannot have it both ways — it cannot hide behind a foreign third-party manufacturer while failing to produce documentation of the accused process."[16]

Section 295 is a unique and often overlooked mechanism for patent owners facing the difficult challenge of proving infringement and seeking information about the nature of processes used by foreign manufacturers.

As Dasso illustrates, plaintiffs can increase the chances of succeeding in invoking this provision by using all discovery tools at their disposal to establish infringement, including requesting documents, sending interrogatories and requests for admission, deposing experts, and seeking entry to manufacturing sites for inspection.

If defendants fail to provide the necessary information and oppose discovery requests, courts may be more likely to find that plaintiffs have made reasonable efforts to determine infringement and thus find that the second prong of Section 295 has been met.

Patent Holders' Possible Opportunities to Consider or Recover Foreign Damages Based on Domestic Infringement

The general principle that U.S. patent rights apply only in the U.S. also finds exception in the context of damages. It is often presumed that royalties or lost profits for sales of products made, used or sold abroad are not recoverable under U.S. patent law. And although Section 284 of the Patent Act broadly permits recovery of "damages adequate to compensate for ... infringement," with no reference to the location of the sale, courts continue to caution against extraterritorial application of Section 284.[17]

But recent district court applications of the Supreme Court's 2018 holding in WesternGeco LLC v. ION Geophysical Corp. and the 2015 Federal Circuit decision, Carnegie Mellon University v. Marvell Technology Group Ltd., suggest a broader acceptance of the availability of damages for extraterritorial conduct.

In Carnegie Mellon, the Federal Circuit considered a complex damages theory including both domestic and extraterritorial components, and concluded that territoriality for calculation of damages is satisfied as long as one domestic act of infringement is present.[18]

WesternGeco clarified and emphasized the distinction between where infringement occurred and where damages are measured. The Supreme Court considered whether granting damages based on infringement under Section 271(f)(2) would run afoul of the presumption against extraterritorial application of federal statutes.[19]

The court recited a two-step framework that asks (1) whether the presumption against extraterritoriality has been rebutted by the statutory text, and (2) whether the case involves a domestic application of the statute.[20] Starting at the second step of the analysis, the Supreme Court found that the focus of the damages statute is infringement, and under Section 271(f)(2), the infringing act of supplying components in the U.S., for combination overseas, comprises domestic conduct.[21]

The court concluded that granting damages for lost foreign profits based on a Section 271(f)(2) theory of infringement was a permissible domestic, not extraterritorial, application of the damages statute.[22]

Recent district court cases applying these cases evidence a trend in seeking, and obtaining, damages based on sales abroad.

In ArcherDX, LLC v. QIAGEN Sciences LLC in August, for example, the Delaware district court cited Carnegie Mellon for the proposition that the jury should consider foreign sales in calculating damages for domestic infringement if (1) the defendant's infringement in the U.S. was a substantial cause of the foreign sale of the product and (2) the defendant made or sold the product within the U.S.[23]

The U.S. District Court for the Eastern District of Texas has likewise shown an openness to permitting recovery for foreign sales, based on the reasoning in WesternGeco. In the 2019 Plastronics Socket Partners Ltd. v. Hwang decision, the district court allowed the plaintiff to recover for foreign damages based on infringement under Section 271(a), but only if the damages were caused by domestic acts of infringement.[24]

Similarly, in March, the U.S. District Court for the Eastern District of Virginia, in Centripetal Networks Inc. v. Cisco Systems Inc., granted damages that included foreign sales based on domestic conduct.[25] The court cited Plastronics and WesternGeco for the proposition that acts of infringement under Section 271(a) "would qualify a plaintiff to the same damages for foreign sales set forth under [Section] 271(f)(2)."[26]

As these recent cases illustrate, there is a trend toward allowing recovery of damages for foreign sales based on domestic infringement. With more manufacturers and suppliers increasing their global footprints, patent holders should plan from the beginning of litigation to ascertain the extent of any foreign activity and explore all possibilities of recovery therefrom.

Even if defendants have committed only domestic acts of infringement, plaintiffs should consider any foreign sales activity and evaluate whether domestic infringement was a substantial cause of those sales.

Conclusion

As the recent district court activity analyzed in this article illustrates, patentees can and should expand their liability and damages theories beyond the U.S. border. But in doing so, patentees should be aware that these theories present unique challenges, such as pleading requirements when software is exported, and unique opportunities, such as the availability of burden shifting and damages for extraterritorial sales.

To take advantage of these theories, plaintiffs should seek discovery and develop strategies based on an infringer's foreign activities, rather than treat these as an afterthought to domestic infringement.

Daniel Moffett is a partner, and Karina Moy and Golda Lai are associates, at Akin Gump Strauss Hauer & Feld LLP.

Disclosure: Akin Gump has represented Microsoft, Marvell and AT&T, but not in relation to any of the cases discussed in this article.

[1] Decurtis LLC v. Carnival Corp., No. 20-22945-CIV, 2021 WL 1968327, at *13-14 (S.D. Fla. Jan. 6, 2021), report and recommendation adopted as modified,No. 20-21547-CIV, 2021 WL 1540518 (S.D. Fla. Apr. 20, 2021).

[2] Microsoft Corp. v. AT&T Corp., 550 U.S. 437, 449, 452 (2007).

[3] See People.ai, Inc. v. SetSail Techs., Inc., No. C 20-09148 WHA, 2021 WL 2333880, at *6 (N.D. Cal. June 8, 2021).

[4] Id. at *1.

[5] Id. at *7 (citations omitted).

[6] People.ai, Inc. v. SetSail Techs., Inc., No. C 20-09148 WHA, 2021 WL 2333880, at *6 (N.D. Cal. June 8, 2021).

[7] Decurtis LLC v. Carnival Corp., No. 20-22945-CIV, 2021 WL 1968327, at *14-15 (S.D. Fla. Jan. 6, 2021),report and recommendation adopted as modified, No. 20-21547-CIV, 2021 WL 1540518 (S.D. Fla. Apr. 20, 2021).

[8] Id. at *14.

[9] See id.

[10] H.R. Rep. No. 100-60 at 16 (1987).

[11] See Nutrinova Nutrition Specialties & Food Ingredients GmbH v. Int't Trade Com'n, 224 F.3d 1356, 1359–60 (Fed. Cir. 2000) (stating that the statute has a "significant punitive"

purpose in that it "provides the trial court with a potent weapon to use against a non-cooperative defendant").

[12] Id.

[13] Dasso Int'l, Inc. v. Moso N. Am., Inc., C.A. No. 17-1574-RGA (consolidated), C.A. No. 19-564-RGA, 2021 WL 3476197, at *26 (D. Del. Jul. 25, 2021).

[14] Id. at *25.

[15] Id.

[16] Id.

[17] WesternGeco LLC v. ION Geophysical Corp., 138 S. Ct. 2129, 2136 (2018).

[18] Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd., 807 F.3d 1283 (Fed. Cir. 2015), overruled on other grounds, Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923 (2016).

[19] WesternGeco, 138 S. Ct. at 2136.

[20] Id. (citing RJR Nabisco, Inc. v. Eur. Cmty., 579 U.S. 2090, 2093–94 (2016)).

[21] Id. at 2137.

[22] Id. at 2139.

[23] Memorandum Order, ArcherDX, LLC v. QIAGEN Scis., LLC, C.A. No. 18-1019-MN at 3 (D. Del. Aug. 30, 2021), ECF No. 466. The court, however, questioned whether Carnegie Mellon effectively extends a patent's domestic monopoly. Id. at 4.

[24] Plastronics Socket Partners, Ltd. v. Hwang, Case No. 2:18-CV-00014-JRG-RSP, 2019 WL 4392525, at *5 (E.D. Tex. June 11, 2019), report and recommendation adopted, 2019 WL 2865079 (E.D. Tex. July 3, 2019).

[25] Centripetal Networks, Inc. v. Cisco Sys., Inc., No. 2:18CV94, 2021 WL 1030286, at *11 (E.D. Va. Mar. 17, 2021), appeal filed, 2021-1888 (Fed. Cir. Apr. 27, 2021).

[26] Id. In applying WesternGeco, the district court also appeared to rely, in part, on the fact that the domestic infringement at issue was "similar" to an act of infringement under Section 271(f)(2), involving supplying components to be combined in an infringing manner. See id. ("WesternGeco suggests that a similar act of infringement under § 271(a), where an infringing product was made in the United States but sold internationally, would qualify a plaintiff to the same damages for foreign sales set forth under § 271(f)(2).").