

# TRANSBORDER ISSUES AND EXHAUSTION

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# THE “WITHIN THE UNITED STATES” REQUIREMENT

- ▼ The patent statute states: “whoever 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 the patent.” 35 U.S.C. § 271(a) (emphasis added).
- ▼ “[W]ithin the United States” is a separate and distinct requirement. See, e.g., *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1315 (Fed. Cir. 2005) (“The grammatical structure of the statute indicates that ‘within the United States’ is a separate requirement from the infringing acts clause.”)

## THE “WITHIN THE UNITED STATES” REQUIREMENT

- ▼ If any one of the infringing activities (i.e. make, use, sell or offer for sale) occurs in the United States, it is sufficient to trigger the “within the United States” requirement.
- ▼ *Carnegie Mellon v. Marvell Tech. Group, Ltd.*, No. 2014-1492, 2015 WL 4639309 (Fed. Cir. 2015)
  - ▼ Only one type of infringing conduct must be present to displace the extraterritorial bar. *Id.* at \*20.
  - ▼ Other actions may take place abroad if “any of the § 271(a)-listed activities...occur domestically.” *Id.*

## **CARNEGIE MELLON**

- ▼ Carnegie Mellon sued Marvell for infringement of patents related to error detection technology. *Id.* at \*4.
- ▼ Marvell's accused chips were manufactured by companies abroad. *Id.*
- ▼ The district court awarded Carnegie Mellon over \$1 billion in damages. Marvell appealed this judgment, arguing, among other things, that the district court's judgment improperly included damages for products that were "manufactured, sold, and used abroad without ever entering the United States." *Id.* at \*19.

## WHEN IS A SALE “WITHIN THE UNITED STATES?”

- ▼ Although Marvell’s chips were manufactured abroad, “all the activities related to designing, simulating, testing, evaluating, [and] qualifying the chips” occurred in California. *Id.* at \*22
- ▼ The court also found it relevant that Marvell “provided potential customers with samples and simulations incorporating its designs” from its California office. *Id.*

## WHEN IS A SALE “WITHIN THE UNITED STATES?”

- ▼ Evidence “suggesting that specific contractual commitments for specific volumes of chips were made in the United States” can be pertinent. *Id.*
- ▼ The unique marketing and sales environment of the industry is also relevant. *Id.* The Federal Circuit in *Carnegie Mellon* found it significant that there was a lengthy “sales cycle” in the customized microchip industry. *Id.*

## WHEN IS A SALE “WITHIN THE UNITED STATES?”

- ▼ The Federal Circuit in *Carnegie Mellon* remanded the case to the district court for a new trial to determine whether certain sales “are properly said to have been in the United States.” *Id.* at \*24.
- ▼ Although it did not make a final determination on the issue, the Federal Circuit noted that Marvell had failed to show that the sales had not occurred in the United States. *Id.* at \*22

## KEY TAKEAWAYS FROM *CARNEGIE MELLON*

- ▼ Even if all other activities, including the manufacture and use of the particular good, occur abroad, there can still be patent infringement based on sales activities in the United States.
- ▼ The Federal Circuit analyzes a “sale” on a continuum. That is, in most industries, there are pre-contracting activities, including marketing and negotiations, that occur before the parties “ink the deal.” Where, as in *Carnegie Mellon*, the domestic pre-contracting activities are extensive, courts are more likely to find that there was a United States “sale.” *Id.* at \*21-\*23.



## WHEN IS A PRODUCT NOT SOLD IN THE UNITED STATES?

- ▼ In *Halo Elec., Inc. v. Pulse Elec., Inc.*, 769 F.3d 1371, 1379 (Fed. Cir. 2014), cert. granted, 136 S. Ct. 356, (Oct. 19, 2015), the Federal Circuit held that the accused products were not “sold” in the United States.
  - ▼ The final version of the contract, specifying all essential terms, was executed abroad. *Id.* at 1379.
  - ▼ The accused products were manufactured and delivered abroad. *Id.*
  - ▼ The accused infringer received purchase orders for the accused products abroad. *Id.*
  - ▼ The accused infringer was paid abroad by foreign contract manufacturers. *Id.*
  - ▼ The only domestic connection was a general business agreement that “did not constitute a firm agreement to buy and sell” and did not bind either party. *Id.*

## KEY TAKEAWAYS FROM *HALO*

- ▼ A general sales negotiation in the United States, by itself, is insufficient to displace the extraterritorial bar. *See id.*
- ▼ The Federal Circuit also held that the products were not offered for sale within the United States. The court held that an offer for sale occurs at “the location of the contemplated sale.” *Id.* at 1381 (quoting *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1308 (Fed. Cir. 2010)). Thus, since the contemplated sale did not occur in the United States, the “offer for sale” also did not occur in the United States. *Id.*

## WHAT CONSTITUTES AN OFFER FOR SALE WITHIN THE UNITED STATES?

- ▼ The “focus should not be on the location of the offer, but rather the location of the future sale that would occur pursuant to the offer.” *Transocean*, 617 F.3d at 1309.
- ▼ A contract executed abroad for a future sale in the United States constitutes an “offer for sale” in the United States. *Id.*
- ▼ A contract executed abroad contemplating a future sale abroad is not an “offer for sale” in the United States. *Halo*, 769 F.3d at 1381.

## THE FACTS IN *TRANSOCEAN*

- ▼ Transocean obtained a patent for “an improved apparatus for conducting offshore drilling.”  
*Transocean*, 617 F.3d at 1300.
- ▼ Two Norwegian companies negotiated a contract for the construction of an allegedly infringing rig in Singapore. *Id.* at 1307.
- ▼ The U.S. affiliates of these Norwegian companies (one of which was Maersk USA) then executed the contract in Norway. *Id.* The contract specified the U.S. Gulf of Mexico as the operating area for the rig. *Id.*

## KEY TAKEAWAYS FROM *TRANSOCEAN*

- ▼ The Federal Circuit held that there was both an offer for sale and a sale in the United States. *Id.* at 1310-11.
- ▼ The court noted that “a sale does not only occur at a single point where some legally operative act took place.” *Id.* at 1310. Instead, the court can consider other factors, including the place of performance. *Id.*
- ▼ Because delivery and performance under the contract were in the United States, the “sale” occurred in the U.S. *Id.* at 1311.

## DISTRICT COURT TREATMENT OF OFFER FOR SALE

- ▼ Even a domestic offer does not “occur in the United States” if the actual sale will occur abroad. *ION, Inc. v. Sercel, Inc.*, No. 5:06-CV-236, 2010 WL 3768110 at \*4 (E.D. Tex. Sept. 16, 2010).
- ▼ In contrast, for method claims, an offer for sale occurs “where the offer to perform is made.” *WesternGeco, LLC v. ION Geophysical Corp.*, No. 4:09-CV-1827, 2012 WL 1708852 at \*3 (S.D. Tex. May 15, 2012).

# WHAT CONSTITUTES USE OF AN INVENTION WITHIN THE UNITED STATES?

- ▼ This is a key issue in the analysis of method claims because methods have to be performed in order for infringement to occur.
- ▼ A patented method is only “used” in the United States when each step of the method is performed domestically. *NTP*, 418 F.3d at 1318.
- ▼ For instance, where alleged infringers had to interact with a “Live Casino” located in Costa Rica in order to infringe the claimed method, the “use” of the method was not in the United States. *Home Gambling Network, Inc. v. Piche*, No. 2:05-CV-00610, 2013 WL 5492568, at \*6 (D. Nev. Sept. 30, 2013)

## WHAT CONSTITUTES USE OF AN INVENTION WITHIN THE UNITED STATES?

- ▼ In contrast, the “use” of a claimed system occurs at “the place where control of the system is exercised and beneficial use of the system obtained.” *NTP*, 418 F.3d at 1317. Because RIM’s customers manipulated the BlackBerry device in the U.S. and benefited from its use there, the “use” of the claimed system was within the United States even though a component was located in Canada. *Id.*



## WHEN IS AN INVENTION MADE IN THE UNITED STATES?

- ▼ An article is only “made” in the United States under §271(a) when it is manufactured and assembled in the United States. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 527-29 (1972).
- ▼ However, liability for patent infringement can extend to articles that are manufactured abroad. 35 U.S.C. § 271(f). *WesternGeco, LLC v. Ion Geophysical Corp.*, 791 F.3d 1340, 1351 (Fed. Cir. 2015) (“§ 271(f) was designed to put domestic entities who export components to be assembled into a final product in a similar position to domestic manufacturers...”).

## INTENT TO COMBINE COMPONENTS ABROAD INTO INFRINGING WHOLE IS SUFFICIENT

- ▼ For instance, in *Waymark Corp. v. Porta Systems Corp.*, 245 F.3d 1364, 1365 (Fed. Cir. 2001), the Federal Circuit held that Porta could be liable under § 271(f) because it shipped component parts to Mexico to be assembled there.
- ▼ The statute only requires intent that the components be combined abroad, so it was immaterial that there was no actual assembly abroad. *Id.* at 1368. The Federal Circuit remanded the case to determine Porta's intent. *Id.* at 1369

## COPIES OF SOFTWARE MADE ABROAD DO NOT INFRINGE

- ▼ On the other hand, § 271(f) does not apply when the only article sent abroad is a master disk that by itself is not used to infringe. *Microsoft v. AT&T*, 550 U.S. 437, 1750-51 (2007).
- ▼ In *Microsoft*, AT&T argued that Microsoft was liable under § 271(f) because it sent a master disk containing software which, when copied and installed on computers abroad, infringed AT&T's patent. *Id.* at 1754.
- ▼ The Court held that Microsoft was not liable because the copies, not the master disk, were installed on the foreign manufacturer's computers and used to infringe. *Id.* at 1751. Thus, only the copies constituted "components" under § 271(f). *Id.* at 1755.

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## EXTRATERRITORIALITY AND EXHAUSTION

- ▼ The doctrine of patent exhaustion prevents double recovery of patent damages and protects downstream purchasers of patented products from infringement.
- ▼ Key Question:
  - ▼ What kinds of activities abroad are sufficient to exhaust a patentee's rights in the United States?

## BACKGROUND ON EXHAUSTION

- ▼ Equitable doctrine that prevents patentees from expanding monopoly power to downstream purchasers.
- ▼ Example:
  - ▼ Patentee licenses patent to Company A who manufactures a product;
  - ▼ Company A sells product to Company B;
  - ▼ Company B cannot be sued for its use of the patented product – patentee’s rights were exhausted with the license to Company A.

## BACKGROUND ON EXHAUSTION

- ▼ Manufacture of a licensed product can trigger exhaustion even if it does not practice all the elements of a claim. *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 633 (2008)
- ▼ If it “substantially embodies” the patented invention (i.e. no reasonable non-infringing uses), the product will trigger exhaustion. *Id.*

## EXPLORING QUANTA

- ▼ LG licensed its patent to Intel, permitting Intel to make products practicing the invention. *Id.* at 623.
- ▼ Intel manufactured microprocessors and sold them to Quanta, who used them in finished computer systems. *Id.* at 624.
  - ▼ **But**, the LG/Intel license required Intel to notify its customers that combinations of Intel products with other non-Intel products were outside the scope of the license. *Id.* at 623-24.

## EXPLORING QUANTA

- ▼ LG sued Quanta, arguing that exhaustion should not apply:
  - ▼ The Intel microprocessor did not contain elements necessary to practice the claim and so did not exhaust LG's rights. *Id.* at 631.
  - ▼ LG had required Intel to notify Quanta that its computer systems were not covered by the license. *Id.*



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## THE HOLDING IN *QUANTA*

- ▼ The Court found that the LG/Intel license exhausted LG's patent rights. *Id.* at 638.
- ▼ Even though the Intel microprocessor did not completely practice the patent, there was no reasonable non-infringing use for the product, and the product contained all the inventive features of the patent. *Id.*

## THE LIMITS OF QUANTA

- ▼ In *Helferich Patent Licensing v. New York Times*, 778 F.3d 1293, 1301-02 (Fed. Cir. 2015), the Federal Circuit considered whether authorized sales to parties practicing a first set of claims should exhaust a patentee's rights to enforce a second set of claims against different parties.

## THE LIMITS OF QUANTA

- ▼ In *Helferich*, the patentee owned a large patent portfolio, including:
  - ▼ Claims covering mobile wireless communication devices and requesting/receiving content on such devices (handset claims); and
  - ▼ Claims covering sending and receiving of hyperlinks to mobile wireless communication devices (content claims). *Id.* at 1296.
- ▼ The patentee had licensed the “handset claims” to handset manufacturers, but had explicitly avoided licensing the “content claims” to content providers. *Id.* at 1297.

## THE LIMITS OF QUANTA

- ▼ Helferich sued content providers under the “content claims,” some of which were found within the same patents as the licensed “handset claims.” *Id.*
- ▼ The New York Times argued that exhaustion applied because there was no use for the “content claims” other than in conjunction with the licensed “handset claims.” *Id.* at 1299-1300.
- ▼ The Federal Circuit disagreed:
  - ▼ Those who practice the “handset claims” did not necessarily practice the “content claims.” *Id.* at 1309.
  - ▼ The “content claims” did not require the use of “inventive features” of the “handset claims.” *Id.* at 1310.

## WHAT ABOUT EXTRATERRITORIALITY?

- ▼ The Federal Circuit has imposed a territoriality requirement on exhaustion.
- ▼ “United States patent rights are not exhausted by products of foreign provenance.” *Jazz Photo Corp. v. ITC*, 264 F.3d 1094, 1105 (Fed. Cir. 2001).
  - ▼ *Jazz Photo* involved companies that imported refurbished patented disposable cameras previously sold overseas. *Id.* at 1101.
  - ▼ The Federal Circuit found that these sales **did not** exhaust the patentee’s rights. *Id.* at 1105.
- ▼ Federal Circuit is considering whether to overrule *Jazz Photo* in *Lexmark v. Impression (en banc)*

# PATENT AND COPYRIGHT EXHAUSTION LAWS IN TENSION

- ▼ Despite the territoriality requirement imposed on patent exhaustion, there is no such requirement for the analogous first-sale doctrine in copyright law. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1355-56 (2013).
- ▼ In *Kirtsaeng*, the Court concluded that the copyright owner could not prevent an owner of a copyrighted work from bringing the work into the United States when it was lawfully purchased abroad. *Id.* at 1355. That is, the first-sale doctrine applies to first sales that occur abroad. *Id.* at 1355-56.

# FOREIGN SALES DO NOT TRIGGER EXHAUSTION

- ▼ *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005)
  - ▼ The Federal Circuit found that the original *Jazz Photo* case expressly limited first sales under the exhaustion doctrine to those occurring within the United States.
- ▼ *Fujifilm Corp. v. Benun*, 605 F.3d 1366, 1371-72 (Fed. Cir. 2010)
  - ▼ Following *Quanta*, the Federal Circuit rejected the argument that *Quanta* created a “strict exhaustion” rule, noting further that it was immaterial whether the patentee had authorized the foreign sales.
- ▼ *Ninestar Technology Co., Ltd. v. ITC*, 667 F.3d 1373, 1378 (2012)
  - ▼ The Federal Circuit again rejected an argument that *Quanta* eliminated the territoriality requirement, confirming that foreign sales cannot trigger patent exhaustion.

## DISTRICT COURT TREATMENT OF EXTRATERRITORIAL SALES

- ▼ *Multimedia Patent Trust v. Apple, Inc.*, No. 10-CV-2618-H, 2012 WL 6863471, at \*5 (S.D. Cal. 2012)
  - ▼ Patent exhaustion was triggered where the patentee had executed a worldwide license. *Id.*
  - ▼ The district court distinguished *Jazz Photo*, which involved only foreign sales made directly by patentee, and not sales made pursuant to an unconditional worldwide license. *Id.*
- ▼ *San Disk Corporation v. Round Rock Research*, No. C-11-5243, 2014 WL 2700583, at \*4 (N.D. Cal. June 13, 2014)
  - ▼ Patent exhaustion triggered where patentee granted a worldwide license, which included the right to import allegedly infringing goods into the United States. *Id.*
  - ▼ Relied in part on *Kirtsaeng*



## EXHAUSTION TAKEAWAYS

- ▼ Foreign sales currently do not trigger exhaustion of a U.S. patentee's rights.
- ▼ But the Federal Circuit has taken up the *Lexmark v. Impression* case *en banc* (argued October 2) to decide whether:
  - ▼ *Kirtsaeng* applies in the patent context (and therefore *Jazz Photo* should be overruled) and
  - ▼ to decide whether the conditional sale doctrine (Mallinkrodt) was overruled by *Quanta*.