

Current Issues on Intellectual Property in the USA

James G. McEwen
Partner
Stein McEwen LLP
1400 Eye Street, NW
Suite 300
Washington, DC 20005
(202) 216-9505
www.smiplaw.com
jmcewen@smiplaw.com

The International
Conference For the Hongik
MIP Inauguration

March 26, 2010



Inventive Solutions

Overview

- Many New Issues in US IP Law
 - In re Bilksi not decided
 - Patent Reform Act
 - USPTO Backlog & New Rules
- Are New Liability Issues for Exporters Of Greater Practical Importance
 - Direct and Indirect Liability for Export of Infringing Good
 - Patent Marking Liability



Liability for Export of Infringing Good

- Three basic forms of infringement of U.S. Patent
 - Direct: 35 U.S.C. § 271(a)
 - Inducement: 35 U.S.C. § 271(b)
 - Contributory: 35 U.S.C. § 271(c)



Liability for Export of Infringing Good

- Law has recognized exporter liability for directly importing infringing goods
 - Direct infringement includes importation of infringing device
 - Contributory infringement also includes importation of component in infringing device
 - Inducement only refers to infringement



Liability for Export of Infringing Good

- However, law also recognized extraterritorial limits of U.S. Patent Law
- U.S. Patent Laws can only created infringement within the U.S.
 - Rotec Industries Inc. v. Mitsubishi Corp., 215 F3d 1246; 55 USPQ2d 1001 (Fed. Cir. 2000)
 - Extraterritorial activities not relevant to infringement of U.S. patent



Liability for Export of Infringing Good

- Subsequent importation cases cause problems
 - Seller did not import, but sells outside of the U.S.
 - Law was vague
 - The more activities directed to the U.S., the more likely seller is liable
- Scenario
 - Foreign Seller sells to Foreign Distributer
 - Foreign Distributer Imports and Sells in U.S.
 - Liability of Foreign Distributer is clear
 - Liability of Foreign Seller is unclear



Liability for Export of Infringing Good

- Cases indicate that it was possible for Foreign Seller to be liable for subsequent importation
 - Only if the Foreign Seller controlled the subsequent importation.
- International Rectifier Corp. v. Samsung Electronics Co., 70 USPQ2d 1124 (Fed. Cir. 2004)
 - Samsung enjoined from selling infringing device
 - Court found Samsung did not violate terms of injunction by selling infringing device to third party outside of United States
 - No liability despite evidence that Samsung was aware of subsequent importation into the United States
 - Reason: Samsung did not control the third party's activities or distribution of the infringing article
- Liability usually based upon direct infringement and induced infringement



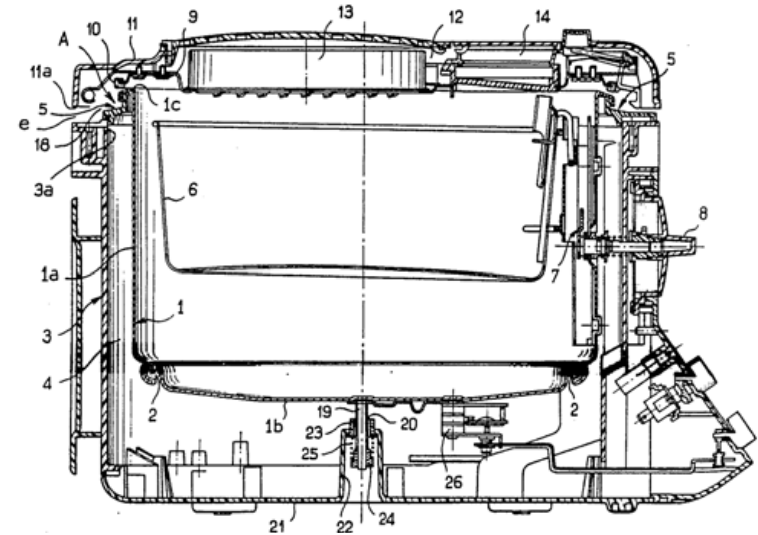
Liability for Export of Infringing Good

- Liability Confirmed in SEB S.A. v. Montgomery Ward & Co., 93 USPQ2d 1617 (Fed. Cir. 2010)
 - Possible liability from sale itself
 - Possible inducement from circumstances surrounding sale
- AIPLA and Federal Circuit Bar Association requesting rehearing



Liability for Export of Infringing Good

- SEB manufactures and sells cooking products in the United States
- SEB owns U.S. Patent No. 4,995,312 (the '312 patent), which is directed to a deep fryer that is sold in the U.S. through T-Fal
- Pentalpha is a Hong Kong corporation who sells cooking products
- Pentalpha sold a deep fryer to Sunbeam Products, Inc. and remaining defendants
- Sunbeam Products, Inc. and remaining defendants sold the fryers in the U.S.



Liability for Export of Infringing Good

- Factors:
 - Pentalpha had obtained a right-to-use study from a U.S. attorney for its fryer.
 - Notably, the study did not cover the '312 patent
 - **Pentalpha did not reveal to its counsel that the fryer was copied from a competing product sold** (important factor)
 - Pentalpha sold the fryer free-on-board (fob) Hong Kong and China, but intended U.S. destination
 - The invoices were solely to U.S. companies
 - Pentalpha attached trademarks used by the U.S. companies
 - The fryer included electrical fittings used in the U.S.



Liability for Export of Infringing Good

- Direct Infringement
 - Main defense: Pentalpha did not offer to sell or import the goods
 - Goods all delivered in Hong Kong and China
 - FOB language shows delivery outside U.S.
- Federal Circuit rejected defense
 - The Federal Circuit acknowledged that law remains vague as to the extent to which foreign acts can be used to show an offer to sell.
 - Rotec Indus., Inc. v. Mitsubishi Corp., 215 F.3d 1246, 1260 (Fed. Cir. 2000) is not conclusive that foreign acts cannot be used to show infringement
 - Law allowed to remain vague



Liability for Export of Infringing Good

- Why?
 - There was evidence that the sales were offers for sale in the U.S. under 35 U.S.C. § 271(a)
 - Only mention of foreign action is FOB language
 - FOB relates only to where liability transitions, not where sale occurs
 - Caselaw expressly stated that FOB does not control location of sale for purposes of infringement, only location where title transfers
 - Litecubes, LLC v. N. Light Prods., Inc., 523 F.3d 1353, 86 USPQ2d 1753 (Fed. Cir. 2008).
 - The evidence showed a number of direct contacts with U.S. customers
 - Pentalpha intended to sell the infringing fryers to U.S. customers,
 - Affixed the marks used by the U.S. customers,
 - Used electrical fittings used in the U.S., and
 - Identified in the invoices the U.S. destination of each shipment
 - Sufficient evidence to show the offers for sale were in the United States as opposed to overseas



Liability for Export of Infringing Good

- Induced Infringement
 - Main defense: Pentalpha did not know of the '312 patent
 - right-to-use study did not uncover '312 patent
 - No evidence that Pentalpha knew of '312 patent
 - The fryer Pentalpha copied was not marked with the '312 patent
 - DSU Med. Corp. v. JMS Co., 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc) specifically required that, to show intent, “necessarily” the inducing infringer knew of the patent.
- Federal Circuit rejected defense



Liability for Export of Infringing Good

- Why?
 - 35 U.S.C. § 271(b)
 - Whoever actively induces infringement of a patent shall be liable as an infringer
 - The Federal Circuit in DSU only looked at the intent required for inducement
 - Found that the infringer knew or should have known that the infringer's actions would result in infringement
 - Knowledge of patent was not an issue
 - Law vague as to extent of what was known for the infringement



Liability for Export of Infringing Good

- Federal Circuit defined what it means to “know” for the infringement
 - Actual knowledge of patent (DSU)
 - Deliberate indifference of a known risk is standard also used as substitute for actual knowledge
 - Form of knowledge since cannot deliberately avoid risk of unaware
 - Used in other contexts to show specific intent
 - New expanded definition for inducement



Liability for Export of Infringing Good

- Applying deliberate indifference of a known risk standard, evidence showed Pentalpha induced infringement
- Evidence supporting inducement included the
 - Pentalpha copied the SEB design;
 - Pentalpha hired outside counsel to perform the right-to-use study without informing the counsel that it copied the design from SEB;
 - Pentalpha was headed by President Sham
 - President Sham had detailed knowledge of patent law
 - President Sham was inventor
 - President Sham had worked on other projects with SEB in which SEB patented the resultant product.



Liability for Export of Infringing Good

- Pentalpha provided no evidence that Pentalpha reasonably believed the fryer was not patented.
 - At most, evidence showed that the copied fryer was not marked with '312 patent
 - Lack of marking understandable since purchased in Hong Kong
- Lack of evidence of reasonable belief that the fryer was not protected particularly problematic for sophisticated patent owner



Liability for Export of Infringing Good

- Takeaways

- SEB confirms that offers for sale can still be infringing under 35 U.S.C. §271(a) where much of the activity is directed to U.S. purchased
 - Need more than contractual terms to make offer purely extraterritorial
 - The more contact with U.S. customer or end user, the more likely there is offer for sale under 35 U.S.C. §271(a)
- SEB confirms that inducement can occur even where patent owner is deliberately avoiding finding patent
 - Law requires acting responsibly
 - Cannot avoid liability by pretending unaware of risk



Patent Marking Liability

- Patent Marking
 - 35 U.S.C. §287(a)
 - Labeling products manufactured or sold in the United States with a corresponding patent number
- Types of Notice (marking)
 - by fixing thereon the word "patent" ... together with the number of the patent, or
 - when, from the character of the article, this cannot be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice.



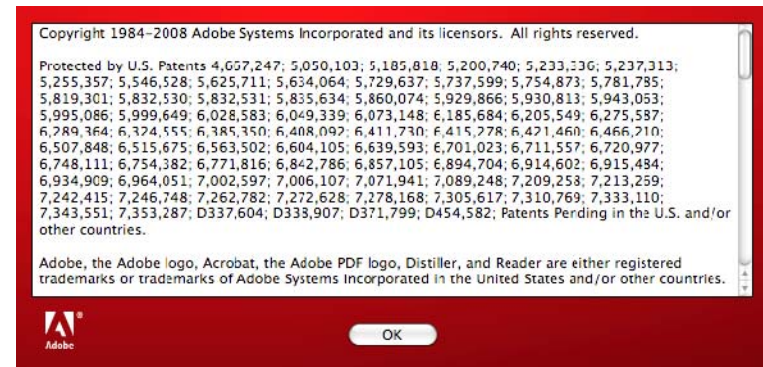
Patent Marking Liability

- Why mark?
 - Pre-litigation damages
 - Damages begin when infringer on notice
 - When marked, infringer on notice at time of infringement after marked product is put into commerce/shipped
 - Otherwise, risk declaratory judgment action if notify infringer
- Patent marking is not mandatory,
 - important tool to discourage infringement by competitors.
 - Does not affect injunctions or damages after litigation commences



Patent Marking Liability

- Examples of marking
 - "U.S. Patent No. X,XXX,XXX".
 - More than word "patented," or "patent pending"
 - For multiple patents covering a particular product family, the marking may be labeled as follows:
 - Covered by one or more of the following U.S. Patent Nos. X,XXX,XXX, Y,YYY,YYY and Z,ZZZ,ZZZ.



Patent Marking Liability

- Must ensure that mark does not mislead about patent coverage
 - Criminal and Civil Penalty under 35 U.S.C. § 292
 - Fine of up to \$500 per offense (i.e., each mismarked article)
 - Applies where marking is of unpatented item but marking indicates what issued patent covers
 - Applies where marking indicates that patent application has been filed (i.e., “patent pending”) but where patent application has not been filed
 - Fine can be enforced by anyone



Patent Marking Liability

- Text of Statute: 35 U.S.C. § 292
 - (a) Whoever, without the consent of the patentee, marks upon, or affixes to, or uses in advertising in connection with anything made, used, offered for sale, or sold by such person within the United States, or imported by the person into the United States, the name or any imitation of the name of the patentee, the patent number, or the words “patent,” “patentee,” or the like, with the intent of counterfeiting or imitating the mark of the patentee, or of deceiving the public and inducing them to believe that the thing was made, offered for sale, sold, or imported into the United States by or with the consent of the patentee; or Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word “patent” or any word or number importing that the same is patented for the purpose of deceiving the public; or Whoever marks upon, or affixes to, or uses in advertising in connection with any article, the words “patent applied for,” “patent pending,” or any word importing that an application for patent has been made, when no application for patent has been made, or if made, is not pending, for the purpose of deceiving the public—
Shall be fined not more than \$500 for every such offense.
 - (b) Any person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States.



Patent Marking Liability

- Little activity on false marking under 2005
 - *Clontech Lab. Inc. v. Invitrogen Corp.*, 406 F.3d 1347; 74 USPQ2d 1598 (Fed. Cir. 2005)
 - Claimed false marking damages under 35 U.S.C. § 292
 - Cited test in 2000, which put Invitrogen on notice of mismarking
 - Federal Circuit stated that the purpose of the statute is to provide a mechanism of reliably determining if article is covered by intellectual property
 - Purpose is frustrated where unpatented articles are mismarked with intent to deceive
 - Purpose was not as a strict liability statute such that need to evidence intent to deceive in addition to falsity of marking
 - To evidence intent to deceive, the Federal Circuit held that objective evidence of intent to deceive public needs to be provided
- Case seemed to renew interest in possible uses of 35 U.S.C. § 292



Patent Marking Liability

- What are the uses
 - Stand alone suit by member of the public
 - Need not be a competitor
 - Counterclaim
 - Competitor copied marked good and is sued for infringement
- Why use?
 - Damages of up to \$500 per article can create large damage pool
 - Similar to statutory damages for copyright infringement
 - Easy to meet objective test (seemingly)



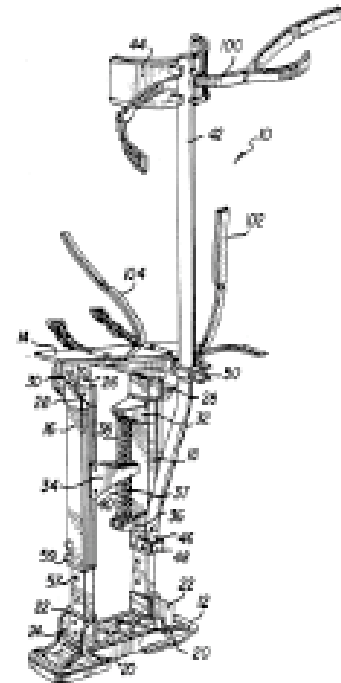
Patent Marking Liability

- Stand Alone Claim
 - Called qui tam suits
 - Traditionally qui tam suits allows private citizen to sue government contractors for fraud on government
 - Any law which gives standing to any private citizen to sue even if not personally harmed
 - False marking suits often brought by patent attorneys
 - Pequignot v. Solo Cup Co., 640 F.Supp.2d 714, 91 U.S.P.Q.2d 1493 (E.D.Va. Mar. 27, 2009)
 - Found anyone can sue since statute expressly allows any person to sue as long as 50% of recovery goes to U.S.
 - Is contrary holding in Stuaffer v. Brooks Brothers, Inc., 615 F. Supp. 2d 248 (S.D. N.Y. 2009)



Patent Marking Liability

- Counterclaim
 - Forest Group Inc. v. Bon Tool Co., 93 USPQ2d 1097 (Fed. Cir. 2009)
 - Defendant copied marked stilts
 - Patent owner had twice lost summary judgment confirming that copied stilts did not infringe
 - Losing twice puts even unsophisticated patent owners on notice



Patent Marking Liability

- Damages
 - Up to \$500 per article
 - Not per decision to mark a batch of articles
 - Confirmed by Federal Circuit in **Forest Group Inc.**
 - 35 U.S.C. §292 “prohibits false marking of ‘any unpatented article,’ and it imposes a fine for ‘every such offense.’”
 - Consistent with intent in prohibiting harm to public
 - Should be a steep fine



Patent Marking Liability

- Typical defenses
 - No standing to sue
 - Lack of evidence of intent to deceive
 - Acting on advice of counsel
 - Taking commercially reasonable time to eliminate falsely marked packaging
 - Marking itself would not qualify as a marking for purposes of the 35 U.S.C. §287(a)
 - Evidence that marking was a mistake and not deliberate



Patent Marking Liability

- Result of decisions
 - Record numbers of suits being filed by Patent Marking Trolls
 - Need to ensure any markings are correct
 - Make sure all patents are in force
 - Not expired
 - Make sure can justify marking
 - But update if lose court case
 - If act responsibly, can avoid liability

