
Lisa D. Zang
lzang@wsgr.com

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Cover Page Footnote
Lisa D. Zang is an Intellectual Property Litigation Senior Associate at Wilson Sonsini Goodrich & Rosati, P.C. in Los Angeles, California. She holds a J.D. from the University of California Los Angeles School of Law and a B.S. in Biology and B.S. in Business Economics and Management from the California Institute of Technology. This article presents only the author’s then-present views, which should not be attributed to the firm or to any of its clients.

Lisa D. Zang*

China has experienced an extraordinary transformation from a poor, developing nation into a global economic power. With China becoming one of the U.S.’s largest trading partners, however, Chinese companies have become increasingly enmeshed in U.S. patent litigations. Although the U.S. patent laws are intended only to govern conduct within the nation’s borders, the line between domestic and foreign economic activities has become increasingly blurred. Modern sales transactions often span multiple countries, and in such situations, it may not be clear whether the U.S. patent laws apply. For Chinese companies facing exposure to U.S. patent litigations, it is critical to understand what qualifies as an infringing “sale” and “offer to sell” within the U.S. for purposes of determining patent infringement liability and damages. It is also important to understand the circumstances under which a foreign company may be liable for patent infringement in the U.S. if products that are manufactured and sold overseas independently make their way into the U.S. This Article addresses the foregoing issues against the backdrop of the extraterritorial reach and limitations of the U.S. patent laws.

* Lisa D. Zang is an Intellectual Property Litigation Senior Associate at Wilson Sonsini Goodrich & Rosati, P.C. in Los Angeles, California. She holds a J.D. from the University of California Los Angeles School of Law and a B.S. in Biology and B.S. in Business Economics and Management from the California Institute of Technology. This article presents only the author’s then-present views, which should not be attributed to the firm or to any of its clients.
INTRODUCTION ................................................................................. 468

I. “SALES” WITHIN THE UNITED STATES ........................................ 470
   A. Legal Framework ..................................................................... 470
   B. Case Studies ......................................................................... 472
      1. Lake Cherokee v. Marvell ................................................. 472
      2. MediaTek v. Freescale ...................................................... 476
      3. McGinley v. Luv N’ Care .................................................. 479

II. “OFFERS TO SELL” WITHIN THE UNITED STATES .................... 486
    A. Legal Framework .................................................................. 486
    B. Case Studies ....................................................................... 486
       1. Halo v. Pulse .................................................................... 486
       2. SignalQuest v. Tien-Ming Chou ..................................... 489

III. INDUCED INFRINGEMENT .......................................................... 493
     C. Legal Framework ............................................................. 493
     D. Case Studies ..................................................................... 495
        1. Largan v. Genius ........................................................... 495
        2. Opticurrent v. Power Integrations ................................. 501
        3. Tessera v. Broadcom ..................................................... 506

CONCLUSION .................................................................................. 510

INTRODUCTION

In the span of forty years, China has experienced an extraordinary transformation from a poor, developing nation into a global economic power. Since the initiation of free market economic reforms and trade liberalization in 1979, China has achieved real GDP growth of close to 10% annually—a rate described by the World Bank as “the fastest sustained expansion by a major economy in history.”\(^1\) In the wake of this unprecedented growth, China has become the U.S.’s largest merchandise trading partner, largest source of imports, and third largest export market.\(^2\)

But success begets attention. With the amount of business that Chinese companies do with the U.S., Chinese companies and those

\(^2\) Id.
that do business with them have become increasingly enmeshed in U.S. patent litigations. Some Chinese litigants may ask: how can this be, when the U.S. patent laws are only intended to govern conduct within the nation’s borders and not that which lies beyond? The reality is that the line between domestic and foreign economic activities has become increasingly blurred in recent years, with modern marketing, design, manufacturing, and sales transactions each spanning multiple countries. Consider a situation where the substantial activities of a sales transaction, such as the execution of an agreement for processors manufactured in China and sold within Asia, take place in the U.S. Alternatively, consider a situation where chips manufactured in China and sold to customers within Asia are incorporated into smartphones that independently make their way to the U.S., where the nation’s patent laws apply with full force. In such situations, it may not be clear whether the U.S. patent laws apply to the transactions at issue.

For Chinese companies facing exposure to U.S. patent litigations, there are three important questions to answer. First, what qualifies as an infringing “sale” within the U.S. for purposes of determining patent infringement liability and damages? Second, what qualifies as an infringing “offer to sell” within the U.S. for purposes of making those same determinations? Third, under what circumstances can a foreign company be liable for patent infringement in the U.S. where products manufactured and sold overseas independently make their way to the U.S.?

This Article addresses the foregoing questions against the backdrop of the extraterritorial reach and limitations of the U.S. patent laws. In Part II, this Article reviews what qualifies as an infringing “sale” within the U.S. Additionally, Part II evaluates recent cases where foreign defendants successfully argued that their overseas activities did not qualify as sales within the U.S., as well as cases where foreign defendants were unsuccessful in making similar arguments. Part II also identifies defensive patent litigation strategies for Chinese companies in view of the legal framework and case studies. In Part III, this Article performs the same analysis for “offers to

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sell” within the U.S. In Part IV, this Article conducts the same analysis for induced infringement of U.S. patents. In Part V, this Article concludes with observations regarding U.S. patent litigation strategies for Chinese companies moving forward.

I. “Sales” Within the United States

A. Legal Framework

The general rule under U.S. patent law is that no infringement occurs when an accused product is made and sold in another country. As Justice White wrote in 1972, “[o]ur patent system makes no claim to extraterritorial effect; ‘these acts of Congress do not, and were not intended to, operate beyond the limits of the United States.” Thus, the Supreme Court and Federal Circuit have made clear that the U.S. patent laws, like other laws, must be understood in view of a deep-rooted presumption against extraterritorial reach. Any doubt as to whether an act falls within the reach of the U.S. patent laws should be resolved in favor of the presumption against extraterritoriality (i.e., in favor of a finding that the act does not infringe). This presumption applies not only to identifying what conduct qualifies as infringing for liability purposes, but also to determining the amount of damages that may be imposed for such conduct.

The general infringement provision of the U.S. Patent Act, 35 U.S.C. § 271(a) (“Section 271(a”), addresses most infringements that occur “within the United States.” Section 271(a) states as follows:

“Except as otherwise provided in this title, 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.”

Thus, it is an act of infringement under Section 271(a) to make, use, sell, or offer to sell a patented invention within the U.S. or import a patented invention into the U.S.

To determine whether a “sale” has occurred within the U.S., courts consider whether the defendant’s activities in the U.S. are sufficient to qualify as a “sale” under Section 271(a) given the strong policy against extraterritorial liability. Determining where a sale has occurred, however, may be neither simple nor straightforward. As the Federal Circuit put it, “[t]he standards for determining where a sale may be said to occur do not pinpoint a single, universally applicable fact that determines the answer, and it is not even settled whether a sale can have more than one location.” This is particularly true in today’s age, where supply chains and sales cycles often span multiple countries and domestic activity can have foreign effects while foreign activity can likewise have domestic effects.

Nonetheless, courts have held that places relevant to determining where a sale has occurred include: the place where tangible property is transferred or delivered; the place where a contract for the transfer or delivery of tangible property is executed; the place where performance actually occurs or is expected to occur under a contract; the place where specific orders of products are negotiated and finalized; and the place where other substantial activities of a sales transaction occur. When all such “substantial activities” of a sales transaction take place outside the U.S., less “substantial” activities, such as pricing and contract negotiations, in the U.S. are, on their own, insufficient to transform the foreign activities into a sale “within the United States.”

10 Id.
11 Id.
13 Carnegie Mellon, 807 F.3d at 1308.
14 Id. at 1308–09; Halo Elecs., 769 F.3d at 1379; Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc., 617 F.3d 1296, 1310–11 (Fed. Cir. 2010).
15 Halo Elecs., 769 F.3d at 1379.
B. Case Studies

This Article first analyzes summary judgment cases. A “summary judgment” is a judgment that is summarily entered by a court for one party and against another party.\(^\text{16}\) In other words, the judgment is entered without a trial.\(^\text{17}\) As a result, a successful summary judgment motion may significantly reduce overall legal expenditures for a case by disposing of all or a subset of the claims before trial.\(^\text{18}\)

A court may grant summary judgment if it decides that the moving party is entitled to prevail under the existing law and there are no material (i.e., major) factual issues.\(^\text{19}\) If summary judgment is denied, the remaining claims in the case proceed to trial for determination by a judge or jury.\(^\text{20}\) Thus, a non-movant that prevails at the summary judgment stage may nevertheless lose on the same claims at trial.\(^\text{21}\)

1. Lake Cherokee v. Marvell

In Lake Cherokee Hard Drive Technologies, L.L.C. v. Marvell Semiconductor, Inc., the defendant, Marvell Semiconductor, Inc. (“Marvell”), obtained partial summary judgment that 77% of the sales of its chips did not occur within the U.S.\(^\text{22}\) As a result, Marvell was not liable for these foreign chip sales and they were excluded from presentation to the jury at trial.\(^\text{23}\)

The issue in this case was whether Marvell’s domestic activities qualified as sales under Section 271(a).\(^\text{24}\) Marvell was a California-


\(^{17}\) Phillips & Stevenson, supra note 16.

\(^{18}\) Anderson, 477 U.S. at 247–52 (citing Celotex Corp. v. Catrett, 477 U.S. 317, 327 (1986)).

\(^{19}\) Fed. R. Civ. P. 56(a); Edward Brunet, Markman Hearings, Summary Judgment, and Judicial Discretion, 9 Lewis & Clark L. Rev. 93, 98–99 (2005).

\(^{20}\) Phillips & Stevenson, supra note 16.

\(^{21}\) Id.


\(^{23}\) Id.

\(^{24}\) Id. at 657.
based chip supplier with no offices outside the U.S.\textsuperscript{25} Marvell conducted certain sales-related activities within the U.S., including preparing and submitting written proposals in response to requests for proposal from U.S. customers; designing chips, providing working samples of chips, and negotiating prices for the chips once a customer had selected a particular Marvell proposal; achieving “design win[s]” with customers, which meant that the customer would purchase all of the chips that it needed for a particular end product from Marvell; and entering into product supply agreements with these customers to memorialize Marvell’s agreement with the customer on the specification and price of the chip featured in the design win.\textsuperscript{26} Customers could only submit purchase orders for quantities of the chip if a supply agreement was in place.\textsuperscript{27}

Customers outside the U.S. submitted purchase orders for chips to Marvell Asia Pte Ltd. (“MAPL”), a third party Singaporean company based in Singapore.\textsuperscript{28} Following the submission of these purchase orders, a third party Taiwanese company manufactured the chips abroad.\textsuperscript{29} Marvell International, a Bermuda company (“Marvell Bermuda”), purchased the chips from the Taiwanese manufacturer and owned the chips until it transferred title to MAPL, which held title to the chips until they were delivered to the customer.\textsuperscript{30} Revenue from these sales was placed in Singapore and Bermuda.\textsuperscript{31} 77% of these chips were not sold into the U.S. market and never otherwise entered the U.S.\textsuperscript{32} The remaining 23% of these chips were incorporated by third party customers (such as hard drive manufacturers and original equipment manufacturer (“OEMs”)) into products that were subsequently sold in the U.S.\textsuperscript{33}

The court found that sales of the 77% of chips that never entered the U.S. were not sales “within the United States” under Section

\begin{itemize}
\item \textsuperscript{25} \textit{Id.} at 656.
\item \textsuperscript{26} \textit{Id.}
\item \textsuperscript{27} \textit{Id.}
\item \textsuperscript{28} \textit{Id.} at 656-57.
\item \textsuperscript{29} \textit{Id.} at 656.
\item \textsuperscript{30} \textit{Id.}
\item \textsuperscript{31} \textit{Id.}
\item \textsuperscript{32} \textit{Id.} at 657.
\item \textsuperscript{33} \textit{Id.} at 657–58.
\end{itemize}
These sales had occurred by purchase orders submitted outside the U.S. to third party MAPL, and the chips sold via those purchase orders had been manufactured abroad, delivered abroad, and never entered the U.S. The court also noted that finding otherwise would improperly convert the act of entering into a product supply agreement within the U.S. into a conduit for liability every time a purchase order was submitted and fulfilled outside the U.S., even when the accused products never entered the U.S. Thus, the court granted partial summary judgment that the 77% of foreign chip sales did not infringe the asserted patents.

The court, however, determined that there was an issue of material fact as to whether the 23% of sales of chips that were eventually brought into the U.S. by downstream customers were infringing sales under Section 271(a). The court denied summary judgment with respect to those sales.

For companies that make a substantial portion of their sales outside the U.S., eliminating foreign sales from the calculation of patent infringement damages is critical. By way of example, Chinese information and communications technology provider Huawei’s sales in the U.S. are only a fraction of its sales elsewhere in the world. Likewise, Sany, a Chinese multinational heavy equipment manufacturing company, reportedly makes most of its

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34 *Id.* at 657 (citing Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc., 617 F.3d 1296, 1307–10 (Fed. Cir. 2010)).
35 *Id.*
36 *Id.*
37 *Id.* at 658.
38 *Id.*
39 *Id.* As to the remaining 23% of sales, the jury found no direct infringement at trial. Verdict Form at 1, Lake Cherokee Hard Drive Techs., LLC v. Marvell Semiconductor, Inc., 964 F. Supp. 2d 653, 658 (E.D. Tex. 2013) (No. 2:10-cv-216-JRG).
40 Friedrich Wu et al., *Dos and Don’ts for Chinese Companies Investing in the United States: Lessons from Huawei and Haier*, 53(4) THUNDERBIRD INT’L BUS. REV. 501, 507 (2011) (“Huawei...in 2010 alone, spent US $6.1 billion purchasing products and services from American companies...In contrast, its annual sales in the United States were just US $400 million in the same period. This also pales in comparison to its sales in other regions. It is interesting to note that Huawei has managed to secure second place in the world telecom market without substantial business in the world’s largest market, the United States.”).
revenue in China.\footnote{Nin-Hai Tseng, \textit{Sany’s Bold U.S. Move}, \textit{FORTUNE} (June 17, 2013, 9:00 AM) https://fortune.com/2013/06/17/sanys-bold-u-s-move/ [https://perma.cc/UK6R-7SQD].} Apple also makes the majority of its total net sales outside the U.S.\footnote{Apple Inc., Annual Report (Form 10-K), at 5 (Sept. 28, 2019) ("[Apple] has international operations with sales outside the U.S. representing a majority of the Company’s total net sales. In addition, a majority of [Apple’s] supply chain, and its manufacturing and assembly activities, are located outside the U.S.").} \textit{Lake Cherokee} illustrates the value of a successful foreign sales defense to such companies. There, 77% of the defendant’s sales of the accused chips were carved from the damages base and excluded from presentation to the jury at trial because the underlying sales activities had occurred outside the U.S.\footnote{\textit{Lake Cherokee}, 964 F. Supp. 2d at 658.} This effectively reduced the defendant’s damages exposure in that U.S.-based patent case by 77%.

A finding by the court that all or a substantial percentage of a company’s sales-related activities occurred outside the U.S. and therefore do not infringe can be case dispositive or, at the very least, highly advantageous to the company in settlement negotiations. Excluding foreign sales may significantly reduce the damages base, which is the total amount of sales of the allegedly infringing product during the relevant time period.\footnote{KAREN VOGEL WEIL ET AL., \textit{DAMAGES AND ATTORNEY FEES}, §§ 9:1.2, 9–5 (2017), https://legacy.pli.edu/product_files/Titles/159/%2323208897_09_Patent_Litigation_P3_20170915135404.pdf [https://perma.cc/L5TM-BWDG].} In turn, this can significantly limit the size of the damages pool presented to the jury at trial. It can also encourage a more favorable settlement for the company, as the plaintiff’s ability to collect a large damages award will likely be severely limited by the confinement of damages to domestic sales.

As \textit{Lake Cherokee} demonstrates, a potentially case dispositive strategy for companies with entirely or predominantly foreign sales is to move for summary judgment of non-infringement with respect to those sales that occur abroad. As in \textit{Lake Cherokee}, these motions are most likely to be granted where the “substantial activities” of the sales transactions at issue, such as the submission and acceptance of purchase orders, manufacturing, and delivery, take place outside the U.S., and the products at issue do not later enter into the U.S.
2. MediaTek v. Freescale

In MediaTek Inc. v. Freescale Semiconductor, Inc., however, the defendant, Freescale Semiconductor, Inc. (“Freescale”), was unsuccessful in arguing that a subset of its chips did not infringe because they were manufactured abroad, sold to manufacturers abroad, and incorporated by the manufacturers into Amazon Kindle products abroad. Freescale’s motion for summary judgment of non-infringement as to its foreign activities was therefore denied.

Freescale was a U.S. company that provided applications processors. In 2009, Freescale entered into a “Freescale Standard Sales Agreement” (“Agreement”) with Amazon Fulfillment Services, Inc. (“AFS”), a U.S.-based subsidiary of Amazon.com (“Amazon”), which is in turn a U.S. corporation. The negotiations leading up to the Agreement and the execution of the Agreement took place in the U.S. The Agreement governed all sales of Freescale’s chips to AFS and its “Authorized Purchasers” and “Designees,” and stated that “Freescale will sell to Authorized Purchasers, and Authorized Purchasers will buy from Freescale, products from time to time.” In addition, the Agreement identified Lab126, a U.S.-based division of Amazon, as the “Buyer” of Freescale’s products.

The Agreement identified prices in an attachment and stated in the “Prices” term that Freescale would not provide any “Designee” with “any rebates, discounts, free Product, kick-back or other similar terms related directly or indirectly to the Product supplied to any Designees under this Agreement without Buyer’s express, prior written consent.” The Designees could be foreign companies, such as Foxconn, a Taiwanese multinational electronics contract manufacturer. Moreover, subject to one exception, the Agreement

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46 Id. at *3.
47 Id.
48 Id.
49 Id.
50 Id. at *4.
51 Id.
52 Id. at *3.
53 Id. at *4.
54 Id. at *5, *12.
provided that “each time an Authorized Purchaser wishes to purchase Product(s) from Freescale, the Authorized Purchaser must submit to Freescale a written purchase order.”

Freescale argued that the chips that were manufactured outside the U.S., sold to manufacturers outside the U.S., and incorporated by those manufacturers into Amazon Kindles outside the U.S., and thus could not qualify as infringing products because these manufacturing, selling, and incorporating activities occurred extraterritorially. The court disagreed, finding that there were triable issues of fact from which a reasonable jury could conclude that “sales” of or “offers to sell” the chips had taken place in the U.S. In particular, the Agreement between Freescale and AFS specifically identified AFS as the “Buyer” and Freescale as the “Seller” and governed all product purchases made by AFS and its Authorized Purchasers and Designees from Freescale. As a result, although Foxconn, for example, received the accused applications processor products in China for incorporation in Amazon Kindles that had also been manufactured in China, Foxconn was purchasing these applications processors pursuant to the Agreement. Moreover, the delegation of authority from AFS to the Authorized Purchasers to issue purchase orders to Freescale did nothing to change the fact that every sale arising out of those purchase orders was subject to the terms and conditions of the Agreement. In addition, AFS directly controlled the pricing terms and restrictions for all Authorized Purchasers and

55 Id.
56 Id.
57 Id. at *3, *12; see also id. at *7–9 (noting that cases determining whether a sale or offer for sale have occurred for purposes of Section 271(a) have considered factors such as the location of a contemplated future sale, the location of delivery, the location of performance, the location of the negotiation of the sales contract, and the location of the execution of the sales contract) (citing Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc., 617 F.3d 1296, 1309 (Fed. Cir. 2010); MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp., 420 F.3d 1369, 1377 (Fed. Cir. 2005); Fellowes, Inc. v. Michilin Prosperity Co., Ltd., 491 F. Supp. 2d 571, 577 (E.D. Va. 2007); 3D Sys., Inc. v. Aarotech Labs., Inc., 160 F.3d 1373, 1378–79 (Fed. Cir. 1998); Wing Shing Prods. (BVI), Ltd. v. Simatelex Mfg. Co., Ltd., 479 F. Supp. 2d 388, 406 (S.D.N.Y. 2007)).
59 Id.
60 Id.
61 Id. at *10.
Designees and had expressly restricted Freescale’s ability to directly negotiate with those Authorized Purchasers and Designees.\footnote{Id. at *9 (noting that the Agreement stated that Freescale would not provide any “rebates, discounts, free Product, kick-back or other similar terms related directly or indirectly to the Product supplied to any Designees under this Agreement without Buyer’s express, prior written consent”).} The Plaintiff had also proffered evidence showing that the chips were paid for by U.S.-based Lab126 and that Lab126 was identified as the customer for the chips.\footnote{Id. at *9–10.}

Based on these facts, the court concluded that the Agreement controlled the sales and sales terms of all purchases and provided tangible evidence of a sales relationship between two U.S. companies.\footnote{Id. at *11–12 (distinguishing Halo Elecs., Inc. v. Pulse Eng’g, Inc., 810 F. Supp. 2d 1173 (D. Nev. 2011) as involving only “some pricing discussions”).} As a result, the court could not find as a matter of law that the sales were not U.S. sales under Section 271(a) and denied Freescale’s motion for summary judgment.\footnote{Id. at *12.}

In several respects, the facts of MediaTek were very similar to those in Lake Cherokee. In both cases, the defendants were U.S.-based chip suppliers that had entered into supply agreements with their customers; the supply agreements were negotiated and executed in the U.S.; the defendants’ customers were required to submit purchase orders to purchase the products at issue; and the products were manufactured and delivered to the customers outside the U.S. Why did the foreign sales argument largely succeed in Lake Cherokee but not in MediaTek?

The critical difference is that the sales in MediaTek, including those made pursuant to the purchase orders, were governed by the terms and conditions of the Agreement between Freescale and AFS. The parties to the Agreement were two U.S. companies and it was U.S.-based Freescale itself that received and processed the purchase orders for the products at issue.\footnote{Id. at *3, *5.} Further, there was evidence that Lab126, a U.S. company based in the U.S., was the customer and paid for the products.\footnote{Id. at *9–10.} These facts were sufficient to raise an issue
of material fact about whether Freescale’s activities rose to the level of sales within the U.S., thereby defeating its motion for summary judgment of non-infringement. In contrast, in Lake Cherokee, it was the purchase orders submitted abroad by customers outside the U.S. to a third-party Singaporean company based in Singapore that governed the sales at issue.

MediaTek and Lake Cherokee demonstrate the impact that variations in the terms and conditions of supply agreements and the structures of sales transactions can have on a foreign sales defense. Although the two cases shared a number of foundational facts, including that the manufacturing and delivery of the products at issue occurred outside the U.S., they were ultimately decided very differently. In determining whether to implement an extraterritoriality defense at the summary judgment stage, companies should review their sales agreements, sales transactions, and business practices to determine whether these agreements, transactions, and practices are so sufficiently tied to the U.S. that they may raise material issues of fact about whether the company’s sales activities have occurred within the U.S.

3. McGinley v. Luv N’ Care

The two cases discussed above, Lake Cherokee and MediaTek, demonstrate the potential value of a foreign sales defense at the summary judgment stage of a patent infringement case. However, a foreign sales defense can and should be put into action even earlier in the case—specifically, during the initial investigation and discovery phases. In U.S. litigations, discovery is a pre-trial procedure that allows the parties to obtain evidence from each other relating to the claims and defenses in the case. If the plaintiff is unable to obtain documents or other information about the defendant’s foreign sales activities during the discovery process, the potential damages figure


will effectively be limited to the defendant’s domestic sales. As such, discovery can be critical in a patent litigation. The next case relates to discovery proceedings.

In *McGinley v. Luv N’ Care, Ltd.*, the court granted-in-part a motion to compel discovery of the defendant’s foreign sales activities. As a result, the defendant was ordered to provide interrogatory responses and produce documents concerning those activities.

Among other things, the Plaintiff, S.C. Products, Inc. (“SCP”), had sought information and documents concerning Defendant Luv N’ Care, Ltd.’s (“LNC”) use, sale, and offers to sell its Nuby Tear-Free Rinse Pail products, regardless of where those sales had occurred. In its discovery responses, LNC had objected to SCP’s document requests as seeking documents concerning only activity taking place outside of the U.S. LNC had also objected to providing information about its distributors, global partners, and commissions, royalties, and revenues earned outside the U.S. and the sale, delivery, and distribution of those of its accused rinse pail products that were not made, used, sold, offered for sale, or imported into the U.S.

In opposing the motion to compel, LNC argued that the activities of third parties who operated abroad and did not manufacture, use, sell, or offer for sale any of the rinse pail products at issue within the U.S. or import these products into the U.S. was irrelevant to any claim or defense in the case. LNC asserted that it did not have any foreign distributors, was not involved in any transactions between

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71 *Id.* at *12–19.

72 LNC and Nuby are the same thing. *Id.* at *14.

73 The Nuby Tear-Free Rinse Pail product is typically used for rinsing shampoo out of a baby’s hair while keeping water and soap out of the baby’s face and eyes. See *Nuby Tear-Free Rinse Pail*, Nuby, available at https://www.nuby.com/usa/en/tear-free-rinse-pail-1-2 [https://perma.cc/56UU-TWFD].


75 *Id.*

76 *Id.*

77 *Id.* at *7.*
foreign manufacturers and foreign distributors, had no records of such transactions, did not receive any payments when purchases occurred directly from Chinese factories, and did not receive royalties or license payments from any foreign entities. LNC argued that because the U.S. patent laws do not apply extraterritorially, these third-party foreign activities did not constitute infringement and were not relevant to the case.

However, LNC’s deposition testimony and that of its officers contradicted its claims. Specifically, LNC’s CEO and President had testified that LNC sold its products in 155 countries using distributors across the globe, had 15-20 distributors for international sales, had distribution agreements with international distributors, and received commissions from distributors under those distribution agreements. In addition, LNC’s CFO testified that international distributors who wanted to order a product had to use LNC’s “Luv N’ Care Internet Ordering System” (“LIOS”), which tracked all international sales and had its servers located in Louisiana. Further, LNC testified that international distributors purchased its products, including the rinse pail products at issue in the case, directly from overseas factories which, until 2015, would send their profits to an LNC affiliate in Florida. Although profits from foreign sales were subsequently sent to a company in Hong Kong, LNC’s distributors in some countries would still send profits to the Florida affiliate because of governmental regulations. And, LNC had the ability to withdraw funds from the Hong Kong account and bring such funds to the U.S. Finally, LNC’s CEO testified that he negotiated with foreign manufacturers the cost of production for LNC’s products and the rate per unit that distributors paid to the factory.

78 Id. at *7, *9.
79 Id.
80 Id. at *9.
81 Id. at *10.
82 Id. at *10–11.
83 Id. at *11.
84 Id.
85 Id.
86 Id. at *11–12.
The court found that this deposition testimony showed that LNC was indeed involved in many aspects of the sales between the foreign manufacturers and foreign distributors and, thus, that this activity was relevant to the claims and defenses in the case.\textsuperscript{87} While LNC’s activities might not ultimately infringe under the U.S. patent laws, the court reasoned that SCP was nevertheless entitled to discover the extent to which LNC had engaged in foreign sales activities and whether sales of the accused rinse pail products had occurred within the U.S.\textsuperscript{88}

The court therefore ordered LNC to provide interrogatory responses that identified the distributors and global partners to or through which the accused rinse pail products were sold, delivered, or distributed to;\textsuperscript{89} that described the methods by which LNC received commissions, royalties, or revenue from related transactions;\textsuperscript{90} and that provided the dates, price, location, and profits for the production, purchase, and sale of the rinse pails.\textsuperscript{91} The court also ordered LNC to produce documents relating to transactions involving the accused rinse pail products.\textsuperscript{92} As the court saw it, the information and documents were relevant because LNC’s deposition testimony had indicated that it did, in fact, use and work with foreign distributors and was involved in various aspects of the international transactions, including forming distribution agreements, negotiating prices with factories, maintaining a product order system, and receiving commissions.\textsuperscript{93} Further, LNC had waived its objections to providing information about foreign sales activity in response to certain interrogatories by failing to raise those objections in its initial responses to those interrogatories and failing to address those interrogatories in its opposition to the motion to compel.\textsuperscript{94}

\begin{itemize}
  \item \textsuperscript{87} Id. at *12.
  \item \textsuperscript{88} Id.
  \item \textsuperscript{89} Id. at *15.
  \item \textsuperscript{90} Id.
  \item \textsuperscript{91} Id. at *16–17.
  \item \textsuperscript{92} Id. at *17–18.
  \item \textsuperscript{93} Id. at *15–18.
\end{itemize}
As part of the initial investigation at the outset of a case, the company should conduct a review of its internal and external documents and interview its employees to determine whether, and to what extent, its activities are subject to the U.S. patent laws. The company should review its sales, marketing, accounting, and financial documents and communications to determine the viability of a foreign sales defense. This could include supply agreements, quotations, purchase orders, shipping confirmations, invoices, sales-related emails with customers, website order forms, press releases, news articles, and marketing efforts at trade shows and conferences. The company should also interview employees who are intimately involved in and knowledgeable about its sales processes and any distinctions between its domestic and foreign sales cycles. This initial review will not only aid in preparing high-level liability and damages strategies, but is also key to ensuring that positions taken by the company during discovery on its domestic and foreign sales cycles are consistent. As McGinley demonstrates, conflicting testimony and documents can be harmful to a foreign sales defense. There, it was LNC’s own deposition testimony that sank its opposition to the plaintiff’s motion to compel foreign sales discovery.\(^95\)

Once discovery begins, the pace picks up. The burden and expense of discovery in U.S. litigations can be astronomical, particularly in patent litigations.\(^96\) Each party to a case may obtain discovery on any non-privileged matter, so long as the discovery sought is relevant to the claims and/or defenses in the case and proportional to the needs of the case.\(^97\) Companies with significant sales and manufacturing operations outside the U.S. should therefore make best efforts to limit discovery to their domestic activities as soon as the discovery phase begins.


\(^{96}\) Randall R. Rader, *The State of Patent Litigation*, 21 FED. CIR. B.J. 331, 336 (2012) ("Every person in this room understands that the greatest weakness of the U.S. court system is its expense. And the driving factor for that expense is discovery excesses.... Patent cases, in particular, produce disproportionately high discovery expenses. In one 2010 report, the Federal Judicial Center determined that IP cases had costs ‘almost 62% higher, all else equal.’").

\(^{97}\) *Fed. R. Civ. P. 26(b)(1).*
This can reduce the drain that discovery typically imposes on the company’s resources. It can also aid in minimizing the distractions on a company’s business operations that would otherwise be caused by litigation. For example, limiting discovery to only those products that are sold in the U.S. can limit the number of employees who could be called for deposition and therefore be required to spend time away from their jobs to prepare and sit for their depositions. In terms of the opportunity cost to the company’s business, the time spent by these employees on depositions can be significant. Deposition attendance can also be costly and inconvenient for witnesses who spend much of their time outside the U.S., such as at sales or manufacturing facilities in China. As another example, limiting discovery to domestic activities may limit the volume of documents that must be collected, reviewed, and produced to only those documents concerning the company’s domestic sales. For companies that conduct all or a majority of their sales outside the U.S., this reduction can be significant. For Chinese companies requiring English translations of Chinese documents or interpreter services during the depositions of Chinese employees, this reduction in expenses can be even more significant.

However, the plaintiff in a patent case will rarely agree that discovery should be so limited. Patent defendants would therefore be well-served by taking an aggressive approach to confining discovery to their domestic activities. For example, defendants should raise and preserve their objections to discovery of foreign sales activities early during the discovery phase of the case for resolution in a motion to compel. It is critical to affirmatively object to the discovery of foreign activities by expressly stating those objections in response to discovery requests and to expressly address these objections in opposing a plaintiff’s motion to compel, as a failure to do so can result in waiver of those objections. In McGinley, for example, the defendant, LNC, was deemed to have waived its objections to providing information about its foreign sales activities in response to certain interrogatories because it had failed to raise objections to foreign sales discovery in its initial responses and failed to
address the interrogatories in its opposition to the plaintiff’s motion to compel.\(^98\)

Proactive discovery practices, such as early and voluntary document productions, can also be used as effective tools to advance a foreign sales defense. But, it is important to recognize that discovery is much more limited in Chinese courts than in the U.S.\(^99\) In fact, there is no “U.S.-style” discovery in China and, as a result, plaintiffs in Chinese litigations are required to collect and produce their own evidence to prove patent infringement and damages.\(^100\) Chinese defendants may not therefore be accustomed to providing confidential, proprietary, or sensitive information for U.S. litigations.

Nevertheless, it can be advantageous for these companies to produce documents that show the distinction between their foreign and domestic sales transactions early on in discovery. Early document productions can effectively delineate between company sales that may be subject to the U.S. patent laws, and those that may not. Ideally, this would foreclose expensive and time-consuming discovery geared at delineating between foreign and domestic sales, and conclusively show that the company’s foreign sales are irrelevant to the plaintiff’s U.S. patent claims. In doing so, the company may be able to carve out its foreign sales from the liability and damages determinations at an early stage in the case. This would likely not only reduce discovery expenses going forward but also lay the foundation for an early and favorable settlement of the case.

\(^98\) McGinley, 2018 U.S. Dist. LEXIS 229475, at *16–17.


\(^100\) Id.
II. “OFFERS TO SELL” WITHIN THE UNITED STATES

A. Legal Framework

An “offer to sell” under Section 271(a) is an offer that contemplates a sale that will take place in the U.S. In defining “offers to sell” under the statute, courts implement a traditional contract analysis. Under general contract principles, an offer to sell occurs when one party communicates a willingness to enter into a transaction such that another party would understand that it has been invited to partake in the transaction. For example, a description of a patented product or service and the price at which it may be purchased could qualify as an offer to sell.

Unlike a sale, an offer to sell does not need to be accepted to qualify as an act of infringement. Further, it is the location of the contemplated sale, not the offer, that determines whether an offer to sell has occurred within the U.S. under Section 271(a). Therefore, it is not enough for an offer to be made in the U.S.; rather, an offer to sell would only qualify as infringement if the offer were to sell a patented invention with the sale occurring in the U.S.

B. Case Studies

1. Halo v. Pulse

In Halo Electronics, Inc. v. Pulse Electronics, Inc., the Federal Circuit affirmed the district court’s grant of summary judgment of

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103 Halo, 769 F.3d at 1381 (quoting MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp., 420 F.3d 1369, 1376 (Fed. Cir. 2005)).
104 Id. (quoting 3D Sys., Inc. v. Aarotech Labs., Inc., 160 F.3d 1373, 1379 (Fed. Cir. 1998)).
105 Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc., 617 F.3d 1296, 1308 (Fed. Cir. 2010).
106 Id. at 1309.
108 Halo, 769 F.3d at 1381 (quoting Transocean, 617 F.3d at 1309).
no direct infringement by the defendant’s accused products that were manufactured, shipped, and delivered outside the U.S.  

The issue in *Halo* was whether the defendant’s activities qualified as infringing sales or offers to sell within the U.S. The defendant, Pulse Electronics, Inc. (“Pulse”), designed, manufactured, and sold the accused surface mount electronic packages in Asia, with manufacturing taking place exclusively in China. Although Pulse delivered some of these electronic packages to customers in the U.S., most of its products were delivered to customers outside the U.S. These foreign customers included contract manufacturers for U.S.-based companies. The contract manufacturers incorporated surface mount electronic package products supplied by Pulse into end products, such as internet routers manufactured for U.S. companies, which were then sold and shipped to customers worldwide, including to customers in the U.S. Pulse received purchase orders for all products delivered abroad at its sales offices outside the U.S.

In affirming summary judgment of no direct infringement, the Federal Circuit held that Pulse had not sold or offered to sell within the U.S. the accused electronic packages that were otherwise manufactured, shipped, and delivered outside the U.S. As an initial matter, the products did not enter the U.S. at any point. Further, Pulse received the purchase orders for the products abroad. Thus, the Federal Circuit reasoned, the sales transactions did not qualify as domestic sales because the substantial activities of these transactions occurred outside the U.S. Nor did these transactions qualify...
as domestic offers to sell, given that the locations of the sales contemplated by the offers lay outside the U.S.\textsuperscript{119}

Yet, Pulse had conducted certain activities in the U.S. Specifically, Pulse had entered into a general business agreement\textsuperscript{120} with at least one U.S. customer, Cisco, and had engaged in quarterly pricing negotiations with Cisco.\textsuperscript{121} These activities did not qualify as sales within the U.S. because the general business agreement was not a contract to buy or sell any specific products and the pricing negotiations did not constitute firm or binding agreements on either Pulse or Cisco to buy and sell any such products.\textsuperscript{122} Rather, it was the purchase orders that Pulse received from Cisco’s foreign contract manufacturers, including Hon-Hai Precision Co. (Foxconn), that established the essential terms, including price and quantity, of binding contracts to buy and sell.\textsuperscript{123} In addition, it was Cisco’s foreign contract manufacturers, and not Cisco, who paid Pulse upon fulfillment of these purchase orders.\textsuperscript{124} In sum, these domestic activities were insufficient to constitute either a sale or an offer to sell within the U.S. for purposes of Section 271(a).\textsuperscript{125}

In cases reaching the dispositive motion stage, foreign companies with significant sales activities outside the U.S. should move for summary judgment of non-infringement with respect to their foreign sales activities. The same applies to companies that outsource their manufacturing to foreign countries, such as China, and perform the substantial activities of their sales transactions abroad. With much of the world’s manufacturing taking place in China and with

\textsuperscript{119} Id. at 1381.

\textsuperscript{120} The general business agreement specified manufacturing capacity, low price warranty, and lead time terms, but did not refer to any specific products or prices. Id. at 1375.

\textsuperscript{121} Pulse additionally conducted pricing negotiations in the U.S. with American companies; met regularly with design engineers for American companies; sent product samples to American companies in the U.S.; attended sales meetings with customers in the U.S.; and provided post-sale support for customers in the U.S. Id.

\textsuperscript{122} Id. at 1379.

\textsuperscript{123} Id.

\textsuperscript{124} Id. at 1375–76, 1379.

\textsuperscript{125} Id. at 1379.
the rise in manufactured exports from China,\textsuperscript{126} it is not uncommon for companies of this variety to implement sales transactions similar to those in \textit{Halo}.

For Chinese companies and those who do business with them, motions for summary judgment arguing that the products or services at issue do not qualify as infringing sales or offers to sell are more likely to be granted where, as in \textit{Halo}, purchase orders are submitted and received outside the U.S.;\textsuperscript{127} the products at issue are manufactured, shipped, and delivered outside the U.S.;\textsuperscript{128} and the products never enter the U.S.\textsuperscript{129} A finding by the court that these sales and offers to sell do not infringe, as in \textit{Halo}, can be instrumental in securing a favorable settlement.

2. \textit{SignalQuest v. Tien-Ming Chou}

In \textit{SignalQuest, Inc. v. Tien-Ming Chou}, the defendants moved for summary judgment that their activities did not qualify as infringing sales or offers to sell within the U.S.\textsuperscript{130} The plaintiff admitted that there had been no domestic sales of the accused products, but maintained that the defendants had nonetheless offered to sell the products within the U.S.\textsuperscript{131} The court agreed with the plaintiff and denied the defendants’ motion with respect to the offers to sell.\textsuperscript{132}

In this case, the plaintiff, SignalQuest, Inc. (“SignalQuest”), asserted three related patents on omnidirectional tilt and vibration sensor technology against the defendants, Tien-Ming Chou, OncQue Corporation, and Bravotronics Corporation (collectively, “Defendants”).\textsuperscript{133} The Defendants moved for summary judgment following reissuance of the asserted patents in October 2014.\textsuperscript{134}

\textsuperscript{126} \textsc{Kevin H. Zhang}, \textsc{China’s Domestic Transformation in a Global Context} 297 (Ligang Song et al. eds., 15th ed. 2015) (“As a factory to the world, China is also the world’s number one producer of manufactured goods and manufactured exports.”).

\textsuperscript{127} \textit{Halo}, 769 F.3d at 1379.

\textsuperscript{128} \textit{Id.} at 1374.

\textsuperscript{129} \textit{Id.} at 1379.


\textsuperscript{131} \textit{Id.} at *5.

\textsuperscript{132} \textit{Id.} at *2, *5.

\textsuperscript{133} \textit{Id.} at *3.

\textsuperscript{134} \textit{Id.} at *4.
arguing that they had not sold or offered to sell the accused sensor products in the U.S. after the patents reissued.\footnote{Id. at *5.} SignalQuest conceded that there had been no sales of the accused products in the U.S., but maintained that the Defendants had offered these products for sale in the U.S. on at least two occasions after the patents’ reissuance.\footnote{Id.} Specifically, SignalQuest pointed to two quotations for sale of the Defendants’ accused sensor product: one quotation sent to a North Carolina-based company in approximately November 2014\footnote{Id. at *5 n.5.} and one quotation sent to a Texas-based company on or around March 25, 2015.\footnote{Id. at *5–6.} The Defendants admitted that both quotations had been sent, but argued that neither of the quotations could qualify as an infringing offer to sell; and, moreover, even if they did, neither offer could infringe because neither had been made “within the United States.”\footnote{Id. at *7–8.}

The court disagreed.\footnote{Id. at *7–9.} First, there was a material issue of fact about whether the quotations were “offers for sale” under Section 271(a).\footnote{Id.} Although neither of the quotations specified a quantity, each identified the accused sensor product and a price per unit for the product that varied based only on the purchaser’s desired volume.\footnote{Id.} As the Federal Circuit had found, price quotations could qualify as offers to sell under Section 271(a) “based on the substance conveyed in the letters, i.e., a description of the allegedly infringing merchandise and the price at which it can be purchased.”\footnote{Id. at *8 (quoting 3D Sys., Inc. v. Aarotech Labs., Inc., 160 F.3d 1373, 1379 (Fed. Cir. 1998)).} Thus, a reasonable jury could interpret the November 2014 and March 2015 quotations as offers to sell.\footnote{Id. (quoting MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp., 420 F.3d 1369, 1376 (Fed. Cir. 2005)).}

In addition, it was immaterial that the March 2015 quotation required customers to select one of two proposed products and could
therefore allow the purchase of non-accused products only.\textsuperscript{145} What mattered was that the customer could decide to order the accused product based on the quotation and, as with the November 2014 quotation, do so by specifying only the quantity it desired to purchase.\textsuperscript{146}

Second, there were material issues of fact about whether the sales contemplated by the November 2014 and March 2015 offers would have taken place “within the United States.”\textsuperscript{147} Here, the Defendants argued that neither quotation was an offer within the U.S. because the quotations contemplated transfer of title in Taiwan and the real purchaser under the November 2014 quotation might be a contract manufacturer in China.\textsuperscript{148} The court rejected these arguments, first reasoning that the location of a sale is not limited to the location where legal title is transferred.\textsuperscript{149} A “f.o.b.” or “ex works” term in an offer for sale would therefore not conclusively establish that the contemplated sale would occur outside the U.S.\textsuperscript{150} Further, there were several issues of material fact about the location of delivery for sales contemplated by the offers.\textsuperscript{151} The March 2015 quotation stated “Departure: TW Taiwan” and “Designation: US United States.”\textsuperscript{152} At minimum, this evidence showed that delivery of the accused products had been contemplated to take place from Taiwan and into the U.S.\textsuperscript{153} In addition, it was not clear whether the real purchaser of the November 2014 quotation was actually a contract manufacturer in China or whether the parties had contemplated delivery of products to North Carolina or another location within the U.S.\textsuperscript{154}

Taking all of these circumstances together, the court concluded that there were issues of material fact about whether the Defendants had offered to sell the accused products within the U.S.
after the patents had reissued. The court therefore denied summary judgment.

Many companies use quotations at the relatively early stages of a sales cycle. For example, Alibaba, a Chinese multinational company specializing in e-commerce and technology, has a “Request for Quotation” form on its website that potential customers can fill out and submit online to request custom quotations from various suppliers. However, as SignalQuest illustrates, there are potential issues that price quotations can bring to a company’s foreign sales defense. Although quotations tend to be used at the nascent stages of a sales transaction and may not ultimately result in the consummation of a sale, they may rise to the level of an infringing offer to sell within the U.S. under certain circumstances.

As in SignalQuest, a price quotation may be considered an “offer to sell” if it identifies an allegedly infringing product and the price at which that product can be purchased pursuant to the quotation—even if the customer could theoretically select and purchase other, non-accused products identified on the price quotation. After all, all that the customer needs to do in order to accept the offer is to select the quantity of the allegedly infringing product that it wishes to purchase. As a result, companies that provide price quotations of this nature may be less successful in moving for summary judgment of non-infringement.

SignalQuest also shows that these types of price quotations may be considered offers to sell “within the United States” if they indicate that the delivery of allegedly infringing products pursuant to the quotation will take place in the U.S. In SignalQuest, the mere identification of the U.S. as the shipment destination on the March 2015 quotation was enough to raise an issue of material fact about whether the offer had taken place in the U.S. In fact, it was
insufficient that the transfer of title would take place outside the U.S. and that the real purchaser “may” be a contract manufacturer in China to eliminate the material issue of fact arising out of the quotation’s identification of the U.S. as the shipment destination.\textsuperscript{162} In contrast, recall that the purchase orders in \textit{Halo} were found not to be infringing offers to sell because the locations of the sales contemplated by the purchase orders were outside the U.S.\textsuperscript{163} Under circumstances similar to those in \textit{SignalQuest}, courts may be reluctant to grant summary judgment of non-infringement with regard to the company’s price quotations. Nevertheless, it is important to note that any factual issues that prevent a summary judgment ruling of non-infringement can still be resolved in the defendant’s favor at trial.

III. \textbf{INDUCED INFRINGEMENT}

\textbf{A. Legal Framework}

Parts II and III of this Article examined two forms of direct infringement, namely, sales and offers to sell patented inventions within the U.S. This Article now turns to indirect infringement, and specifically, induced infringement.\textsuperscript{164}

The induced infringement provision of the U.S. Patent Act, 35 U.S.C. § 271(b) (“Section 271(b)”), states as follows:

“Whoever actively induces infringement of a patent shall be liable as an infringer.”\textsuperscript{165}

To prove induced infringement, a patentee must show two things: first, that there has been direct infringement, and second, that the alleged infringer knowingly induced infringement and had specific intent to encourage another’s infringement.\textsuperscript{166} One who

\textsuperscript{162} \textit{Id.} at *10–11.
\textsuperscript{163} \textit{Halo Elecs., Inc. v. Pulse Elecs., Inc.}, 769 F.3d 1371, 1381 (Fed. Cir. 2014).
\textsuperscript{164} 35 U.S.C. § 271(b).
\textsuperscript{165} \textit{Id.}
induces infringement is jointly and severally liable with the direct infringer for all general damages arising out of the infringement.\textsuperscript{167}

To satisfy the knowledge requirement of induced infringement, there must be both knowledge of the existence of the patent and knowledge that the induced acts are infringing.\textsuperscript{168} The knowledge requirement can be satisfied by showing either actual knowledge or willful blindness.\textsuperscript{169} Willful blindness requires that alleged infringer subjectively believes that there is a high probability that a fact exists and take deliberate actions to avoid learning of that fact.\textsuperscript{170} That is, a defendant is willfully blind if it takes deliberate actions to avoid confirming a high probability of wrongdoing—to the point where it can almost be deemed to have actually known of the critical fact.\textsuperscript{171} On the other hand, deliberate indifference to a known risk of infringement is insufficient to establish knowledge or willful blindness.\textsuperscript{172}

With regard to the intent requirement, knowledge of possible infringement by others is insufficient to prove the requisite intent.\textsuperscript{173} Rather, a patentee must prove specific intent and action to induce the infringement.\textsuperscript{174} Circumstantial evidence can be sufficient to prove intent, and as such, direct evidence is not required to prove this element of an induced infringement claim.\textsuperscript{175}

\textsuperscript{167} Microelectronics Int'l, Inc., 246 F.3d 1336, 1351 (Fed. Cir. 2001) ("Inducement only occurs if the party being induced directly infringes the patent.").

\textsuperscript{168} Crystal Semiconductor, 246 F.3d at 1361.


\textsuperscript{170} Global-Tech, 563 U.S. at 766–68.

\textsuperscript{171} Id. at 769.

\textsuperscript{172} Id. at 770 ("The test applied by the Federal Circuit in this case departs from the proper willful blindness standard in two important respects. First, it permits a finding of knowledge when there is merely a ‘known risk’ that the induced acts are infringing. Second, in demanding only ‘deliberate indifference’ to that risk, the Federal Circuit’s test does not require active efforts by an inducer to avoid knowing about the infringing nature of the activities.").

\textsuperscript{173} DSU Med. Corp. v. JMS Co., 471 F.3d 1293, 1305 (Fed. Cir. 2006).

\textsuperscript{174} Id. at 1305 (citation omitted).

\textsuperscript{175} MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp., 420 F.3d 1369, 1378 (Fed. Cir. 2005) (quoting Water Techs. Corp. v. Calco, Ltd., 850 F.3d 660, 668 (Fed. Cir. 1988)).
B. Case Studies

1. Largan v. Genius

In *Largan Precision Co., Ltd. v. Genius Elec. Optical Co., Ltd.*, the parties filed cross-motions for summary judgment on the issues of direct, induced, and contributory infringement. The motions focused on whether the defendant’s conduct was sufficiently tied to the U.S. to give rise to liability for patent infringement. The court found that although the defendant’s accused products met the elements of the asserted patent claims, almost all of the accused conduct had taken place beyond the territorial reach of the U.S. patent laws. The court therefore granted-in-part and denied-in-part the motions for summary judgment, resulting in a significantly favorable outcome for the defendant.

The plaintiff, Largan Precision Co., Ltd. (“Largan”), and defendant, Genius Electronics Optical Co., Ltd. (“Genius”), a Taiwanese company, supplied lenses to Apple and Motorola that were eventually incorporated into cellphones and tablets. With regard to Apple, Genius and Apple had entered into a Master Development and Supply Agreement (“MDSA”) that governed the sale of products from Genius to “Apple and Apple Affiliates.” The MDSA did not specify any lens prices, quantities, or models to be sold. Genius’s employees negotiated prices with Apple’s employees in the U.S., after which Apple sometimes provided Genius with a Statement of Work (“SOW”). SOWs included information such as the code name of the relevant lens, a maximum price, and a minimum quantity of lenses to be sold. Genius then quoted the prices

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176 Largan Precision Co., Ltd. v. Genius Elec. Optical Co., Ltd., 86 F. Supp. 3d 1105, 1107 (N.D. Cal. 2015), aff’d, 646 F. App’x 946 (Fed. Cir. 2016). The issue of contributory infringement is beyond the scope of this article and is therefore not discussed in this section.
177 Id.
178 Id.
179 Id.
180 Id. at 1107, 1113.
181 Id. at 1108.
182 Id.
183 Id.
184 Id. at 1108–09.
to camera module integrators located in Asia.185 In turn, the camera module integrators sent purchase orders to Genius at its headquarters in Taichung, Taiwan or its manufacturing facilities in Xiamen, China.186 Genius then shipped the lenses from Xiamen, China to camera module integrators, which incorporated the lenses into cameras and sold the cameras to system integrators located in Asia.187 Finally, the system integrators incorporated the cameras into cellphones and tablets and sent these devices to Apple to be sold to consumers in various countries, including the U.S.188

Genius followed a similar sales process for lenses incorporated into Motorola products.189 Genius’s employees negotiated prices with Motorola’s U.S.-based employees through a three-stage process: Genius gave Motorola a range of potentially acceptable prices, Motorola requested a more granular price proposal from Genius, and the parties negotiated a mutually agreeable price.190 Genius then sold its lenses to a module integrator at the agreed-upon price, after which the lenses moved through Motorola’s supply chain in a similar manner to Apple’s supply chain.191 This process also took place entirely in Asia.192

The vast majority of the accused lenses and lens/sensor combinations were sold through the supply chains described above.193 Notably, however, Genius supplied a small number of the accused lens products directly to Apple in the U.S. through FedEx or DHL.194 These lenses were provided as free development samples at Apple’s request and according to Apple’s instructions.195

Although the Apple and Motorola supply chains terminated in the U.S., among other countries, the court concluded that most of Genius’s accused lenses had not been sold or offered for sale within

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185 Id. at 1109.
186 Id.
187 Id.
188 Id.
189 Id.
190 Id.
191 Id.
192 Id.
193 Id.
194 Id.
195 Id.
the U.S.196 The transactions were not sales within the U.S. because the Apple and Motorola supply chains were analogous to the supply chain in Halo.197 As in Halo, Genius had manufactured its lenses in Asia in response to purchase orders submitted and paid for by foreign module integrators outside the U.S.198 In addition, although Genius had conducted high-level contract and pricing negotiations with Apple and Motorola in the U.S., the majority of the activities underlying the disputed sales transactions had taken place outside the U.S.199 Moreover, the MDSA governing Genius’s sales to Apple and the SOWs issued by Apple with maximum prices and minimum quantities for specific products were akin to the general business agreement and quarterly pricing negotiations for specific products, respectively, that had been deemed insufficient to qualify as sales within the U.S. in Halo.200

Additionally, the transactions were not offers to sell within the U.S. because the sales that were the subject of any such offers took place outside the U.S.201 Further, the MDSA did not identify where the sales were to take place.202

In sum, the court concluded that Genius could not be liable for direct infringement with respect to lenses sold abroad into Apple and Motorola’s supply chains.203 As to these lenses, the court granted summary judgment of no direct infringement.204

However, the court did not agree with Genius’s non-infringement defense that the sample lenses sent directly to Apple in the U.S. were “de minimis.”205 While the “de minimis” exception to patent infringement can provide a defense where infringement has been “performed for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry,” there was no evidence that the sample lenses

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196 Id. at 1110.
197 Id. at 1111–12.
198 Id. at 1111.
199 Id. at 1111–12.
200 Id. at 1112.
201 Id. at 1113.
202 Id.
203 Id. at 1113–14.
204 Id. at 1114.
205 Id. at 1116.
sent directly by Genius into the U.S. satisfied any of these narrow categories.\textsuperscript{206} Thus, the court granted summary judgment of direct infringement with respect to the lenses that Genius sent directly into the U.S.\textsuperscript{207}

The court also granted summary judgment of no induced infringement for all but two of the lenses sold into Apple’s and Motorola’s respective supply chains.\textsuperscript{208} Largan failed to prove either that Genius knew that its lenses were incorporated into Apple or Motorola products sold in the U.S. or that Genius had been willfully blind about the incorporation of these lenses in products sold in the U.S.\textsuperscript{209} As to the actual knowledge requirement, the parties agreed that Genius had no insight into Apple’s and Motorola’s supply chains after selling its lenses to the module integrators and that Genius had no knowledge about whether its lenses were incorporated into products that were eventually sold in the U.S.\textsuperscript{210} In fact, as far as Genius was aware, Apple and Motorola’s supply chains could have been structured such that all of their products sold in the U.S. used lenses sold not by Genius, but by Largan or other lens suppliers.\textsuperscript{211} As a result, even if Genius had induced Apple and Motorola to use its lenses, it lacked actual knowledge that the induced acts were infringing because the Apple and Motorola products using its lenses could have been sold entirely outside the U.S.\textsuperscript{212}

However, there was a material factual dispute about whether Genius had known that it was the sole supplier of two particular lens designs used in Apple and Motorola products during certain time periods and would therefore have known that products incorporating those lens designs and sold in the U.S. used Genius lenses.\textsuperscript{213} In an internal Genius email chain discussing one such lens incorporated into an Apple end product, one email stated that the lens was “sole

\textsuperscript{206} Id. (quoting Embrex, Inc. v. Service Eng’g Corp., 216 F.3d 1343, 1349 (Fed. Cir. 2000)).
\textsuperscript{207} Id. at 1116.
\textsuperscript{208} Id. at 1120.
\textsuperscript{209} Id. at 1119–20.
\textsuperscript{210} Id. at 1118.
\textsuperscript{211} Id.
\textsuperscript{212} Id.
\textsuperscript{213} Id. at 1118–20.
sourced,” indicating that Genius was the sole supplier, while another email sought to “find out Largan[‘s] current price,” indicating that Largan might also be a source for the lens design at issue.\textsuperscript{214} A Genius employee had also stated in deposition that in “an earlier program . . . we were the single source supplier,” although the transcript of this deposition failed to identify the Motorola product for which Genius was the sole supplier or whether that product even used an accused lens or was sold in the U.S.\textsuperscript{215} Further, Largan’s data showed no lens sales for a particular Apple product after the second quarter of 2013, which Largan argued showed that Genius was the sole supplier of lenses for that product; here, however, Largan had failed to show how Genius could have known this even if it had been true.\textsuperscript{216} Given the conflicting evidence, the court elected not to grant summary judgment one way or the other on the issue of induced infringement by these two particular lens designs.\textsuperscript{217}

Turning to the requirement of willful blindness, the fact that Genius had apparently never discussed whether the Apple and Motorola products using its accused lenses were sold in the U.S. or asked Apple and Motorola not to ship products using its lenses into the U.S. showed, at best, deliberate indifference to a known risk of infringement.\textsuperscript{218} This fell short of the standard for proving willful blindness, which requires an affirmative act to remain ignorant of infringing conduct rather than mere failure to take deliberate actions to determine whether the conduct infringes.\textsuperscript{219} Further, even if Genius had asked Apple and Motorola about these issues, nothing indicated that Apple or Motorola could or would have told Genius how many of its lenses made their way into products sold in the U.S.\textsuperscript{220} In fact, Apple had stated that it did not track which lenses were used in its products sold in the U.S.\textsuperscript{221} Thus, Largan had failed

\textsuperscript{214} Id. at 1119.
\textsuperscript{215} Id.
\textsuperscript{216} Id.
\textsuperscript{217} Id.
\textsuperscript{218} Id. (citation omitted).
\textsuperscript{219} Id. at 1120.
\textsuperscript{220} Id.
\textsuperscript{221} Id.
to prove willful blindness. The court granted summary judgment of no inducement for all but two of Genius’s accused lens products.\(^\text{222}\)

As discussed in Parts II and III above, sales transactions in which the products are sold, manufactured, and delivered abroad and never enter the U.S. are unlikely to qualify as directly infringing sales or offers to sell within the U.S.\(^\text{223}\) However, if those products are later brought into the U.S. by third parties, the original providers of the products may face liability for induced infringement under certain circumstances. Given the ubiquity of Chinese manufacturing in the global marketplace, this can be a concern of Chinese companies that manufacture and sell components to be incorporated into products that their customers bring into the U.S., or that manufacture products that are then picked up by distributors who distribute products in the U.S.

As \textit{Largan} showed, the defendant’s state of mind and knowledge of where its products ultimately end up can be the difference between liability and no liability for induced infringement. In \textit{Largan}, Genius, a Taiwanese lenses provider, was found not to have induced infringement for the vast majority of its accused lenses because it had no knowledge about whether these lenses were incorporated into products that eventually made their way into the U.S.\(^\text{224}\) For all Genius knew, its lenses could have been used only in products that were sold abroad and never entered the U.S.\(^\text{225}\) In addition, the plaintiff failed to show any affirmative acts by Genius to stay ignorant of infringement that could qualify as willful blindness.\(^\text{226}\) Thus, neither the actual knowledge nor willful blindness requirements of induced infringement had been satisfied.

This outcome on the issue of inducement, in combination with the court’s determination that Genius had not directly infringed by selling its lenses into Apple and Motorola’s respective supply chains,\(^\text{227}\) would likely have been a very favorable outcome for Genius. Although Genius’s accused lenses met the elements of the

\begin{itemize}
\item \(^\text{222}\) \textit{Id.}
\item \(^\text{223}\) \textit{See supra} §§ II.B.1 (discussing \textit{Lake Cherokee}), III.B.1 (discussing \textit{Halo}).
\item \(^\text{224}\) \textit{Largan}, 86 F. Supp. 3d at 1117–20.
\item \(^\text{225}\) \textit{Id.} at 1118.
\item \(^\text{226}\) \textit{Id.} at 1120.
\item \(^\text{227}\) \textit{Id.} at 1110–14.
\end{itemize}
asserted patent claims, the court had concluded that almost all of the accused conduct had taken place outside the territorial reach of the U.S. patent laws.\(^{228}\) Thus, Genius could not be liable for patent infringement for the majority of its accused sales activities.\(^{229}\)

On a cautionary note, this outcome could have been different if the documents and deposition testimony had indicated that Genius was and knew that it was the sole supplier for a larger number of lens designs used in Apple and Motorola’s products (as opposed to only two such designs).\(^{230}\) In such a situation, Genius may have lost on the inducement issue at the summary judgment stage for a greater percentage of its accused lens products. Similarly, Genius may not have prevailed on the issue of induced infringement if it had visibility into Apple and Motorola’s respective sales cycles or known that its products eventually reached the U.S., whether as standalone components or through incorporation in products that were eventually brought into the U.S.\(^{231}\) The circumstances of each case must be individually assessed to determine potential liability for induced infringement, in light of the fact-intensive nature of this inquiry.

2. Opticurrent v. Power Integrations

In *Opticurrent, LLC v. Power Integrations, Incorporated*, the court granted-in-part the defendant’s motion for judgment as a matter of law to reduce the royalty base used to calculate damages for patent infringement to 6%—rather than one-third—of worldwide sales of accused chips.\(^{232}\) In essence, this reduced the defendant’s damages exposure to 6% of its previous amount.

At trial, the jury had awarded the plaintiff, Opticurrent, LLC (“Opticurrent”), patent infringement damages of approximately $6.7 million, calculated using a royalty rate of 3% and a royalty base of approximately $222 million.\(^{233}\) The royalty base had been derived from the defendant, Power Integrations, Inc.’s (“PI”) sales revenue

\(^{228}\) *Id.* at 1107.

\(^{229}\) *Id.*

\(^{230}\) *Id.* at 1118–20.

\(^{231}\) *Id.*


\(^{233}\) *Id.* at *11.*
from April 2010 through March 2018.  

During this time, PI’s worldwide sales of the accused chips totaled approximately $667 million, one third ($222 million) of which were estimated to have eventually entered the U.S.  

In post-trial briefing, PI argued that the royalty base was unsupported by the evidence because Opticurrent’s argument that one third of PI’s accused chips entered the U.S. had been based on an inducement theory and the jury had found no inducement at trial. Therefore, PI argued, the one-third figure was not a reliable basis for the damages award and should be reduced to the 6% of PI’s sales that were attributable to direct infringement.

As an initial matter, the court noted that PI’s argument implicated two fundamental principles of patent law. The first principle was that the royalty base for reasonable royalty damages cannot include activities that do not qualify as patent infringement because patent damages must be limited to damages that are adequate to compensate for infringement. The second principle was that the U.S. patent laws must be understood against a background presumption against extraterritorial reach.

The evidence at trial showed that PI made, used, and sold the vast majority of its accused chips outside the U.S. While the accused chips were designed in California, they were manufactured in Asia and overwhelmingly sold in China. PI only sold 5-6% of its products in the U.S. and the sales transactions for its products that were sold abroad took place outside of the U.S.

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234 Id.  
235 Id.  
236 Id.  
237 Id.  
238 Id. at *11–12.  
239 Id. at *12.  
240 Id. at *12 (quoting Enplas Display Device Corp. v. Seoul Semiconductor Co., Ltd., 909 F.3d 398, 411–12 (Fed. Cir. 2018)).  
241 Id. (quoting Carnegie Mellon Univ. v. Marvell Tech. Grp. Ltd., 807 F.3d 1293, 1306 (Fed. Cir. 2015)).  
242 Id. at *12–13.  
243 Id. at *13.  
244 Id.  
245 Id.
In relevant part, third-party buyers of PI’s products would incorporate PI’s chips into power supply products and then sell those products to downstream customers. \(^{246}\) PI estimated that one third of its accused chips eventually made their way into the U.S. through these third-party products, based on a general rule of thumb that 30% of electronic products made globally are consumed in the U.S. \(^{247}\) Importantly, PI’s Vice President of Worldwide Sales had testified that only 5-6% of PI’s sales were domestic and that it was PI’s customers, not PI, that imported the accused chips into the U.S. \(^{248}\) Opticurrent introduced no evidence at trial to controvert the Vice President’s testimony that only 5-6% of PI’s revenue was domestic. \(^{249}\)

Based on this record, the court found that the jury could reasonably conclude that the proper royalty base for direct infringement damages was 6% of PI’s worldwide sales because that was the portion of revenue derived from accused chips that PI itself had made, used, sold, or offered to sell within the U.S. \(^{250}\) But, the court also found that there was no evidentiary basis for a jury to determine that the remainder of PI’s accused products that eventually reached the U.S. could be included in the royalty base for direct infringement because the undisputed testimony of PI’s Vice President established that those products were imported not by PI, but by its customers. \(^{251}\) Thus, PI could only be liable for damages arising from the domestic sales of those products if the jury found that PI induced its customers to infringe—which the jury had found it did not. \(^{252}\) As such, the jury’s use of the royalty base of one third of PI’s worldwide sales in calculating damages for direct infringement was unsupported by the evidence. \(^{253}\)

\(^{246}\) Id.
\(^{247}\) Id.
\(^{248}\) Id. at *13–14 (“Q: And who is it that is importing that third into the United States? A: That’s a good question. We’re kind of disconnected from that part of the process because we’re not involved in it. But I could imagine it’s companies like Dell or Samsung themselves would move their goods around the world and bring them into the U.S.”).
\(^{249}\) Id. at *14.
\(^{250}\) Id.
\(^{251}\) Id. at *14–15.
\(^{252}\) Id. at *15.
\(^{253}\) Id. (citing Harper v. City of Los Angeles, 533 F.3d 1010, 1028 (9th Cir. 2008)).
Opticurrent argued that the jury had used the correct royalty base, analogizing the one third royalty base to the royalty base in *Marvell* of accused chips that had likewise been manufactured and sold abroad but were ultimately imported into the U.S. The court rejected this argument. Critically, *Marvell* was distinguishable because the jury found that the defendant, Marvell, had both directly and indirectly infringed the asserted patent claims. It was this finding of inducement, which was absent in Opticurrent’s case against PI, that allowed the jury to impose liability on Marvell for chips that were imported into the U.S. by Marvell’s customers.

*Marvell* did not stand for the proposition, as Opticurrent contended, that a finding of direct infringement alone would confer liability on the infringer for every subsequent sale, use, or importation by its customers, irrespective of whether the infringer had knowledge or foresight of its customers’ actions. Such an interpretation would have rendered moot inducement as a separate basis for liability where accused products eventually and indirectly entered into the U.S., as liability would apply no matter how remote, unintended, or unforeseeable the ultimate importation of the end product incorporating the accused product was. Instead, a finding of induced infringement requires a showing of direct infringement by a third party under Section 271(a). Thus, the assessment of indirect infringement damages in *Marvell* was predicated on, but did not automatically follow from, the finding that Marvell’s customers had directly infringed.

Opticurrent additionally contended that PI had waived its challenge to the “one third” royalty base by failing to object to it before

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254 Id. at *15–16.
255 Id. at *16.
256 Id. at *16–17 (citing Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd., 807 F.3d 1283, 1294 (Fed. Cir. 2015)).
257 Id. at *17.
258 Id. at *17–18.
259 Id. at *18.
260 Id.
261 Id. at *17 (quoting Semiconductor Energy Lab. Co. v. Chi Mei Optoelectronics Corp., 531 F. Supp. 2d 1084, 1112 (N.D. Cal. 2007)).
262 Id.
and during trial. The court disagreed, reasoning that PI had expressly preserved its challenge in its opposition to Opticurrent’s motions *in limine*; raised its challenge at trial by eliciting its Vice President’s testimony that only 6% of PI’s revenue derived from its domestic sales; and filed a motion for judgment as a matter of law, in which it had expressly argued that the majority of Opticurrent’s alleged damages were based on a theory of inducement and therefore at least 94% of PI’s pre-suit sales had to be excluded from the damages base. As such, PI had not waived its challenge to the royalty base.

In conclusion, the court agreed with PI that there was no evidentiary basis to support a royalty base of $222 million, i.e., one third of its worldwide sales of the accused chips. Rather, the evidence could only support a royalty base of 6% of PI’s worldwide sales for those chips. Thus, the court granted PI’s motion for judgment as a matter of law as to the royalty base and adjusted the royalty base to 6%, or $40 million, of PI’s worldwide sales. Applying a 3% royalty rate, this resulted in a damages figure of approximately $1.20 million.

The extraterritoriality defense can be used to limit the royalty base for calculating damages to a fraction of the company’s global sales before, during, and after trial. If implemented successfully, this defense can significantly reduce damages exposure for companies that make most of their sales outside the U.S.

In *Opticurrent*, the royalty base used by the jury in calculating damages for patent infringement was initially limited to one third of PI’s relevant worldwide sales because one third was the portion estimated to have entered the U.S. After trial, the royalty base was further reduced from one third to 6% of PI’s worldwide sales because the one third base rested on the plaintiff’s theory that PI had

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263 Id. at *18–19.
264 Id. at *19.
265 Id.
266 Id. at *18.
267 Id.
268 Id. at *21.
269 Id.
270 Id. at *11.
induced infringement—and the jury found no inducement at trial.\textsuperscript{271} For companies in similar situations that lack clarity as to whether their internationally sold products eventually enter the U.S., a similar reduction of the available damages pool can limit damages exposure and encourage favorable settlement.

It is therefore critical to preserve all objections to the use of a royalty base that improperly includes foreign sales activity falling beyond the reach of the U.S. patent laws. As Opticurrent demonstrates, such objections may take the form of motion \textit{in limine} briefing; witness testimony or documentary evidence establishing the percentage of revenue derived from domestic sales; or post-trial motions to limit damages based on the foreign nature of the company’s sales.\textsuperscript{272}

3. \textit{Tessera v. Broadcom}

In \textit{Tessera, Inc. v. Broadcom Corp.}, the court denied the plaintiff’s motion to compel the production of technical documents for products not shipped into the U.S. in the past six years, in addition to worldwide sales data for all accused products.\textsuperscript{273}

The plaintiff, Tessera, Inc. (“Tessera”), sought an order compelling the defendant, Broadcom Corporation (“Broadcom”), to produce die specifications, Graphic Database System (“GDS”) files, data sheets, process flows and recipes, and other core technical documents for accused semiconductor chips that Broadcom argued were not shipped to recipients in the U.S.\textsuperscript{274} Tessera also sought an order compelling Broadcom to produce worldwide sales data for all of its accused semiconductor chips, including end customer information, such as “Parent_End_Name,” “Sold_To_Parent,” and “End Cust Name.”\textsuperscript{275}

As to the core technical documents, Broadcom objected on grounds of relevance.\textsuperscript{276} Specifically, Broadcom argued that the

\textsuperscript{271} \textit{Id.} at *11–18.
\textsuperscript{272} \textit{Id.} at *18–19.
\textsuperscript{274} \textit{Id.} at *2–3.
\textsuperscript{275} \textit{Id.} at *3.
\textsuperscript{276} \textit{Id.} at *4.
accused semiconductor chips were not made, used, sold, or imported into the U.S., and therefore did not fall within the reach of the U.S. patent laws and were therefore not relevant to the case. In response, Tessera pointed to *Godo Kaisha IP Bridge 1 v. Broadcom Ltd.*, which Broadcom had also been a defendant in. In *Godo Kaisha*, the defendants, including Broadcom, moved for summary judgment that the accused Broadcom semiconductor chips that were ordered, manufactured, shipped, billed, and delivered to buyers abroad did not qualify as infringing sales within the U.S. The magistrate judge recommended denying the motion, reasoning that a reasonable jury could find that “many substantial activities” relating to sales of the chip products occurred in the U.S. and thus these sales could qualify as U.S.-based sales under Section 271(a). Tessera argued that the magistrate judge’s analysis in *Godo Kaisha* was relevant because over 80% of the accused chips overlapped with the accused products in the *Godo Kaisha* case.

The court disagreed, noting that it had not been provided with the underlying documents that the court in the *Godo Kaisha* case had relied on to reach its conclusions. Tessera therefore failed to meet its burden of showing the relevance of technical documents for semiconductor chips not shipped to a U.S. recipient.

As for the worldwide sales data, Broadcom made a similar objection that its sales made outside the U.S. were not relevant to Tessera’s U.S.-based patent infringement claims. Tessera argued that chip makers, such as Broadcom, could be liable for indirect infringement if they sold infringing products overseas that were later imported into the U.S. For example, the accused products could be incorporated into third-party products that were subsequently sold

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277 *Id.* at *4–5.
278 *Id.* at *8.
281 *Id.* at *10.
282 *Id.* at *11.
283 *Id.*
284 *Id.* at *12.
285 *Id.*
in the U.S.\textsuperscript{286} In response, Broadcom argued that Tessera was not entitled to foreign sales information based on speculation that Broadcom sold internationally to customers who then imported the accused products into the U.S.\textsuperscript{287} Instead, Broadcom argued, Tessera should be required to test its theory through discovery.\textsuperscript{288} To this end, Broadcom had offered to identify its top 20 customers based on worldwide sales so that Tessera could seek discovery from those customers to determine whether any Broadcom products sold internationally ended up in products that were later imported into the U.S.\textsuperscript{289} Here, Broadcom directed Tessera to its third-party customers because Broadcom did not track where its products ended up after shipment to its customers abroad, and therefore could not know which, if any, of those products later entered the U.S.\textsuperscript{290}

The court agreed that Tessera had failed to provide more than mere speculation regarding its allegation of indirect infringement.\textsuperscript{291} Although Tessera identified Broadcom customers with a large presence in the U.S. and representative downstream products incorporating Broadcom’s products, the court held that these showings were neither specific nor concrete.\textsuperscript{292} Rather, they required the court to assume that accused Broadcom products incorporated into third-party downstream products were later sold in the U.S. because those third parties had a presence in the U.S.\textsuperscript{293} Thus, Tessera failed to identify evidence demonstrating that the Broadcom products actually entered the U.S.\textsuperscript{294} The court denied Tessera’s motion to compel.\textsuperscript{295}

As discussed, a successful foreign sales defense can be utilized early in discovery. In \textit{Tessera}, Broadcom successfully opposed Tessera’s discovery motion for worldwide sales data by pointing out that Tessera had failed to take the threshold step of proving that the

\begin{footnotesize}
\textsuperscript{286} \textit{Id.}
\textsuperscript{287} \textit{Id.} at *12–13.
\textsuperscript{288} \textit{Id.} at *13.
\textsuperscript{289} \textit{Id.}
\textsuperscript{290} \textit{Id.}
\textsuperscript{291} \textit{Id.} at *13–14.
\textsuperscript{292} \textit{Id.} at *14.
\textsuperscript{293} \textit{Id.} at *14–15.
\textsuperscript{294} \textit{Id.} at *14.
\textsuperscript{295} \textit{Id.} at *15.
\end{footnotesize}
data were relevant to the case. Tessera speculated that Broadcom’s customers might import and sell the accused chips in the U.S., but provided no evidence that Broadcom’s chips sold abroad ended up in products that later reached the U.S. Broadcom’s proposal that Tessera seek discovery from its customers about whether the accused products reached the U.S. had two effects: it emphasized that Tessera had the burden to prove the relevance of the worldwide sales data, and it underscored Broadcom’s lack of knowledge about what happened to its accused products after they were shipped abroad, as required to prove liability for induced infringement.

This strategy can be effective in defending against induced infringement claims for companies that do not track or otherwise have knowledge about where their products end up after the products are sold to customers outside the U.S. In such situations, the plaintiff may be forced to take the time-consuming route of conducting third party discovery to prove the relevance of worldwide sales data, assuming that the subpoenaed third parties are willing to provide the often confidential and sensitive information sought. Third parties may, for example, agree only to provide a limited subset of the information sought, move to quash a subpoena or resist a motion to enforce a subpoena, or simply lack the information sought. Further, the standard for compelling discovery from a third party is higher than it is for parties to a case. As a result, it is possible that the plaintiff may emerge empty-handed in its search for information tying the company’s accused conduct to the U.S.

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296 Id. at *12–15.
297 Id.
298 Id.
CONCLUSION

Chinese companies have seen tremendous success in the U.S. market. They have also experienced the downside that can come with the territory, including increased exposure to patent litigation in the U.S. Nevertheless, there are effective tools for mitigating the risk of patent infringement liability and reducing potential damages exposure that can supplement the traditional defense that an accused product does not satisfy all of the limitations of the asserted claims.

For companies that conduct all or a significant percentage of their sales-related activities outside the U.S., one such tool is the defense that sales and offers to sell outside the U.S. cannot infringe a U.S. patent. In Halo, the Federal Circuit held that the domestic activities of the defendant, Pulse, were insufficient to qualify as infringing sales or offers to sell.\(^{300}\) The court’s reasoning was that purchase orders were submitted and processed outside the U.S.; the accused surface mount electronic packages were manufactured, shipped, and delivered outside the U.S.; and the electronic packages never entered the U.S.\(^{301}\) Similarly, in Lake Cherokee, the defendant, Marvell, was able to obtain a summary judgment ruling that 77% of the sales of its allegedly infringing chips had occurred outside the U.S.\(^{302}\) As a result, those sales fell outside the purview of the U.S. patent laws and could not infringe the asserted U.S. patents.\(^{303}\)

Not all litigants will prevail on these types of summary judgment motions, however. As MediaTek showed, the success of a foreign sales defense may be determined by the provisions of a supply agreement or the structure of sales transactions.\(^{304}\) In that case, summary judgment of non-infringement was denied because all relevant sales were governed by the provisions of an agreement between the

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\(^{300}\) Halo Elecs., Inc. v. Pulse Elecs., Inc., 769 F.3d 1371, 1374–76, 1379, 1381 (Fed. Cir. 2014); see supra text accompanying notes 101, 103, 108–125, and 127–129.

\(^{301}\) Id.


\(^{303}\) Id.

defendant, Freescale, a U.S. company, and AFS, another U.S. company, and also because it was Freescale itself that received and processed the purchase orders for the products at issue. As a result, there were issues of material fact about whether the sales had occurred in the U.S. that could not be resolved at the summary judgment stage. Similarly, in *SignalQuest*, there were material issues of fact about whether certain quotations sent to companies in North Carolina and Texas qualified as offers to sell within the U.S. There, the quotations at issue identified the accused sensor product and its price per unit based on the quantity desired. As a result, the court denied the Defendants’ summary judgment motion.

Companies should review their sales agreements, transactions, and related practices to determine the viability of a motion for summary judgment of non-infringement. In addition, companies that have no knowledge of the eventual disposition of their products and/or no intent to encourage infringement can raise this lack of knowledge and intent as a defense to a claim of induced infringement. In *Largan*, the defendant, Genius, obtained summary judgment that it had not induced infringement by showing that it had no knowledge regarding Apple and Motorola’s respective supply chains after selling its lenses to foreign module integrators and, moreover, no knowledge about whether its lenses sold abroad were used in products that later made their way to the U.S. market. Additionally, Genius never discussed whether the Apple and Motorola products using its lenses were sold in the U.S. or asked that these products not be shipped into the U.S. Companies in similar situations should likewise determine the viability of such a defense.

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305 *Id.*
306 *Id.*
308 *Id.*
309 *Id.*
311 *Id.*
In cases where a company successfully defends against claims of induced infringement, it is critical to ensure that damages based on theories of inducement are excluded from the overall damages determination. This can result in a significant reduction in liability. In *Opticurrent*, the defendant, PI, prevailed in its post-trial arguments that the royalty base should be reduced from one third of its worldwide sales to 6% of those sales.\(^{312}\) There, PI successfully argued that the one third base was unsupported because it was based on the plaintiff’s theory that PI had induced infringement and the jury had reached a verdict of no induced infringement. As a result, the court adjusted the royalty base from $222 million to $40 million.\(^{313}\)

The foreign sales defense can be implemented at various stages in a patent case. With that said, it is a critical strategy that should be put into action at the earliest juncture in a case. There is no reason not to incorporate foreign sales considerations into an initial investigation at the beginning of a case, including by reviewing business practices and interviewing employees who are knowledgeable about the company’s sales processes. Companies should also make best efforts to limit discovery to their domestic activities from the beginning of the discovery phase, as doing so can significantly reduce the heavy burden and expenses associated with discovery and, moreover, increase prospects for a favorable settlement. For example, the denial of a motion to compel foreign sales discovery will effectively deny the plaintiff the discovery it needs to prove that the defendant’s worldwide sales are not, in fact, outside the scope of its U.S. patent infringement claims. It may also force the plaintiff to take a more expensive and time-consuming route to prove that foreign sales discovery is relevant to the case. As an example, in *Tessera*, the defendant, Broadcom, successfully opposed a motion to compel by pointing out that the plaintiff had failed to identify any information that was specific to the accused chips or third-party makers of downstream products, or otherwise show that Broadcom’s chips sold


\(^{313}\) *Id.*
abroad entered the U.S. As McGinley showed, though, a company’s own conflicting testimony and documents can be harmful to its attempts to convince a court to limit discovery in this way. As such, care must be taken in constructing discovery strategy.

Though the uptick in U.S. patent cases filed against Chinese companies is a recent phenomenon, the case law concerning other foreign litigants is instructive in forming effective strategies and identifying mistakes to avoid in implementing the foreign sales defense. As these cases show, the extraterritoriality defense can be effective during the initial investigation, discovery, dispositive motion, and trial stages. As these cases further demonstrate, this defense can be critical in significantly reducing the pool of available damages or, in some cases, disposing of liability and damages exposure altogether. As a result, the successful deployment of the foreign sales defense can also encourage a more favorable settlement for the defendant.

As Chinese companies transition from followers to innovators in the years to come, they may find themselves on the other side of U.S. patent litigations—that is, as patent holders and plaintiffs. Until then, the courts have provided guidance and a framework that will be critical to navigating U.S. patent cases.

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