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Reconciling Foreign and Domestic Infringement

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Abstract

For many years, 35 U.S.C. § 271 capably addressed the different types of infringing conduct that patent holders faced in this country. But technology has changed the world, making products increasingly complex – both in the number of components they contain and in where those components are made. These changes have placed new pressures on the extraterritorial application of U.S. patent law.

Traditionally, patent holders were primarily concerned with companies that made or sold their products in the United States or imported them into this country. If those products infringed a patent, that conduct was considered to be direct infringement under § 271(a). Alternatively, if the products were material parts of larger infringing products, the conduct was considered contributory infringement under § 271(c). Today, many companies now make and sell products abroad knowing that others will import their products into this country. Since § 271(a) and (c) have express territorial limitations, direct and contributory infringement do not apply to these types of overseas conduct. Nevertheless, patent holders have attempted to prevent others from making and selling infringing products abroad by turning to § 271(b)'s inducement provision. Section 271(b) has no territorial limitation and patent holders have successfully argued that making and selling infringing products abroad "induces" infringement in the United States.

But relying on inducement as the primary foreign infringement theory leads to unintended consequences. Since direct infringement is a strict liability offense, companies that make and sell products in the United States can be found liable even when they do not know about the patent. But, inducement requires specific knowledge. Consequently, the same company making the same product abroad will not be liable unless it knew of the patent and thought it infringed. It makes no sense for the patent laws to discriminate against domestic conduct in this manner.

This article takes no position on whether U.S. patent laws should or should not encompass foreign conduct. Regardless of which side one favors, we can all agree that the patent laws should take a consistent approach to infringement regardless of where the conduct is located. This article offers three alternate proposals, each assuming different goals. All provide a more coherent framework than the current regime. The proper choice depends on this country's appetite for extending or limiting the reach of U.S. patent laws and which actor —Congress or the courts—should make that decision.

Reconciling Foreign and Domestic Infringement

by Bernard Chao[1]

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[1] Bernard Chao is an assistant professor at the University of Denver, Sturm College of Law. I would like to thank Nancy Leong, Justin Pidot, Viva Moffat, Timothy Holbrook, Harry Surden, Paul Ohm, Benjamin Liu and Fred Hadidi for their comments on an earlier draft. I would also like to thank Chris Holman for the opportunity to present the ideas reflected in this paper at the University of Missouri Kansas City.

I
Introduction

"No sensible decision can be made any longer without taking into account not only the world as it is, but the world as it will be." Isaac Asimov

For many years, 35 U.S.C. § 271 capably addressed the different types of infringing conduct that patent holders faced in this country. But technology has changed the world, making products increasingly complex – both in the number of components they contain and in where those components are made. These changes have placed new pressures on the extraterritorial application of U.S. patent law.

Traditionally, patent holders were primarily concerned with companies that made or sold their products in the United States or imported them into this country. If those products infringed a patent, that conduct was considered to be direct infringement under § 271(a). Alternatively, if the products were material parts of larger infringing products, the conduct was considered contributory infringement under § 271(c). In today's world, many companies now make and sell products abroad knowing that others will import their products into this country. Since § 271(a) and (c) have express territorial limitations, direct and contributory infringement do not apply to these types of overseas conduct.

The U.S. semiconductor industry provides a prime example. Although there are several prominent U.S. semiconductor companies -- Intel, Texas Instruments, and Qualcomm to name just a few – most of these companies have moved their manufacturing facilities off shore. Moreover, they do not actually sell their chips in the United States or import them into this country themselves. Rather, semiconductor companies sell chips outside this country to electronics manufacturers who assemble their products abroad. Thus, even if a semiconductor chip enters this country and eventually infringes a U.S. patent, the manufacturer of that chip cannot be found liable for direct or contributory infringement. Not surprisingly, patent holders have still sought to sue these kinds of companies. They have turned to § 271(b)'s inducement theory, which has no territorial limitation. Relying on this theory, patent holders have successfully argued that essentially all types of infringing conduct taking place abroad "induces" infringement in the United States.

But relying on inducement as the primary foreign infringement theory leads to unintended consequences in the international arena. Since direct infringement is a strict liability offense, companies that make and sell products in the United States can be found liable even when they do not know about the patent. But, inducement requires specific knowledge. Consequently, the same company making the same product abroad will not be liable unless it knew of the patent and thought it infringed or was willfully ignorant of the patent. It makes no sense for the patent laws to discriminate against domestic conduct in this manner.

This article takes no position on whether U.S. patent laws should or should not encompass foreign conduct. Regardless of which side one favors, we can all agree that the patent laws should take a consistent approach to infringement regardless of where the conduct is located. This article offers three alternate proposals. Each proposal provides a more coherent framework than the current regime. However, the proposals assume different goals. The proper choice depends on this country's appetite for extending or limiting the reach of U.S. patent laws and which entity—Congress or the courts—should make that decision.

This article proceeds in four parts. In Part II, I describe the primary theories of infringement: direct infringement, inducement and contributory infringement. Part II highlights two important characteristics of each of these theories – the intent required to commit infringement and the presence or absence of express territorial limitations. In short, direct infringement is a strict liability offense that only applies to conduct in the United States. Inducement requires the intent to infringe and has no territorial limitation. And contributory infringement requires the intent to infringe, but only applies to acts committed in the United States.

In Part III, I explain how an expansive theory of inducement has emerged in the case law. Under this theory, inducement captures both overseas conduct and conduct that has been typically considered direct and contributory infringement. Thus, inducement has now been interpreted to cover making and selling infringing products or material components of infringing products overseas. Part III also provides a critical analysis of the case law and suggests that the district courts have prematurely adopted the expansive theory of inducement without considering important doctrinal issues.

In Part IV, I go on to discuss unconsidered policy issues associated with the expansive theory of inducement. In particular, Part IV explains how the theory leads to inequitable cross border results. When a company makes or sells an accused product in the United States, they are accused of direct infringement under § 271(a) and they are judged by a strict liability standard. However, if that same company were to make or sell the same product abroad, the patent holder must pursue a charge of inducement because of the territorial limitations found in the § 271(a). Since inducement requires intent, proving foreign infringement is far more difficult.

In Part V, I offer three alternate proposals that would each bring coherence to the law. To the extent that the United States wishes to impose liability on such foreign conduct, I suggest that Congress amend §§ 271(a) and (c) and broaden their territorial limitations to encompass this conduct. This proposal would level the playing field by making the scienter requirement the same regardless of where the infringing conduct takes place. However, if this country does not seek to enforce its patent laws on foreign conduct, I suggest that Congress amend § 271(b) to add a territorial limitation to the statute. This proposal would limit the reach of U.S. patent laws and eliminate the problem of discriminatory treatment. Finally, I offer a compromise approach. I suggest that inducement could be limited so that it does not encroach on the other two infringement theories. This proposal is not entirely satisfactory because the laws would reach abroad to capture some categories of infringing conduct and exclude others. However, the advantage of this approach is that U.S. patent law would no longer discriminate against domestic conduct. To the extent that the laws operated extraterritorially, they would treat foreign and domestic acts of infringement equally. Moreover, this solution does not depend on congressional action. Relying on the presumption against the extraterritorial application of U.S. patent, courts could simply interpret §271(b) more narrowly.

II
Theories of Infringement

> "If you would understand anything, observe its beginning and its development."
> Aristotle

Section 271 of the Patent Laws is entitled "Infringement of patent" and describes three primary theories of infringement found in subsections (a), (b) and (c) respectively.[2] They generally referred to as direct infringement, inducement, and contributory infringement respectively. These provisions provide:

> (a) 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.
>
> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> (c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

For many years, this three-part framework capably addressed the majority of infringing conduct that patent holders faced in this country. For the purposes of understanding the international contours of U.S. patent law, it is important to compare the three primary theories of infringement: direct infringement, contributory infringement and inducement. In particular, this article focuses on two characteristics: intent and territoriality. Surprisingly, these two characteristics differ substantially among the three theories and these differences lead to important unintended consequences in the international arena. This section reviews these three doctrines highlighting the different intent and territorial limitations required by each.

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[2] 35 U.S.C. § 271 also outlines less common theories of liability. Under subsection (f), a party can be found liable for infringement by supplying components from the United States when those components are combined outside the United States in a manner that would infringe the patent if such combination occurred within the United States. Subsection (g) states that a party that imports a product into the United States made by a process patented in the United States shall be liable as an infringe.

A. Direct Infringement

By far the most common infringement theory is direct infringement. Under § 271(a), direct infringement encompasses five categories of conduct: making, using, offering to sell, selling and importing a patented invention. Direct infringement is a strict liability offense.[3] In other words, the theory does not require any form of *mens rea*. Liability can be imposed even when the infringer was wholly unaware of the existence of the patent when it made and sold its product. Someone can even be held liable for patent infringement when they independently develop the patented technology.[4]

The second important characteristic of direct infringement is that it has territorial limitation. To qualify as direct infringement the first four types of conduct (making, using, offering to sell, selling) must occur in the United States while importing only qualifies as direct infringement if the infringing products are imported into the United States.[5]

To illustrate how direct infringement applies, consider the supply chain of a bicycle. Years ago, most bikes sold in the United States were also made in the United States. The manufacturer would make the bicycle and then sell it to a regional distributor.[6] The distributor, in turn, would sell it to a local bike shop. If the bicycle infringed a patent, the patent holder could sue any company in the supply chain for direct infringement. The manufacturer would be liable for making, selling and offering to sell the bike while both the distributor and local shop would be liable for selling and offering to sell the

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[3] See, Roger D. Blair; Thomas F. Cotter, Strict Liability and Its Alternatives in Patent Law, 17 Berkeley Technology Law Journal 799, 800 (2002)("Patent infringement is a strict liability tort in the sense that a defendant may be liable without having had any notice, prior to the filing of an infringement action, that her conduct was infringing. In other words, innocent (*i.e.*, unintentional or inadvertent) infringement is not a defense to a patent infringement."); *see also BMC Resources, Inc. v. Paymentech, L.P.* 498 F.3d 1373, 1381 (Fed. Cir. 2007)("Direct infringement is a strict-liability offense, but it is limited to those who practice each and every element of the claimed invention.") Intent does come into play with respect to damages. Damages can be enhanced upon a finding of willful infringement. *In re Seagate, LLC*, 497 F.3d 1360 (Fed. Cir. 2007)(*en banc*). Moreover, in some instances damages can be limited when notice is not given under 35 U.S.C. § 287. *See Maxwell v. J. Baker, Inc*., 86 F.3d 1098, 1111 (Fed. Cir. 1996) (stating "the statute defines that "[a patentee] is entitled to damages from the time when it either began marking its product in compliance with section 287(a) [constructive notice,] or when it actually notified [the accused infringer] of its infringement, whichever was earlier"). But process patent holders are an exception to the notice requirement because of the practical difficulty of marking process inventions.")

[4] Christopher A. Cotropia & Mark A. Lemley, *Copying in Patent Law*, 87 N.C. L. REV. 1421, 1425-26 (2009)("Accordingly, in patent law, an individual who develops an already-patented technology without knowledge of the patent and the technology's prior creation--a true 'independent inventor'--is still liable if what she independently created falls within the scope of the patent's claims.").

[5] 35 U.S.C. § 271(a). In cases where the location of part of the patented invention or infringing conduct falls outside the United States, issues of territoriality become more challenging. *See NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282, 1317-18 (Fed. Cir. 2005). The location of an offer for sale is also surprisingly unintuitive. *See Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1309 (Fed. Cir. 2010)(an offer for sale that appeared to take place outside the United States was found to qualify as an offer for sale within the U.S. because the final sale took place in this country.)

[6] *See U. S. v. Arnold, Schwinn & Co*. 388 U.S. 365 (1967) to see how bikes used to be distributed in the United States.

infringing bicycle.[7] Moreover, ignorance of the patent would be no defense. Bike shops would still be found liable for direct infringement even if they had no understanding of what patents covered the bikes they sold.

Of course most bikes are no longer manufactured in the United States.[8] Like companies in many other industries, numerous bicycle companies moved their manufacturing facilities abroad. Section 271(a) capably addresses this simple cross border complication. Although making or offering to sell an infringing product abroad is not considered direct infringement, the importation prohibition covers companies that do not actually make and sell products in the United States. Thus, a company that makes bikes abroad can be found liable for direct infringement based on the importation of those bikes.[9] However, if the manufacturer is one further step removed from contact with the United States, § 271(a) will not reach it. Thus, a foreign company that does not import its own product, but uses a distributor for importation cannot be liable for direct infringement. In that situation, the patent holder's only recourse has generally been against the distributor or those companies that sell the infringing products domestically.[10]

Because of the territorial limitation found in § 271(a), the theory of direct infringement does not apply to conduct that exclusively takes place abroad. Instead patent holders have increasingly looked to an indirect theory of liability called inducement. Indirect theories of infringement do not apply to parties that directly infringe a patent themselves. Rather they impose liability on parties that aid and abet others to commit infringement. The next section of this article traces the development of these indirect theories of liability.

B. Indirect Infringement

Although § 271 describes inducement and contributory infringement separately, this was not always the prevailing view. Historically, all indirect liability was labeled contributory infringement.[11]

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[7] The customer is also liable for using the infringing bicycle. However, a patent holder can only receive one recovery. *See Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008) ("The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.") Because of the difficulty in suing each customer, patent holders typically choose to sue someone in the supply chain that is responsible for a large number of infringing products.

[8] Demand for New Materials Shifts Bicycle Manufacturing Overseas, October 18, 2011 available at http://www.cnbc.com/id/44857810/Demand_for_New_Materials_Shifts_Bicycle_Manufacturing_Oversea (explaining how almost all bikes are now made in Asia due to labor costs).

[9] Besides suing in district court, patent holders can initiate investigations with the International Trade Commission. If the investigations show that infringing products are being imported into the United States and the existence of a domestic industry, the ITC can issue an order excluding the offending articles from entry into the United States. *See* 19 U.S.C. § 1337.

[10] Nicholas Oros, *Infringement Twice Removed: Inducement of Patent Infringement for Overseas Manufacture of Infringing Products Imported by Another*, 10 COMP. L. REV. & TECH. J. 163, 164 (2006)(discussing how a patent holder can sue the U.S. customers of a company that manufactures infringing products overseas).

[11] Charles W. Adams, *A Brief History of Indirect Liability for Patent Infringement*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 369, 371-75 (2006). *See* Mark Lemley, *Inducing Patent Infringement*, 39 U.C.D.L.Rev. 225, 227 (2005).

Contributory infringement generally covered two types of activity.[12] First, liability was imposed on those that made a component of a patented invention that had no non-infringing uses. For example, in *Thomson-Houston v. Ohio Brass*, the patents covered combinations of components used in an electric street railway.[13] The defendant sold an overhead switch, trolley, pole and contact wheel.[14] The court found that since these parts could "only be used in the combinations patented", the defendant was liable for contributory infringement.[15]

Under a second theory, contributory infringement could also occur if the defendant took active steps to cause infringement.[16] For example, in *Westinghouse Electric v. Precise*, the defendants made transformers and condensers.[17] The components at issue had both infringing and non-infringing uses. But the carton in which the components were sold and various advertisements contained directions to use the components in the patented radios.[18] Consequently, the defendants were found liable for contributory infringement.[19]

When it enacted the Patent Act of 1952, Congress sought to codify the doctrine of contributory infringement.[20] The legislation divided the doctrine into two parts, subsections (b) and (c) of 35 U.S.C. § 271 respectively.[21] Conduct that falls within subsection (b) is now called inducement; the provision states that: "Whoever actively induces infringement of a patent shall be liable as an infringer."[22] Active inducement corresponds to the second branch of the former doctrine of contributory infringement where there was evidence that a component with both infringing and noninfringing uses was sold with the intent that it would be used to infringe a combination patent.[23] Probably the largest segment of inducement cases involves "affirmative conduct encouraging independent third parties to infringe through advertising, solicitation, or instructions on how to use a product in an infringing way."[24]

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[12] *See* Adams, *supra* note ___ at 375.
[13] *Thomson-Houston Elec. Co. v. Ohio Brass Co*., 80 F. 712 (6th Cir. 1897).
[14] *Id.* at 714.
[15] *Id.* at 723
[16] *See* Adams, *supra* note __ at 375; Thomson-Houston, 80 F. at 723 (Where there are non-infringing uses, "the intention to assist in infringement must be otherwise shown affirmatively, and cannot be inferred from the mere fact that the articles are in fact used in the patented combinations or may be so used.")
[17] *Westinghouse Electric & Mfg. Co. v. Precise Mfg. Corp.*, 11 F.2d 209 (2d Cir. 1926).
[18] *Id.* at 210.
[19] *Id.* at 211 ("when a manufacturer, by so manufacturing and advertising, points out the way in which this can be done, and thus, intentionally so acting, promote infringements of patentee's rights, he becomes a contributory infringer.")
[20] H. R. Rep. No. 82-1923, at 9 (1952) ("The purpose of this section [271] is to codify in statutory form principles of contributory infringement and at the same time eliminate this doubt and confusion."); S. Rep. No. 82-1979, at 8, 28 (1952); *Aro Mfg. Co. v. Convertible Top Replacement Co*.,377 U.S. 476, 486 (1964) ("[S]ection [271(c)] was designed to 'codify in statutory form principles of contributory infringement' which had been 'part of our law for about 80 years.").
[21] *See* Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 GEO. WASH. L. REV. 521, 537-38 (1953).
[22] 35 U.S.C. § 271(b.)
[23] Adams, *supra* note ___ at 386; Lemley, *supra* note __ at 227.
[24] Lemley, Inducing Patent Infringement, supra note __ at. 230; *see e.g Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus., Inc*., 145 F.3d 1303, 1311 (Fed. Cir. 1998)(advertisements that encourage using concrete saw in an

Conduct that falls within subsection (c) was labeled contributory infringement. Originally, this provision stated:

> Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.[25]

Modern day contributory infringement under subsection (c) corresponds to the first branch of the former judge-made doctrine of contributory infringement and is limited to circumstances where there is a sale of a component that has no substantial use other than in an infringing combination.[26] Thus, the basic distinction between the two doctrines is that contributory infringement under § 271(c) covers the sale of a component or other product that can be used to infringe a patent, while inducement under § 271(b) covers "other acts" that direct, facilitate, or abet infringement.[27]

1. Intent Required

Although direct infringement is a strict liability offense, both indirect theories of liability have an intent requirement. The level of intent actually required was first decided in the context of contributory infringement. Contributory infringement involves supplying a component "for use in practicing a patented process, constituting a material part of the invention, *knowing* the same to be especially made or especially adapted for use in an infringement of such patent . . . ."[28] By using the term "knowing", § 271(c) explicitly requires some form of knowledge. Originally, it was unclear whether the accused infringer simply had to know how the component it supplied would be used, or whether the accused infringer had to have some knowledge of the infringement as well.

Almost half a century ago, the Supreme Court resolved this issue in the landmark *Aro Manufacturing v. Convertible Top Replacement* ("*Aro II*") decision.[29] The Court held that contributory infringement required the higher level of knowledge – knowledge of the patent.

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infringing manner is inducement); *Haworth, Inc. v. Herman Miller, Inc*., 37 U.S.P.Q.2d (BNA) 1080 1090 (W.D. Mich. 1994) (demonstrating and recommending infringing configurations of product it sells is inducement) *Metabolite Labs, Inc. v. Lab. Corp. of Am. Holdings*, 370 F.3d 1354, 1365 (Fed. Cir. 2004)(publishing medical articles that suggest the use of an assay in infringing way was inducement); *Sims v. Mack Trucks, Inc*., 459 F. Supp. 1198, 1215 (E.D. Pa. 1978) (showing how to use its product in an infringing way in its promotional film and brochures is inducement), *rev'd* on other grounds, 608 F.2d 87 (3d Cir. 1979).

[25] Patent Act of 1952, ch 950, 66 Stat. 792-814.

[26] Adams, *supra* note ___ at 386; Lemley, *supra* note __ at 227.

[27] Lemley, *supra* note __ at 227.

[28] 35 U.S.C. § 271(c)(emphasis added).

[29] *Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc*. 377 U.S. 476 (1964). This is the second of two landmark Supreme Court cases concerning the doctrine of contributory infringement and is often referred to as *Aro II*.

> . . . [§] 271(c) does require a showing that the alleged contributory infringer knew that the combination for which his component was especially designed was both patented and infringing.[30]

Thus, to be liable for contributory infringement under § 271(c), a party must not only know about the existence of a patent, it must also know that the component it is supplying results in direct infringement by another.[31]

Unlike § 271(c), § 271(b) governing inducement does not explicitly mention knowledge. Nonetheless, the courts have also interpreted inducement to require some level of knowledge. Until recently, there was a great deal of confusion about what level of knowledge was required. The original confusion on the level intent required for inducement was very similar to the issue the Supreme Court first faced for contributory infringement in *Aro II*. It was unclear whether the accused inducer simply had to know what acts it was inducing or whether it also had to have some knowledge that those acts resulted in patent infringement.

In *Hewlett-Packard Co. v. Bausch & Lomb*, the Federal Circuit held that inducement merely required the intent to commit the acts that cause infringement.[32] Under this standard, the inducer's belief about infringement and the patent's validity was irrelevant. In contrast, in *Manville Sales v. Paramount Systems*, a different Federal Circuit panel found that § 271(b) required the intent to induce infringement.[33] This required both the intent to commit acts and a belief that those acts would constitute patent infringement. Under this standard, an inducer's belief that the acts are non-infringing or the patent is invalid would disprove intent.[34]

In 2006, an *en banc* panel of the Federal Circuit resolved this split and held that the higher standard – the intent to induce infringement – applied to § 271(b).[35] The opinion in *DSU Medical v. JMS* specifically stated that a plaintiff must show that an "alleged infringer knew or should have known that his actions would induce actual infringements."[36] The court went on to say that this standard "necessarily includes the requirement that he or she knew of the patent."[37]

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[30] *Aro II,* 377 U.S. at 488. This view was decided by a slim 5-4 majority. In 2011, the Supreme Court characterized this decision as "badly fractured." *Global-Tech Appliances, Inc., v. SEB S. A.*, 131 S.Ct. 2060, 2068 (2011). One of the primary authors of the Patent Act of 1952 Act, Giles Rich also disagreed with this view and wrote that one of point which differentiates subsection (b) from subsection (c) "is that in proving a case under (b) the evidence must establish active inducement and that involves intent." Rich, *supra* note __ at 537.

[31] Some suggest that companies can now obtain a non-infringement opinion that negates the intent requirement and insulates the company from inducement and contributory infringement.

[32] *Hewlett-Packard Co. v. Bausch & Lomb, Inc.,* 909 F.2d 1464, 1469 (Fed. Cir. 1990).

[33] *Manville Sales Corp. v. Paramount Systems, Inc.,* 917 F.2d 544, 554 (Fed. Cir. 1990).

[34] *Broadcom Corp. v. Qualcomm Inc*. 543 F.3d 683, 609 (Fed. Cir. 2008). ("Because opinion-of-counsel evidence, along with other factors, may reflect whether the accused infringer 'knew or should have known' that its actions would cause another to directly infringe, we hold that such evidence remains relevant to the second prong of the intent analysis.")

[35] *DSU Medical Corporation v. JMS Co.*, 471 F.3d 1293, 1305 (Fed.Cir.2006) (*en banc*).

[36] *DSU Medical*, 471 F.3d at 1304.

[37] *Id.*

However, just three years later in *SEB S.A. v. Montgomery Ward*[38], the Federal Circuit appeared to take a step back from *DSU Medical* and adopt a recklessness standard for inducement. The decision found that inducement's intent requirement had been satisfied by evidence that the defendant "deliberately disregarded a known risk that [plaintiff] had a protective patent."[39] The opinion went to on to say that "a claim for inducement is viable even where the patentee has not produced direct evidence that the accused infringer actually knew of the patent-in-suit."[40] Surprisingly, the opinion in *SEB v. Montgomery Ward* was authored by Chief Judge Rader, the same judge who wrote the *DSU Medical* opinion. The opinion led to an immediate outcry and the Supreme Court granted *certiorari* to resolve the apparent conflict it raised.[41]

In the resulting opinion, the Supreme Court rejected the deliberate indifference standard the Federal Circuit had applied.[42] Instead, the Court said that inducement requires the same knowledge as contributory infringement. Consequently, the Court held that "induced infringement under § 271(b) requires knowledge that the induced acts constitute patent infringement."[43]

In sum, both inducement and contributory infringement operate quite differently than direct infringement. These two forms of indirect liability require both knowledge of the consequences they cause and the fact that those consequences will result in patent infringement. In contrast, direct infringement is a strict liability offense with absolutely no intent requirement. If direct infringement, contributory infringement and inducement encompassed entirely distinct categories of conduct, this discrepancy might not matter. However, as described in Part III, that is not the case. Inducement theory has been growing to encompass conduct that traditionally appeared to be the province of direct infringement and contributory infringement. After all, a company that makes an infringing product or component (*i.e.* conduct that constitutes direct and contributory infringement respectively) almost always "induces" someone else to sell and/or use that product.

2. Differing Territorial Limitations

Although subsection (a) always required that acts of direct infringement have a connection to the United States, as originally drafted, neither subsections (b) or (c) contained a similar requirement.[44]

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[38] *SEB S.A. v. Montgomery Ward & Co., Inc*. 594 F.3d 1360 (Fed. Cir. 2010).
[39] *SEB S.A*., 594 F.3d at 1377.
[40] *Id.*
[41] Geoffrey K. Gavin, *Induced Infringement After SEB V. Montgomery Ward*, IP Law 360, (September 16, 2010) ("Many practitioners have suggested that the Federal Circuit's decision in *SEB* changed the law or created uncertainty regarding induced infringement claims under § 271(b)."); Brief for *Amici Curiae* of 26 Law, Economics, and Business Professors in Support of Petition for *certiorari* at p. 2, ("the Federal Circuit has once again muddied the waters by identifying the culpable state of mind necessary to show induced infringement under section 271(b) as 'deliberate indifference of a known risk' that an infringement may occur in [*SEB v. Montgomery Ward*.]").
[42] *Global-Tech Appliances, Inc. v. SEB S.A*., 131 S.Ct. 2060 (2011).
[43] *Id.* at 2068. The Court did allow for a small exception to this rule. The Supreme Court held that the doctrine of willful blindness prevents a defendant from shielding itself from having the required knowledge. *Id*. at 2069.
[44] § 231, H.R. 3760, 82 Cong., 1st Sess. providing "(b) Whoever actively induces infringement of a patent shall be liable as an infringer. (c) Whoever knowingly sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of

In other words, the statute did not say where the component had to be sold or where the inducing acts had to take place. That does not mean that an infringer could have no connection with the United States. To the contrary, a prerequisite of both inducement and contributory infringement is that another party directly infringes the patent.[45] Since direct infringement has a territorial limitation, a party would only be liable if its foreign conduct resulted in direct infringement in the United States.

In 1994, Congress revised section (c) to add a territoriality limitation.[46] The statute now reads:

> Whoever offers to sell or sells *within the United States* or imports *into the United States* a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.[47]

Oddly, this limitation was only imposed on subsection (c), and subsection (b) continued to have no territoriality restriction.[48]

The legislative history of the Patent Act of 1952 gives no reason for treating contributory infringement and inducement differently, nor does Congress give any policy reason for the 1994 amendment to subsection (c).[49] In fact, Donald Chisum suggested that the change did not have any practical effect because Congress did not limit the geographic scope of subsection (b). Chisum points out that patent holders can sue for inducement to capture offshore conduct even when "the inducing conduct takes the form of the sale of a component."[50]

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the invention, especially made or especially adapted for use In an Infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use shall be liable as a contributory infringer.")

[45] *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 341-342 (1961) ("*Aro I*") ("It is plain that s 271(c)-a part of the Patent Code enacted in 1952-made no change in the fundamental precept that there can be no contributory infringement in the absence of a direct infringement. That section defines contributory infringement in terms of direct infringement-namely the sale of a component of a patented combination or machine for use 'in an infringement of such patent.'"); *Joy Technologies, Inc. v. Flakt, Inc*. 6 F.3d 770, 774 (Fed. Cir. 1993) ("Liability for either active inducement of infringement or for contributory infringement is dependent upon the existence of direct infringement.")

[46] *See*35 U.S.C. § 271(c) (2000).

[47] 35 U.S.C. § 271(c)(emphasis added).

[48] The legislative history for this amendment does not provide any explanation for the distinction.

[49] Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 VA. J. INT'L L. 603, 604 (1997) ("There appears to be no policy reason for restricting section 271(c) in this fashion. The change may have been a grammatical indiscretion.")

[50] *Id.* ("Further, section 271(b) on active inducement remains unchanged as to geographic scope, and patent owners may be able to rely upon it to seek relief against a foreign manufacturer, even in situations in which the inducing conduct takes the form of the sale of a component.")

Of course another reasonable interpretation of the 1994 amendment is that it effected real change.[51] After all, Congress explicitly placed a territorial limit on § 271(c).[52] That limitation suggests that companies that supply components abroad are not liable for patent infringement. However, as described in Part III of this article, the courts have not interpreted the statute in this way. Instead, Donald Chisum's prediction has turned out to be accurate. Courts have simply applied inducement theory to foreign conduct that has traditionally been considered to be contributory infringement – supplying a material component of patented invention.

III
The Growth of Inducement

"It keeps getting bigger and bigger", The Blob 1958

Since direct infringement under § 271(a) and contributory infringement under § 271 (c) have explicit statutory territorial limitations, these statutes impose no liability unless the conduct occurs in the United States.[53] Recognizing that inducement has no such limitation, patent holders have advanced an expansive view of inducement to reach overseas actors. Under this broad view, inducement appears to also engulf acts of direct infringement and contributory infringement. Since products that are made or sold by one party are eventually resold or used by another party, most acts of direct infringement can also be characterized as inducement. Similarly, acts that were historically characterized as contributory infringement can also be characterized as inducement. Supplying a material component of a patented invention with no substantial non-infringing use inevitably results in others making, selling and using the entire patented invention.

This expansive theory of inducement operates to capture conduct that appeared to be excluded by the territorial limitations found in § 271 (a) and (c). Since inducement does not have a territorial limitation, patent holders have asserted this theory against overseas actors regardless of what infringing acts these actors actually performed. So long as the infringing products eventually enter the United States, patent holders have argued that foreign acts of direct and contributory qualify as inducement under § 271 (b).

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[51] *See Stone v. INS*, 514 U.S. 386, 397 (1995) ("When Congress acts to amend a statute, we presume it intends its amendment to have real and substantial effect.") *see also Reiter v. Sonotone Corp*., 442 U.S. 330, 339, (1979) ("In construing a statute we are obliged to give effect, if possible, to every word Congress used.") citing *United States v. Menasche*, 348 U.S. 528, 538-539 (1955).

[52] Before the 1994 amendment, foreign conduct could subject a company to liability for contributory infringement under § 271(c). *See Engineered Sports Prods. v. Brunswick Corp.*, 362 F. Supp. 722, 727 (D. Utah 1973) (holding that § 271(c) "prohibits the 'sale', whether or not domestic" of unpatented ski boot specially designed for use in patented injection molding technique); *see also Honeywell, Inc. v. Metz Apparatewerke*, 509 F.2d 1137, 1139 (7th Cir. 1975).

[53] The odd exception appears to be "offers to sell" under § 271(a). Even when the communications associated with the offer has taken place abroad; offers to sell have been interpreted to occur in the United States if the resulting sale occurs in the United States. *Transocean Offshore Deepwater Drilling v. Maersk Contractors*, 617 F.3d 1296, ___ (Fed. Cir. 2010). Thus, there appears to be little reason to consider whether foreign offers to sell would also be considered inducement.

Although the Federal Circuit has not directly addressed this theory, district courts have increasingly adopted this expansive view of inducement. The remainder of this section critically explores both the district court decisions and the authority they rely upon. A review of the case law demonstrates that the expansive theory of inducement has been constructed from unsupported assumptions, poorly considered *dicta* and bad legal reasoning. That is not to say that the theory lacks any legitimate justification. The statutory language of § 271 places no territorial limitation on inducement, but that same statute limits direct and contributory infringement to domestic conduct. Courts should be hesitant to interpret inducement so broadly that it consumes the other two doctrines and thereby circumvents the explicit territorial limitations that are present in § 271(a) and (c).

A. Tea Leaves from the Federal Circuit

Although there are a few relevant district court decisions that pre-date the Federal Circuit,[54] the story begins in earnest with two Federal Circuit decisions. These decisions say nothing directly about the expansive theory of inducement, but make conflicting assumptions about the scope of inducement. In *Crystal Semiconductor v. TriTech Microelectronics*.[55] Crystal Semiconductor owned several patents related to technology that reduced or eliminated the effects of electrical noise in Analog-to-Digital converter chips.[56] It alleged that both Apple and Intel/Windows personal computers contained CODECs (a type of semiconductor chip) that infringed the patents. The accused chips were manufactured in Singapore by TriTech.[57] However, TriTech did not import the chips into the United States itself. Rather it sold the chips to OPTi which in turn sold the chips to the U.S. PC market. Crystal Semiconductor sued both OPTi and TriTech for patent infringement. The jury found that both defendants infringed the patents in suit. The Federal Circuit affirmed the verdict stating:

> Tritech did not practice the claimed '899 method in the United States. TriTech, therefore, cannot be liable for direct infringement under 35 U.S.C. § 271(a) (1994). TriTech's acts in connection with selling its chip to OPTi, however, *constitute active inducement under 35 U.S.C. § 271(b)*.[58]

Although the decision assumed that liability for inducement could be based on conduct that takes place abroad, it did not did not actually consider the issue.[59] Rather, the decision focused on whether the jury was adequately charged on inducement theory. The Federal Circuit found that it was.[60] In sum, the Federal Circuit made two assumptions in *Crystal Semiconductor*. First, presumably

[54] *See infra* note [89].
[55] Crystal Semiconductor Corp. v. TriTech Microelectronics Int'l, Inc., 246 F.3d 1336, 1344 (Fed. Cir. 2001).
[56] *Id.* at 1343.
[57] *Id.* at 1344.
[58] *Id.* at 1351 (emphasis added).
[59] That does not mean that there is no connection with the United States. Inducement requires proof of direct infringement under § 271(a). *See Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1322 (Fed. Cir. 2009). Since direct infringement requires a connection with the United States, foreign sales must still affect the United States to qualify as inducement. *See* Timothy R. Holbrook, *Territoriality and Tangibility after Transocean,* at p. 14 (saying how the courts have not applied
[60] "The trial court properly instructed the jury to assess whether TriTech literally infringed by *actively inducing* OPTi's direct infringement." *Id.* at 1351. (emphasis added).

based on absence of any territorial limitation in § 271(b), the opinion reasonably assumes that inducement does not have any territorial limitation. Second, without any explanation, the opinion assumes that inducement overlaps with direct infringement.[61] But the consequence of these two assumptions is that the explicit territorial limitation found in § 271(a) is circumvented. In TriTech's case, that meant that inducement theory could apply to selling an infringing chip abroad, conduct that would typically be considered direct infringement if done in the United States.[62]

Just two months later, the Federal Circuit issued a decision that seemed to make precisely the opposite assumptions. In *Shockley v. Arcan*, the infringing product was the Z-Creeper, a device that allowed mechanics to lie on their backs while working on an automobile chassis.[63] The product was made by Sunex in Shanghai, China, imported into the United States by Telesis and sold to Arcan which in turn sold the product to its customers in the United States.

One of the issues on appeal was whether Telesis and Sunex were jointly and severally liable for damages assessed against Arcan. The Federal Circuit found that under U.S. patent law, different infringers are jointly and severally liable. Since Telesis imported the infringing product into the United States, it was jointly and severally liable with Arcan. However, the court found that Sunex was not jointly and severally liable because:

> To be liable for infringement under 35 U.S.C. § 271, a party must make, use, offer to sell, or sell within the United States, or import into the United States, the patented invention. Although Sunex manufactured every Z-Creeper that Arcan sold in the United States, all of Sunex's activities took place in Shanghai. *Sunex, therefore, cannot be liable for infringement under § 271* nor be jointly liable with Arcan and Telesis.[64]

Although this passage does not specifically mention inducement or subsection (b), the conclusion only makes sense if Sunex could not be held liable under *any* infringement theory, including

[61] *But see*, *Honeywell, Inc. v. Metz Apparatewerke*, 509 F.2d 1137, 1141 (7th Cir.1975)(noting that "§ 271(b) was not designed to subject to liability a party who actually [directly] infringes a patent", but nevertheless concluding that when manufacturing is performed it broad it may constitute inducement because direct infringement as not extraterritorial reach); *Gould-National Batteries, Inc. v. Sonotone Corp.*, 130 U.S.P.Q. 26, 29 (N.D.Ill.1961) (suggesting that "active inducement or contributory infringement have been generally limited to those situations where the defendant has induced someone else to infringe the plaintiff's patent and when the defendant himself has not infringed the patent by making, using, or selling the invention.")

[62] TriTech does not appear to have argued that inducement and direct infringement should be interpreted to cover different types of conduct. Corrected Brief of Defendants-Cross Appellants TriTech Microelectronics International, Inc. and TriTech Microelectronics International 1999 WL 33636267.

[63] *Shockley v. Arcan, Inc.*, 248 F.3d 1349 (Fed. Cir. 2001).

[64] *Id.* at 1364 (emphasis added). The issue of inducement was raised at the trial court. According to the plaintiff, the district court erroneously concluded that the plaintiff "has not proven that Sunex actively induced Arcan's infringement" because the corporate veil had not been pierced. *See* Brief for Plaintiff-Cross Appellant Troy Shockley and Third Party Defendant-Cross Appellant Excalibur Tool & Equipment Co., Inc, 2000 WL 34030976.

inducement.[65] If Sunex had been liable for inducement, the Federal Circuit should have found it jointly and severally liable too.

The *Shockley* decision assumed that making and selling an infringing product abroad does not expose a party to liability for inducement. There are three possible explanations for this assumption. First, the court could have understood direct infringement and inducement to cover mutually exclusive conduct. Under this view, making, using, offering to sell and selling falls under § 271(a) and does not qualify as inducement under § 271(b).[66] If this were the law, there was no reason for the decision to address inducement. Second, the court could have assumed that § 271(b) does not have an extraterritorial reach. However, unlike § 271(a) and (c), there is no express limitation in the statute making this assumption suspect. Finally, even though the passage identified § 271 generally, the Federal Circuit could have simply overlooked inducement under subsection (b). The courts failure to address inducement is perplexing because Judge Rader, who authored the *Shockley* decision, also sat on the panel in *Crystal Semiconductor*. Unfortunately, *Shockley* does not even mention *Crystal Semiconductor*. In the end, observers can only speculate on the reasoning underlying the *Shockle*y decision; the opinion does not suggest which one of the three potential explanations is correct.

As other commentators have noted, there does not appear to be any room to reconcile *Shockley* and *Crystal Semiconductor*.[67] The decisions simply make conflicting assumptions about the proper scope of inducement. Four years later, in *MEMC Electronic v. Mitsubishi* ("*MEMC Electronic I*"), the Federal Circuit had the opportunity to clarify this confusion and determine what kind of foreign conduct, if any, could qualify as inducement.[68] Unfortunately, the decision further muddied the waters. The court found that MEMC failed to preserve its claim of active inducement based on the defendant's acts in Japan.[69] Citing to *Crystal Semiconductor*, the court concluded that it "need not address whether

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[65] *But see* Oros, *supra* note __ at 172 suggesting that the *Shockley* decision might have only meant to say that direct infringement under § 271(a) could not be based on foreign activities. Under this view, the Federal Circuit simply overlooked inducement theory.

[66] Most inducement cases do not concern conduct that would be considered to be direct infringement but activity like advertising, solicitation, or instructing a party how to use a device in an infringing way. *See supra* note __.

[67] *See* Moy's Walker on Patents § 12.43 (4th ed. 2010)("It is frankly difficult to reconcile *Shockley v. Arcan, Inc*. with *Crystal Semiconductor Corp*. Given that inducing and contributory infringement have their roots in the law relating to joint tort-feasors, one would expect the result, as to the liability of the foreign manufacturers, to be the same. Yet they clearly are not."); Oros, supra at 171, ("The Federal Circuit's subsequent ruling in *Shockley v. Arcan, Inc*. was inconsistent with its ruling in *Crystal Semiconductor*.")

[68] *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp*., 420 F.3d 1369 (Fed. Cir. 2005)("*MEMC Electronic I*"). MEMC alleged that semiconductor wafers manufactured by SUMCO infringed MEMC's patent. The wafers were sold to Samsung Japan which sent them to Samsung Austin in the United States. SUMCO argued that it could not be found liable for infringement because it manufactured and sold the accused wafers in Japan. However, MEMC pursued an inducement theory; it argued that "MEMC asserted that SUMCO encouraged and enabled Samsung Austin to use the accused wafers by manufacturing wafers according to Samsung Korea's specifications and by providing technical support to the Samsung Austin facility." *Id.* at 1372.

[69] The court said that other acts might support a claim of infringement: including email activities to Samsung Austin, making adjustments in the manufacturing process on behalf of Samsung Austin, technical presentations made at Samsung Austin. *Id.* at 1379.

inducing activity [abroad] can give rise to liability under United States patent laws."[70] This statement suggests that the issue is unresolved, yet *Crystal Semiconductor* assumes the opposite is true and that foreign activity can be the basis for inducement. Thus, *MEMC Electronic I* simply added to the doctrinal confusion.

Some interpret the Federal Circuit's decision in *DSU Medical v. JMS* to provide another clue about its views.[71] As discussed earlier, the decision is best known for addressing a split regarding the level of intent required to show inducement.[72] As part of the decision, the Federal Circuit reviewed a jury instruction that discussed the extraterritorial reach of inducement. The jury instruction stated:

> . . . Unlike direct infringement, which must take place within the United States, induced infringement does not require any activity by the indirect infringer in this country, as long as the direct infringement occurs here.[73]

Although the Federal Circuit did not discuss whether this statement accurately described the law, some district courts have given great weight to the fact that the instruction was included in the *DSU Medical* opinion. The Southern District of New York said that "it seems unlikely that the [Federal Circuit] would have quoted [the jury instruction] without qualification had there been a serious question as to the extraterritorial reach of § 271(b)."[74]

Even though the opinion may have assumed that the jury instruction was correct, courts should not rely on *DSU Medical* for the proposition that inducement extends to all types of foreign conduct. The Federal Circuit was clearly focused on another issue - the level of intent required to show inducement.[75] Since the Federal Circuit found that inducement requires a level of intent that the defendant did not have, there was no reason for the decision to consider whether inducement could encompass conduct abroad and if so, whether that included conduct that would typically be considered direct or contributory infringement.[76] Moreover, the Federal Circuit itself did not author any statement on the foreign reach of inducement or whether acts of direct or contributory infringement also qualify as inducement. There is also no indication that the parties briefed issues regarding the proper scope of

[70] *Id.* at 1379.
[71] *DSU Medical Corporation v. JMS Co*., 471 F.3d 1293, 1305 (Fed.Cir.2006) (*en banc*).
[72] *See e.g.* Eric L. Lane, *The Federal Circuit's Inducement Conflict Resolution: The Flawed Foundation and Ignored Implications of* DSU Medical, 6 J. Marshall Rev. Intell. Prop. L. 198 (2007) ("The Federal Circuit's *en banc* holding in *DSU Medical* finally resolved the perceived conflict in the court's precedent regarding the level of intent required to prove inducement liability.")
[73] *Id.* at 1305.
[74] *Wing Shing Prod. (BV) Ltd.,v. Simatelex Manufactory Co.*, 479 F. Supp. 2d 388, 410 (S.D.N.Y. 2007); *see also Honeywell Int'l, Inc. v. Acer America Corp*., 655 F.Supp.2d 650, 659 (E.D. Tex 2009) ("Although the Court did not expressly approve this statement, it is unlikely that it would have quoted it without qualification if it were a misstatement of the law."
[75] *DSU Medical* at 1306 (The court held that "inducement requires evidence of culpable conduct, directed to encouraging another's infringement, not merely that the inducer had knowledge of the direct infringer's activities.")
[76] *Id.* at 1307 ("Thus, on this record, the jury was well within the law to conclude that ITL did not induce JMS to infringe by purposefully and culpably encouraging JMS's infringement.")

inducement, let alone that the *en banc* panel considered them. Thus, *DSU Medical* is simply another decision that makes an unexamined assumption about the expansive extraterritorial reach of inducement.

In sum, the Federal Circuit has given inconsistent signals about the proper scope of inducement. Rather, they have simply left confusing "tea leaves" for others to interpret. Both *Crystal Semiconductor* and *DSU Medical* strongly suggest that inducement covers conduct abroad. That conclusion is entirely consistent with the statutory language found in § 271. Yet *Shockle*y assumes that the opposite is true -- that inducement can only be based on domestic conduct. Finally, *MEMC Electronic I* implies that, at least as of 2005, the issue was unresolved. Perhaps, more importantly, even if inducement encompasses foreign conduct, the Federal Circuit has not said whether inducement should be interpreted to encompass acts of direct and contributory infringement. In truth, none of these decisions have made a sincere effort to grapple with the issues raised by an expansive view of inducement.

B. Reading the Teas Leaves

Of course, observations about the bewildering state of Federal Circuit law do not help district courts. These courts must read the Federal Circuit "tea leaves" as best they can and apply the law to the facts of their cases. Three district courts have done so. They have uniformly concluded that making and selling an infringing product abroad can serve as the basis for inducement.

Soon after *MEMC Electronic I*, the Federal Circuit remanded the case to the Northern District of California. That court became one of the first district courts to say that "extraterritorial activity that induces infringement is prohibited by § 271(b)."("*MEMC Electronic II).*[77] Unfortunately, this statement was clearly *dicta*. The Federal Circuit decision in *MEMC Electronic I* had disposed of any claim of inducement based on foreign activities.[78] Thus, the only inducement issue for the district court to determine was whether the defendant's domestic activities constituted inducement.[79] In light of the narrow issues on remand, the district court had no reason to discuss whether foreign activities can give rise to inducement.[80] To make matters worse, the statement appeared in a perfunctory summary of law of inducement; there was no analysis of the extraterritoriality issue at all. Nevertheless, subsequent district courts have cited to *MEMC Electronic II* as one of the few decisions to address the extraterritorial application of inducement.[81]

In *Wing Shing v. Simatelex*, the Southern District of New York agreed with the Northern District of California's view.[82] The defendant, Simaltex, manufactured coffee makers in China that infringed

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[77] *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp*., 2006 WL 463525 at *7 (N.D.Cal. Feb. 24, 2006) ("*MEMC Electronic II*") citing *Crystal Semiconductor*.
[78] *MEMC Electronic I*, 420 F.2d at 1378-79.
[79]. at *Id* 1379.
[80] The district court's description of inducement was also superfluous because the court found that there was no direct infringement. *MEMC Electronic II,* WL 463525 at *14. Consequently, there could be no inducement no matter where the accused activities took place.
[81] *Wing Shing,* 479 F. Supp. 2d at 409; *Honeywell Int'l,* 655 F.Supp.2d at 659.
[82] *Wing Shing,* 479 F. Supp. 2d at 410.

Wing Shing's U.S. design patent.[83] After the coffeemakers had been manufactured, they were transported to either Hong Kong or Yantian, China (as designated by Sunbeam) and ultimately shipped to the United States.[84] Although Wing Shing asserted that Simaltex directly infringed Wing Shing's patent by importing, selling and offering to sell the coffeemakers in the United States, the district court concluded that the accused activity took place outside the United States.[85] The decision then analyzed whether this foreign conduct supported a claim for inducement.

The district court concluded that purely extraterritorial acts could give rise to liability under inducement.[86] In arriving at this conclusion, the *Wing Shing* decision first looked the existing precedent. Unfortunately, it incorrectly characterized the law in several respects. First, the court was apparently unaware of *Shockley v. Arcan* and mistakenly said that there was no authority that limits the application of § 271(b).[87] Second, relying on *MEMC II* as its lead example, the decision said that "numerous courts have held that, in contrast to §§ 271(a) and (c), § 271(b) applies to exclusively extraterritorial conduct."[88] However, *MEMC II* is unreliable for the various reasons discussed above.[89] *Wing Shing* also cited to a number of district court decisions that pre-date the Federal Circuit.[90] These decisions undoubtedly support *Wing Shing's* view, but they have not been part of the current conversation on inducement. Moreover, their analyses is not particularly helpful because these decisions merely rely on a textual reading of § 102(b) to conclude that inducement reaches abroad. Finally, *Wing Shing* gave undue weight to the jury instruction found in *DSU Medical*.[91] As discussed above, that statement does not reflect the considered view of the Federal Circuit.

These criticisms do not prove that *Wing Shing's* ultimate decision was wrong. After all, the text of §§ 271(a) and (c) has a territorial limitation, and § 271(b) does not. Rather, these criticisms merely show that the proper interpretation of inducement was not nearly as clear cut as the decision made it appear.

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[83] *Wing Shing, supra* at note __.
[84] *Id.* at 394-95.
[85] Relying on language from Simaltex's invoices, Wing Shing argued that title of the goods did not pass to Sunbeam until after the merchandise arrived in the United States. However, the Court concluded that title passed in Hong Kong. *Id*. at 401-07.
[86] *Id.* at 410.
[87] *Id*. at 409.
[88] *Id.*
[89] *See infra* text accompanying notes __.
[90] *Id.* at 409 citing to *Playskool, Inc. v. Famus Corp.,* 212 U.S.P.Q. (BNA) 8, 13-14 (S.D.N.Y.1981); *Kearns v. Wood Motors*, Inc., 204 U.S.P.Q. (BNA) 485, 489 (E.D.Mich.1979)(using an expansive view of inducement without considering the overlap of inducement and direct infringement); *Honeywell v. Metz Apparatewerke*, *supra*, 509 at 1141 (suggesting that act of direct infringement if conduced abroad can constitute inducement); *Hauni Werke Koerber & Co., KG v. Molins, Ltd*., 183 U.S.P.Q. (BNA) 168, 170 (E.D.Va.1974)(comparing the statutory language of subsections(a)(b)and (c) to show that inducement alone has extraterritorial reach); *Engineered Sports Products v. Brunswick Corp.,* 362 F.Supp. 722, 727 (D.Utah 1973).
[91] *Wing Shing,* 479 F. Supp. 2d at 410.

The *Wing Shing* court went on to consider whether inducement could be interpreted to broadly cover acts that typically constitute direct infringement, namely making and selling infringing products.[92] Noting that "courts have interpreted acts of inducement extremely broadly",[93] the court concluded that "[w]hile the courts have almost always considered factors beyond the manufacture and sale of infringing products . . . the manufacture and sale of a patented product are by themselves sufficient to constitute active inducement under § 271(b)."[94] These statements overlooked older precedent that suggested that there is no overlap between inducement and direct infringement.[95] Thus, in the end, the court held that the foreign production and sale of an infringing product knowing that the buyer will sell the product in the United States fits within the definition of inducement.[96] Thus, *Wing Shing* was the first decision in the Federal Circuit era to explicitly support both parts of the expansive view of inducement -- applying inducement extraterritorially and applying to acts that typically would be considered direct infringement.[97]

In 2009, the Eastern District of Texas provided additional support for the expansive view of inducement.[98] In *Honeywell International v. Acer America*, Honeywell sued CPT, a Taiwan based company with offices in Taiwan, China and Malaysia for patent infringement.[99] Honeywell asserted that CPT was liable for inducement because it supplied unfinished LCD screens to foreign companies which incorporate CPT's screens into infringing products sold in the U.S. CPT resisted discovery on its sales and communications with non-U.S. companies arguing that these activities did not constitute infringement under U.S. patent laws.[100] The Eastern District of Texas agreed with Honeywell's legal theory and granted its motion to compel.

There were two important components to the decision. First, citing to *Wing Shing* the court said that "[a]iding and abetting direct infringement includes selling infringing products for re-sale to consumers."[101] In other words, inducement covers the same conduct as direct infringement, selling infringing products. Yet the court did not offer any substantive discussion of this issue.

Second, the court found that "the scope of section 271(b) can extend to extra-territorial activities."[102] The decision substantially tracked the analysis in *Wing Shing*. It discussed *Crystal Semiconductor*, *DSU Medical* and of course *Wing Shing* itself. Moreover, just like *Wing Shing*, the

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[92] *MEMC II* did not address this issue.
[93] *Id.* at 410.
[94] *Id.* at 411.
[95] The *Wing Shing* decision cited to *Honeywell v. Metz Apparatewerk* to support the extraterritorial reach of inducement. *See supra* note [90]. But that same decision suggests that inducement only exists when the party did not commit direct infringement itself. *Metz Apparatewerke*, *supra*, 509 at 1141; *see also Gould-National Batteries, supra.*, 130 U.S.P.Q. at 29.
[96] *Id.* at 411.
[97] For an earlier 7th Circuit decision that appears to arrive at the same result. *See Honeywell v. Metz Apparatewer*k discussed in notes [61 and 95].
[98] *Honeywell Int'l, Inc. v. Acer America Corp*., 655 F.Supp.2d 650, 661 (E.D. Tex 2009).
[99] *Id*. at. 652.
[100] *Id.* at 658.
[101] *Id*. at 658.
[102] *Id*. at 660.

decision in *Honeywell Int'l* made no mention of the *Shockley* decision. But unlike the court in *Wing Shing*, the Eastern District of Texas had to confront *Microsoft Corp. v. AT &T*, a recent Supreme Court decision that suggested that patent laws should generally not be interpreted to reach foreign conduct.[103]

In *Microsoft v AT&T*, Microsoft had been sending Windows operating systems to foreign computer manufacturers by email or by sending a master disk.[104] AT&T alleged that computers equipped with Windows infringed its patent for digitally encoding and compressing recorded speech.[105] Even though the computers were made abroad, AT&T argued that Microsoft was liable under § 271(f) for supplying components of a patented invention from the United States. The Supreme Court rejected AT&T's theory and held that Microsoft was not "supplying components" because only copies of Microsoft's software were being loaded into the computers.[106] One important reason underlying the Court's decision was the presumption against the extraterritorial application of U.S. patent laws. The Court stated that "[t]he presumption that United States law governs domestically but does not rule the world applies with particular force in patent law."[107] The Court went on to note that the presumption tugged strongly against the expansive interpretation of § 271(f).[108]

In *Honeywell International,* CPT argued that under *Microsoft,* inducement should not be interpreted to reach CPT's foreign activities. The Eastern District of Texas rejected CPT's argument by distinguishing *Microsoft*. Specifically, the district court said that it was "keenly aware that the Supreme Court has given no indication as to whether the presumption against extra-territoriality extends to section 271(b)."[109] But the presumption is not limited to any particular subsection of § 271. It actually traces its application in patent law at least as far back as *Deepsouth Packing Co. v. Laitram* where it was used to help interpret § 271(a).[110] In *Deepsouth*, the Supreme Court said that a product that was assembled abroad was not made in the United States under § 271(a) even though all its components were made domestically.[111] Together *Deepsouth* and *Microsoft* demonstrate that the presumption

[103] *Microsoft Corp. v. AT &T.*, 550 U.S. 437 (2007).
[104] *Id*. at 441.
[105] *Id*. at 441.
[106] *Id.* at 453. ("Section 271(f) prohibits the supply of components 'from the United States ... in such manner as to actively induce the combination of *such components*.' . . . Under this formulation, the very components supplied from the United States, and not copies thereof, trigger § 271(f) liability when combined abroad to form the patented invention at issue.")
[107] *Id.* at 454-55.
[108] *Id*. at 455. ("the presumption tugs strongly against construction of § 271(f) to encompass as a 'component' not only a physical copy of software, but also software's intangible code, and to render 'supplie[d] . . . from the United States' not only exported copies of software, but also duplicates made abroad."
[109] *Honeywell Int'l,* 655 F.Supp.2d at 660.
[110] *Deepsouth Packing Co. v. Laitram*, 406 U.S. 518, 531 (1972) ("Our 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,' Brown v. Duchesne, 19 How., at 195, 15 L.Ed. 595 (1856), and we correspondingly reject the claims of others to such control over our markets.")
[111] The *Deepsouth* decision provoked Congress to pass 35 U.S.C. § 271(f) which explicitly prohibits the exportation of the unassembled components of a patented invention is an infringement if the exporter actively induces the

against the extraterritorial application of U.S. laws applies broadly to different parts of § 271. Consequently, *Honeywell Int'l* should have taken the presumption more seriously when considering the proper scope of inducement.

Applying the Supreme Court's presumption against the extraterritorial application of U.S. patent laws does not necessarily mean that CPT was correct and inducement should be interpreted to exclude all foreign conduct. The omission of a territorial limitation in the text of § 271(b) clearly indicates that inducement reaches *some* categories of foreign conduct. However, the presumption does suggest that inducement should not be interpreted to circumvent the territorial limitations that are present in other parts of § 271 – namely subsection (a) governing direct infringement and subsection (c) governing contributory infringement. In other words, inducement arguably does not cover foreign conduct that qualifies as direct or contributory infringement. Under this view, making and selling entire infringing products or substantial components of those products abroad should not be considered an infringement under current U.S. law. This position was not considered by the *Honeywell Int'l* decision (or by any other decision to date).

This section has critically explored the district court decisions that have gradually adopted the expansive theory of inducement. Although there may be good reasons for interpreting inducement to cover all types of infringing conduct abroad, the arguments weighing against this view have not been given a full hearing. The analysis to date has simply been too one sided. The district courts have ignored the Federal Circuit decision in *Shockley* and given inadequate consideration to the presumption against the extraterritorial application of patent law discussed by the Supreme Court in *Microsoft* and *Deepsouth*. At the same time, these courts have given too much weight to the tea leaves left by *Crystal Semiconductor, MEMC II and DSU Medical*. These three Federal Circuit cases did not directly consider the expansive view of inducement and statements from these opinions should be considered accordingly.

IV
Discrimination Against Domestic Conduct and Companies

"Have no friends not equal to yourself" Confucius

In the previous section, I criticized the courts' approach to the expansive theory of inducement. These decisions have also failed to grapple with some larger policy issues that this theory raises. The expansive theory of inducement has some significant unintended consequences that have gone unnoticed. To illustrate these consequences, this section examines how inducement interacts with direct infringement in both the domestic and international context.

The semiconductor industry provides an excellent example because much of the key activity takes place abroad. Most U.S. semiconductor companies now manufacture their chips outside the

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assembly of the device outside of the United States. See Timothy R. Holbrook, *Extraterritoriality in U.S. Patent Law*, 49 WM. & MARY L. REV. 2119, 2132 (2008) ("Holbrook, Extraterritoriality").

United States.[112] Some companies like Intel have simply moved their manufacturing facilities abroad to take advantage of lower cost labor.[113] Other companies like Qualcomm, Broadcom and NVIDIA have actually outsourced their manufacturing to semiconductor "foundries."[114] Even though the United States is the world's largest market for electronic products and almost every electronic product contains numerous semiconductor chips, the semiconductor companies rarely import their chips into the United States themselves. Rather, the chips are purchased by product companies (*e.g*. Apple, Dell, Sony and Nokia) that make items like cell phones, tablets, televisions and computers. Since these product companies generally assemble their products abroad in countries like China, the semiconductor sales usually take place abroad as well.[115] The end products containing the semiconductor chips are then imported into the United States by the product companies.

In many instances, patent holders desire to sue the supplier (*e.g*. the semiconductor company) and not the company that made the end product (*e.g.* a personal computer manufacturer). This is often because the product company is the patent holder's customer while the supplier may be a competitor.[116] In light of the explicit territorial limits found in § 271(a) and (c), it is clear that companies that make and sell their products abroad cannot be held liable under the theories of direct and contributory infringement.[117] However, inducement under § 271(a) does not contain any territorial limitation. As a result, patent holders have been able to rely on inducement to reach companies that make and sell infringing products abroad. This reliance has unintended consequences. Because of the differences between direct infringement and inducement, it is far easier to find that conduct occurring in the United States qualifies as patent infringement. Thus, U.S. patent law treats conduct within the United States far worse than it treats conduct outside the country.

Let's consider two hypothetical companies. SemiCo 12 is making a semiconductor chip in the United States. Patent Holder Industries ("PH") has a patent that it believes is infringed by SemiCo chips.

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[112] See U.S. Gov't Accountability Office, Offshoring: U.S. Semiconductor and Software Industries Increasingly Produce in China and India 11 (2006) (hereinafter "GAO Offshoring Report").

[113] The GAO report notes that "[a]lthough a lower labor cost was initially a key factor that attracted firms to offshore locations, other factors such as technological advances, available skilled workers, and foreign government policy, also played roles." *Id*. at 2.

[114] Jeorge S. Hurtarte, Evert A. Wolshimer, Lisa M. Tafoya, Understanding Fabless IC Technology, § 1.4.2 at p. 8 (2007). Prominent U.S. se foundries include Taiwan Semiconductor Manufacturing Company (TSM) and United Microelectronics Corporation (UMC) in Taiwan, Charter Semiconductor in Singapore and Semiconductor Manufacturing International Corporation (SMIC) in China. *Id*. at § 1.4.4 at p. 11.

[115] GAO Offshoring Report at p. 29 ("The decline in U.S. semiconductor imports since 2000 reflects the movement from the United States to Asia of manufacturing production of electronics products that use integrated circuits. Finished integrated circuits are moving to other countries in Asia, particularly China, for assembly into electronics products, rather than returning to the United States.")

[116] Oros, *supra* note __ at 164 (noting that a patent holder would prefer to sue their customer's other supplier and not their customer); Bernard Chao, *The Case for Contribution in Patent Law*, 80 U. Cin. L. Rev. __ (2011)("the patentee often will choose to sue its competitor, another component supplier, and not the multi-component product manufacturer who is often the patentee's customer or potential customer too.")

[117] If the company has a foreign patent that corresponds to U.S. patent, the company can seek to assert the foreign patent abroad. *See Voda v. Cordis Corp*. 476 F.3d 887, 898-99 (Fed. Cir. 2007) (generally describing how separate countries have the right under international law to adjudicate claims under the patents that each country grants).

Since SemiCo 12 is making its chips in the U.S., PH would pursue a charge of direct infringement under § 271(a). Direct infringement is a strict liability offense and PH would not have to prove intent to infringe, much less that SemiCo 12 knew of the patent.

However, if we assume that SemiCo 12 made those same chips in China, infringement becomes much more difficult to show. PH would not be able to bring an action for direct infringement. Section 271(a) has an explicit territorial limitation that prevents that assertion. Rather, PH would have to argue that SemiCo 12 was liable for inducement under § 271(b). Specifically, PH would characterize the act of making and selling chips in China as inducing infringement in the United States. The product company that imported products containing the accused chips into the United States would be the direct infringer.[118] However, in contrast to the case of domestic infringement, PH would have to show that SemiCo 12 knew about its patent and intended to infringe it.[119]

Thus, current U.S. patent law discriminates against domestic conduct.[120] The law subjects domestic conduct to a lower standard of proof.[121] A company that makes and sells products accused of infringement in the United States is strictly liable. If that same company were to make and sell the same products aboard, it would only be found liable for infringement if it intended to infringe the patent. The intent requirement also affects the time frame for potential damages. Companies that make and sell infringing products in the United States can be liable for six years of past damages.[122] However, since intent requires knowledge of the patent, foreign companies that infringe a patent cannot be liable for liable for any damages until they actually learn of the patent. The result is that our patent law appears to encourage companies (that do not sell products inside the United States) to make their products abroad.[123]

U.S. patent laws should not hold domestic conduct to a higher standard of liability than foreign conduct. The unauthorized sale and use of infringing products in the United States is the primary harm that patent holders suffer. This harm is the same regardless of where the infringing products originated.

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[118] PH could also argue that the end consumers that used the product containing Semico 12 chips were the direct infringers.

[119] Moreover, PH would also have to show that Semico 12 knew that its products would enter the United States. *See Wing Shing*, 479 F.Supp. 2d at 411; *Honeywell Int'l*, 655 F.Supp.2d at 660.

[120] This is but one aspect of a larger imbalance in patent law caused by the different scienter requirements of direct and indirect infringement. There is also overlap between direct and contributory infringement. Depending on how a claim is drafted, an infringing component may be fall under § 271(a) or (c). Again, this suggests the same infringement could potentially be subject to different standards of proof simply because of claim drafting choices.

[121] The same imbalance does not exist for contributory infringement because inducement and contributory infringement have the same intent requirement. *See infra* notes[28-43]

[122] 35 U.S.C. § 286 states that " . . . no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action . . .." This is not always the case. Past damages can be limited by the notice and marking provisions found in 35 U.S.C. § 287.

[123] Companies that sell products within the United States would still be liable for direct infringement. Again, the semiconductor industry is an example of a company that sells its products abroad.

The potential remedies are the same as well.[124] If the patentee lost sales, it can recover lost profits.[125] If not, the patentee will be able to recover a reasonable royalty.[126] The lost profit/reasonable royalty calculation does not somehow change because the product was previously made and sold abroad. In both instances, the calculations will be based on the infringing products that are sold and used in the United States. In fact, because the defendants are jointly and severally liable, the patent holder should theoretically receive the same recovery regardless if it pursues a claim for foreign inducement or direct infringement in the United States.[127]

This is not to say that U.S. law should always treat foreign conduct the same way it treats U.S. conduct. Limitations on personal jurisdiction inevitably result in treating foreign companies more favorably than domestic ones.[128] For example, consider those companies that make and sell infringing products abroad with the knowledge that the products will eventually enter this country. Only some of those companies will have any exposure for inducement – those companies that are subject to personal jurisdiction. [129] Other companies that do not have sufficient minimum contacts will not have any liability.

But the concern underlying personal jurisdiction reflects a different kind of issue -- whether to apply U.S. laws extraterritorially *at all*. When determining whether a particular law should reach outside this country, the courts have looked to several factors, including international law, international comity and choice-of-law principles.[130] In other words, the United States will sometimes decline to enforce its laws extraterritorially in order to avoid encroaching on another country's sovereignty. In one sense, foreign conduct and actors are treated more favorably than their domestic counterparts in these situations. But once this country determines it can apply its laws extraterritorially without offending

[124] 35 U.S.C. § 284 provides: "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."

[125] Lost profit is determined by looking at a four factor test: 1) demand for the patented product, 2) the absence of acceptable noninfringing substitutes, 3) his manufacturing and marketing capability to exploit the demand, and 4) the amount of the profit he would have made. *Panduit Corp. v. Stahlin Bros. Fibre Works*. 575 F.2d 1152, 1156 (6th Cir. 1978).

[126]The courts have used fifteen factors to determine a reasonable royalty. None of the factors say anything about where the product was made. *See* G*eorgia-Pacific v. U.S. Plywood,* 318 F. Supp. 1116, (S.D.N.Y. 1970).

[127] *See Shockley*, 248 F.3d at 1364 (the Federal Circuit classified the importers and resellers of an infringing device as joint tortfeasors and found that they were jointly and severally liable); *see also Semiconductor Energy Lab. Co. v. Chi Mei Optoelectronics Corp.* , 531 F. Supp. 2d 1084, 1115-16 (N.D. Cal 2007); *But see* Chao, *supra* note ___ at __ (suggesting that juries may actually award different damages for the same infringement based on which combination of defendants are sued).

[128] *See* Oros, *supra* note __ at p. 178 (noting that personal jurisdiction for overseas conduct is more easy establish for U.S. companies and thus disadvantages domestic companies).

[129] *See McIntyre Machinery Ltd., v. Nicastro*, 131 S.Ct. 2780 (2011)(" The defendant's transmission of goods permits the exercise of jurisdiction only where the defendant can be said to have targeted the forum; as a general rule, it is not enough that the defendant might have predicted that its goods will reach the forum State."); *Asahi Metal Industry Co. v. Superior Court of Cal., Solano Cty*., 480 U.S. 102, 112 (1987). ("The placement of a product into the stream of commerce, without more, is not an act of the defendant purposefully directed toward the forum State.")

[130] *See* Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 Va. J. Int'l L. 505, 513-16 (1997)(also discussing likely congressional intent, and separation-of-powers considerations).

these international concerns, there is no reason to favor foreign conduct. Since the competitive injury is the same regardless of where the conduct takes place, U.S. patent laws should treat foreign and domestic conduct equally.

The current imbalance is simply the unintended consequence of allowing inducement theory to swallow up direct infringement. And the current regime may even result in negative economic consequences for the U.S. Although it is unclear whether companies are moving their manufacturing facilities abroad solely because of the poor treatment they receive from U.S. patent law, these laws certainly do not help retain domestic industry. But it doesn't have to be this way. A few simple changes to the law can align the different infringement theories and thereby place domestic and foreign conduct on the same footing.

V
The Proposals: Reconciling Infringement Theory

"There are no answers, only choices." Solaris (2002)

This article takes no position on whether U.S. patent laws should or should not encompass foreign conduct that indirectly injects products into the United States. Rather, it suggests that regardless of what view is correct, the current law is incoherent. To the extent that the United States wishes to limit liability for patent infringement to domestic conduct, the emerging expansive theory of inducement frustrates that goal. By swallowing up conduct that has previously been considered direct or contributory infringement, inducement allows patent holders to circumvent the territorial limitations found in the §§ 271(a) and (c).

On the other hand, to the extent that United States intends to have its patent laws encompass the overseas manufacture and sale of products that end up in the United States, it makes no sense to substitute inducement for direct infringement in the foreign arena. Since inducement has a scienter requirement and direct infringement is strict liability offense, using inducement needlessly discriminates against domestic conduct. There is clearly a need to bring coherence to the current statutory framework. Consequently, this article offers three very different alternative proposals.

A. The Expansive Proposal

The first proposal assumes that the United States wishes to maximize the reach of its patent laws and impose liability on foreign conduct. Under this view, U.S. patent law would essentially reach any conducted that affected U.S. commerce.[131] Of course this view raises serious questions of international comity that I do not address.[132] Nonetheless, if this were our country's goal, Congress

[131] Proposals that extend the reach of U.S. patent law this far are often called "effects based." *See Hartford Fire Ins. Co. v. California,* 509 U.S. 764, 796 (1993)(applying an effect based test with respect to antitrust liability); Holbrook, *Extraterritoriality, supra* note __, at 2154;
[132] *See* Oros, *supra* note __ at 189 (explaining the problem of having each country's patent laws apply outside their borders).

should amend § 271(a) and (c) and broaden their territorial limitations to encompass this conduct.[133] This proposal would level the playing field by making the scienter requirement the same regardless of where the infringing conduct takes place. The text of the "Expansive Proposal" follows:

> (a) 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, or makes or sells any patented invention with knowledge that it will be sold or used in the United States during the term of the patent therefor, infringes the patent.
>
> (c) Whoever offers to sell or sells within the United States, ~~or~~ imports into the United States or makes or sells with knowledge that it will be sold or used in the United States, a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

If the Expansive Proposal were adopted, patent holders would be to rely on the theory of direct infringement to pursue overseas conduct. Consequently, those that make and sell infringing products abroad and at home would both be subject to strict liability. No intent would be required. This would level the playing field by putting domestic and foreign conduct on the same footing.

B. The Restrictive Proposal

Alternatively, Congress could take a more Restrictive approach to the extraterritorial effect of its laws. Under this view, Congress should amend §271(b) by adding a territorial limitation to the statute. The text of the "Restrictive Proposal" follows:

> (b) Whoever within the United States actively induces infringement of a patent shall be liable as an infringer.

Under the Restrictive Proposal, patent holders would no longer be able to use inducement theory to circumvent the territorial limitation that exists for direct and contributory infringement. Inducement would have that same limitation. Consequently, the Restrictive Proposal would limit the extraterritorial effect of U.S. patent laws. In a sense, this means that U.S. patent law will treat domestic conduct harsher than foreign conduct. After all, U.S. patent laws will simply not reach foreign conduct.

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[133] A patent system that attempts to reach this deeply into overseas conduct clearly has issues that need to be considered. *See e.g*. Holbrook, *Extraterritoriality*, *supra* note __, at 2161 ("a truly economically driven effects test would extend the reach of a U.S. patent to the four corners of the globe, undermining the various policies in place in other countries and providing considerable—and inappropriate—reach to a U.S. patent.") Consequently, Holbrook advocates an approach that would explicitly examine foreign patent law before applying U.S. law extraterritorially. *Id*. at 2164-65.

But any decision to adopt the Restrictive Proposal should be based on basic concerns about the extraterritorial reach of U.S. patent laws. It may be that the United States should simply defer to the patent enforcement mechanisms available in other countries.[134] Such a solution would be a coherent approach to U.S. law. This would not leave U.S. patent holders without recourse. They would still have the option of suing parties responsible for infringement in the United States -- that may be the importer, seller or end customer.[135]

C. The Compromise Proposal

One primary disadvantage of both the Expansive and Restrictive proposals is that they both require Congress to enact legislation. Given the years it took to pass the most recent patent legislation, there is little possibility that patent law will receive any attention from Congress in the near future.[136] So I have drafted a third Compromise Proposal. Although I have framed the proposal as an amendment to § 271, the substance of the proposal could also be adopted by the courts. The text of the "Compromise Proposal" follows:

> (b) Whoever actively induces infringement of a patent shall be liable as an infringer. <u>Conduct that would be considered direct infringement under subsection (a) or contributory infringement under subsection (c) will not be considered active inducement.</u>

As discussed earlier, the courts could interpret the current version of § 271(b) to exclude acts of direct and contributory infringement.[137] By relying on the presumption against the extraterritorial application of U.S. patent laws discussed in *Deepsouth* and *Microsoft*, courts could reject any interpretation of inducement that circumvents the territorial limitations that are present in other parts of § 271 – namely subsection (a) governing direct infringement and subsection (c) governing contributory infringement. Under this view, activity that typically would be considered contributory infringement would not also qualify as inducement. Making and selling infringing products or components that are material part of an infringing product would not qualify. Inducement would be limited to activities like encouraging third parties to infringe through advertising, solicitations or instructions on how to use a product in an infringing way.[138]

The Compromise Proposal is far from ideal. Without any express justification, the laws would reach abroad to capture some categories of infringing conduct and exclude others. What's more the laws would probably be capturing less troublesome conduct. Inducing someone to infringe carries less culpability than directly infringing a patent. However, the advantage of the Compromise Proposal is that U.S. patent law would no longer discriminate against domestic conduct. To the extent that the laws operated extraterritorially, they would treat foreign and domestic acts of infringement equally.

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[134] *See supra* note at 112.
[135] *See supra* note at 10.
[136] Leahy–Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).
[137] See text accompany notes__ [Honeywell Int'l discussion].
[138] Lemley, *Inducing Patent Infringement*, *supra* note __ at 230.

VI
Conclusion

Patent holders have relied on an expansive theory of inducement to circumvent the territorial limitations of direct and contributory infringement. The result has been that companies that make and sell infringing products abroad have been found liable for inducing infringement within the United States. This article has critically analyzed the development of this expansive theory and argues that the courts have not considered important doctrinal and policy implications of the theory.

From a doctrinal perspective, the courts have either overlooked or given short shrift to the presumption against the extraterritorial application of U.S. patent laws. Once this presumption is taken into account, courts may consider limiting the theory of inducement so that it does not thwart the express territorial limitations found in 35 U.S.C. § 271(a) and (c).

From a policy perspective, no one has noticed the imbalance that the expansive theory of inducement creates between domestic and foreign infringement. A company that makes and sells products accused of infringement in the United States is strictly liable. If that same company makes and sells the same products aboard, it would only be found liable for infringement if it intended to infringe the patent. Since both types of conduct create the same competitive injury, there is no basis for treating them differently.

This article takes no position on whether U.S. patent laws should or should not encompass foreign conduct. Regardless of which side one favors, it is clear that the patent laws should take a consistent approach to infringement regardless of where the conduct is located. This article offers three alternate proposals. Each proposal provides a more coherent framework than the current regime. However, the proposals assume different goals. The proper choice depends on this country’s appetite for extending or limiting the reach of U.S. patent laws and which entity—Congress or the courts—should make that decision.