



## Escape From Marshall, Texas

As patent infringement plaintiffs increasingly flock to the the Eastern District of Texas, seeking advantage from the accelerated discovery provided there, a recent Federal Circuit case may provide some relief to defendants who find themselves haled into the Lone Star State.

In *In re TS Tech USA Corporation, TS Tech North America, Inc. and TS Tech Canada, Inc.* (2008) the Federal Circuit granted TS Tech’s writ of mandamus to overturn the decision by Judge Ward of the Eastern District of Texas, denying TS Tech’s motion for a change of venue under 28 U.S.C. §1404(a). Using Fifth Circuit law, the Federal Circuit concluded that Judge Ward’s decision to deny TS Tech’s transfer motion to the Southern District of Ohio was a clear abuse of discretion.



Graphic from U.S. Marshals Service website, <http://www.usmarshals.gov/district/tx-e/index.html>

The District Court found that TS Tech had failed to demonstrate that the inconvenience of the parties and witnesses clearly outweighed the deference entitled to plaintiff Lear’s choice of venue, despite the fact that none of the parties were incorporated in Texas or had an office in the Eastern District of Texas, that the majority of the evidence was located in Ohio, and the key witnesses lived in Ohio, Michigan and Canada.

Under Fifth Circuit law, determining *forum non conveniens* in a venue transfer under Section 1404(a) requires consideration of both “private” and “public” factors. The “private” factors include: (1) the relative ease of access to sources of proof; (2) the availability of compulsory process to secure the attendance of witnesses; (3) the cost of attendance for willing witnesses; and (4) all other practical problems that make a trial easy, expeditious and inexpensive. The “public” factors include: (1) the administrative difficulties flowing from court congestion; (2) the public’s interest in having localized disputes decided at home; (3) familiarity of the forum with the law that will govern the case and (4) avoidance of unnecessary problems of conflicts of laws or in the application of foreign law. The Federal Circuit identified four key errors made by the District Court in analyzing these factors.

First, the District Court gave undue deference to Lear’s choice of the Eastern District of Texas. While choice of venue is properly considered, it

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## *Accumed LLC v. Stryker:*

### Application of Pre-*eBay* and Post-*eBay* Standards Yields the Same Result

In *eBay*, the Supreme Court found that the traditional factors in determining the appropriateness of an injunction are to be applied in patent cases. In a concurring opinion, Chief Justice Roberts indicated that the application of those factors would likely not change the general outcome in future patent cases: imposition of a permanent injunction.

The recent Federal Circuit opinion in *Accumed LLC v. Stryker Corporation*, Case No. 04-CV-513, U.S. Ct. App., (Dec. 30, 2008) is an example of the fulfillment of that prediction. In 2006, an Oregon District Court, in a pre-*eBay* decision, awarded plaintiff Acumed a permanent injunction on the basis of the application of the general rule in patent cases that an injunction will issue, once infringement and validity have been adjudged.

While defendant Stryker's appeal to the Federal Circuit was pending, the Supreme Court decided *eBay*. Accordingly, the Federal Circuit, after affirming the lower court's finding of willful infringement, vacated that court's imposition of an injunction and remanded the case for reconsideration of the four-factor test.

On remand in 2007, the Oregon court applied the four traditional factors set forth in *eBay*:

1. Irreparable Harm;
2. Lack of Adequate Remedy at Law;
3. Balance of Hardships; and
4. Public Interest.

Some interesting points arise out of the District Court's decision to impose an injunction and the Federal Circuit's affirmance:

- The District Court reviewed Irreparable Harm and Lack of Adequate Remedy at Law as essentially a single factor.

- Defendant Stryker asserted that the District Court did not properly consider previous licenses of plaintiff Acumed's patent on orthopedic nails and thus argued there could be no "irreparable harm."

The Federal Circuit found that the fact that a patentee has previously chosen to license the patent is but *one* factor for the district court to consider. "The fact of the grant of previous licenses, the identity of the past licensees, the experience in the market since the licenses were granted, and the identity of the new infringer all may affect the district court's decision concerning whether a reasonable royalty is adequate to compensate for future infringement." The Court noted that Acumed was a relatively small company compared to Stryker, thus Stryker's continued sales of the infringing product would have a great effect upon Acumed, and concluded that adding a new competitor to the market may create an irreparable harm that the prior licensees did not.

- On the balance of hardships factor, the Federal Circuit emphasized that the balancing is as between the two parties and not between "customers and patentee" as alleged by Stryker. That Stryker's customers preferred its infringing products was of no moment in consideration of this factor.

- The Court also had no sympathy for Stryker's investment in the infringing product as a factor in the balancing test. "One who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against continuing infringement destroys the business so elected."

- The Federal Circuit affirmed the District Court's finding that there was no public interest in not applying an injunction. The Federal Circuit based that holding upon the lower court's finding that Acumed had made a *prima facie* showing that "their screw works."

In this case, which the Federal Circuit described as "close," it noted that the standard of review (abuse of discretion) required affirmance.

by Art. C. Cody, Associate

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should only be considered when addressing the burden that a moving party must meet in order to demonstrate that the transferee venue is clearly more convenient, and not as a separate factor in and of itself, as the District Court treated it.

Second, the District Court failed to take into account the Fifth Circuit's "100-mile" rule. Under the "100-mile" rule when the distance between an existing venue and a proposed venue under § 1404(a) motion is more than 100 miles, the factor of inconvenience to witnesses increases in direct relationship to the additional distance to travel. In this case, the witnesses lived in Ohio, Michigan and Canada and the distance from Ohio to Texas was 900 miles. This additional 900 miles of travel thus weighs heavily in favor of transfer to the more convenient Ohio venue.

Third, the District Court essentially read out the factor regarding relative ease of access to sources of proof. The District Court acknowledged that the majority of physical and documentary evidence would be located in Ohio, Michigan and Canada, but concluded that this factor was neutral in light of the ease with which electronic documents can be transported and stored. This is directly contrary to Fifth Circuit law, holding that "that access to some sources of proof presents a lesser in convenience now than it might have absent recent developments does not render this factor superfluous." See *In Re Volkswagen of Am. Inc.*, 545 F. 3d 304, 316 (5<sup>th</sup> Cir. 2008) (*en banc*).

Finally, the Federal Circuit concluded that the District Court failed to properly analyze the public's interest in having localized disputes decided at home. In the case at hand, there was no connection between the actions giving rise to the case and the Eastern District of Texas other than the fact that some vehicles including the accused headrest, sold nationwide, had also been sold in that venue.

This alone is insufficient to establish a local interest. Because vehicles including the allegedly infringing headrest assemblies were sold throughout the United States, the Eastern District of Texas have no more or less meaningful connection to the case than those of any other venue. Accordingly, it would be improper to weight this factor in favor of maintaining venue.

In light of these errors, the Federal Circuit concluded that the District Court clearly abused its discretion and granted TS Tech request for the writ.

While the facts of this case are a bit unique in that there was no indication that defendant was directly selling the accused products into the Eastern District of Texas, many of the factors relied on by the Federal Circuit are likely to weigh in favor of defendants in most cases. In particular, it is very likely that the "100-mile" rule will weigh heavily in defendant's favor in many situations. Further, the Federal Circuit clearly marginalized the effect that plaintiff's choice of venue should have on the venue analysis, which will also favor defendants.

by Keith J. Barkaus, Associate

## CAFC Refines Scope of Liability

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Footnotes

<sup>1</sup> The panel consisted of Judges Dyk and Judge Linn, with Judge Gajarsa dissenting-in-part. The majority opinion does not list an author. This is unusual for such a lengthy, precedential opinion.

<sup>2</sup> In *Sony*, the Court held that a VCR manufacturer could not be held liable for contributory infringement for selling products that consumers used to record copyrighted works. In contrast, *Grokster* found manufactures of peer-to-peer file sharing software responsible for contributory infringement through its use in distributing and obtaining copyrighted music.

<sup>3</sup> Provided that said component is not a staple article of commerce suitable for substantial noninfringing use. 2008 U.S. App. LEXIS 25850 at \*31.

<sup>4</sup> Judge Gajarsa, writing in dissent, warned that now "resellers [will] come within the majority's reading of § 271(c) even though their only activity is to sell an unpatented optical disc drive (or even an entire computer system) that has multiple functions, only one of which is alleged to practice [the] claimed methods." 2008 U.S. App. LEXIS 25850 at \*60.

## CAFC Refines Scope of Liability under 35 U.S.C. §§ 271(a), (b), and (c)

On December 23, 2008, the Court of Appeals for the Federal Circuit revised the scope of liability for direct and indirect patent infringement pursuant to 35 U.S.C. 271(a)-(c). See *Ricoh Co., Ltd. v. Quanta Computer Inc.*, 2008 U.S. App. LEXIS 25850 (Fed. Cir. Dec. 23, 2008). The Federal Circuit decision should influence future enforcement of method patents, especially under theories of direct, contributory, and inducement of patent infringement.

### Background

The patentee, Ricoh Co., Ltd., sued original equipment manufacturers (“OEM”) and one of their customers for patent infringement. The four patents-in-suit, three method patents and one patent with apparatus and method claims, are directed to various aspects of optical disc drive technology. The OEM, Quanta, is a large manufacturer of notebook computers, but does not sell notebooks directly to consumers. Quanta also has ownership interests in related co-defendants that (1) repair notebook computers for branded computer companies and (2) manufacture optical disc drives for U.S. customers, including co-defendant NU Technologies, who in turn sells them to U.S. consumers. All of these entities are hereinafter collectively identified as “Quanta”.

Ricoh accused Quanta and NU of directly and indirectly infringing each of the patents in suit. On summary judgment, the District Court ruled that (1) the asserted claims one patent are obvious over Ricoh’s European patents on the same technology; (2) the asserted claims of another patent are not infringed; and (3) issues of material fact exist as to whether the accused devices perform the methods of the asserted claims of the remaining two patents. 579 F. Supp. 2d at 1116, 1118, 1121, 1122.

The District Court further ruled, of the two patents held over for trial, (a) Quanta does not directly infringe under § 271(a) because it neither

sells nor offers to sell the patented methods; (b) NU does not directly infringe under § 271(a) because Ricoh presented no evidence to show either that NU tested the accused devices or that the tests it did undertake were conducted in a manner practicing the asserted claims of these patents; (c) neither Quanta nor NU contributory infringe under § 271(c), because all of the devices sold have substantial non-infringing uses; and (d) individually QSI does not actively induce infringement under § 271(b) because Ricoh failed to adduce evidence of Quanta’s intent to induce infringement. *Id.* at 1123-26. The District Court dismissed all of Ricoh’s claims against Quanta and NU, and entered a final judgment. Ricoh appealed.

### Analysis

In a per curiam opinion,<sup>1</sup> the Federal Circuit affirmed summary judgment in favor of Quanta and NU relating to the first two issues, but vacated the district court’s decision as to the third due to application of “erroneous legal standards.” 2008 U.S. App. LEXIS 25850 at \*2.

### Direct Infringement under § 271(a)

Citing prior Federal Circuit precedent, the District Court initially ruled that Ricoh could not meet its burden of proof under § 271(a), because the patent claims asserted disclose methods for practicing the invention rather than an actual device. To prove direct infringement, the District Court reasoned that Ricoh needed to show more than a sale or offer to sell of an accused device that practiced the claims methods. 579 F. Supp. 2d at 1123. Declining an invitation by Ricoh to hold that a party may directly infringe a method claim under 35 U.S.C. § 271(a) by offering to include patented methods in software sold as part of the accused devices, the Federal Circuit instead upheld the District Court’s judgment of non-infringement.

The Federal Circuit reasoned that software is not itself a “process” but rather a set of instructions that directs hardware to perform a

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process. 2008 U.S. App. LEXIS 25850 at \*23-27. The panel thereafter confirmed that it is the actual carrying out of the instructions that confers liability under § 271(a) and (with this understanding of “process” in mind) went on hold that a party that sells or offers to sell software containing instructions to perform a patented method does not infringe under § 271(a). The panel, however, declined to decide whether the sale of a process may ever give rise to liability under § 271(a).

### Inducement of Infringement under § 271(b)

The District Court initially ruled that Ricoh failed to introduce evidence sufficient to create a material issue of fact on its § 271(b) claims as to Quanta’s intent that its drives be used to infringe the method claims of two of the patents-in-suit. The District Court found that the law compelled Ricoh to identify affirmative acts by Quanta communicated in some fashion to the alleged direct infringers. 579 F. Supp. 2d at 1125. The court relied on the proposition that the “sale of lawful product by lawful means, with the knowledge that an unaffiliated, third party may infringe, cannot, in and of itself, constitute inducement of infringement.” *Id.* at 1122 (quoting *Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1276 n.6 (Fed. Cir. 2004)).

The Federal Circuit concluded that the District Court’s legal reasoning was an “incorrect application of the law of active inducement” exacerbated by the discounting of direct and circumstantial evidence of Quanta’s intent adduced by Ricoh. Ricoh’s evidence of Quanta’s active encouragement of infringement included Quanta’s product specification sheets, a presentation that Quanta gave to a large laptop retailer, instructions on Quanta’s website, and other assorted points relating to practice of the patented methods.

The panel went on to articulate the legal principles under which active inducement is to be evaluated, first

distinguishing the lawful sale of a commercial product suitable for some non-infringing use from the unlawful advertising of an infringing use/instruction on how to infringe. The former act infers lawful commerce of non-infringing articles, the latter acts do not. 2008 U.S. App. LEXIS 25850 at \*45. It further confirmed § 271(b) requires proof that the inducer has an affirmative intent to cause direct infringement and that proving said intent does not require successful communication of encouragement between direct and indirect infringers. The attempted communication alone by an indirect infringer is sufficient to show intent. *Id.* at \*45-46.

### Contributory Infringement under § 271(c)

The District Court held that even though Quanta’s drives might be capable of being used to infringe Ricoh’s patented processes, there was no liability for contributory infringement because the drives were also capable of “substantial non-infringing use” within the meaning of § 271(c). 579 F. Supp. 2d at 1123-24. The District Court reached this conclusion even though Quanta’s drives use separate hardware and embedded software modules to perform the patented processes whereby those components had no non-infringing use.

The Federal Circuit accepted Ricoh’s assertion that the drives at issue contain at least some separate and distinct components that are only used to perform the allegedly infringing methods. It thereafter addressed the previously unresolved question concerning the scope of liability for contributory infringement and construction of § 271(c) – as informed by the Supreme Court’s decisions in *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984), and *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 125 S. Ct. 2764, 162 L. Ed. 2d 781 (2005).<sup>2</sup>

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Citing the language of § 271(c) as conferring liability for contributory infringement to the sale of component designed for use in a patented invention,<sup>3</sup> the panel opined that it thus follows that Quanta should not be permitted to escape liability as a contributory infringer merely by embedding such a component in a larger product with some additional, separable feature before importing and selling it. 2008 U.S. App. LEXIS 25850 at \*32. Otherwise, the panel reasoned, “then so long as the resulting product, as a whole, has a substantial non-infringing use based solely on the additional feature, no contributory liability would exist despite the presence of a component that, if sold alone, plainly would incur liability.” *Id.* at \*32-33. The panel also explained that the potential for induced infringement liability in these situations is not a practical substitute for contributory infringement liability, as unlike contributory infringement, induced infringement liability under § 271(b) requires proof that the inducer has an affirmative intent to cause direct infringement. No such specific intent is required for § 271(c) liability.

The Federal Circuit thereafter held that § 271(c) liability may appropriately be found when products containing hardware or software components that have no substantial non-infringing use other than to practice claimed methods are made, used, sold, offered for sale, or imported into the U.S.<sup>4</sup> To hold otherwise, it concluded, would make evasion of § 271(c) “rather easy.” *Id.*

### **Practical Application**

With regard to § 271(a), businesses seeking to enforce or escape method claims should carefully analyze the amount of software directed to allegedly infringing use. Businesses can now definitely sell software containing instructions to

perform a patented method without fear of direct infringement liability. However, liability still remains for combining said software with an article that actually carries out the listed instructions.

With regard to § 271(b), a lack of direct communication with the direct infringer can no longer be considered a viable defense to a charge of indirect infringement, at least not by itself. Businesses need to be aware that failure to remove an infringing feature from a distributed product may now be very relevant to proving an inducer’s intent that those features be used for direct infringement. Also, proof of an inducer’s knowledge of the patent and control over the design or manufacturing of the product can also be relevant to proving intent to induce infringement as knowledge that infringing components were separable from non-infringing components can infer intent to induce.

With regard to § 271(c), the law still requires a patentee to prove more than just the sale of a product. It also requires that the accused infringer had knowledge that a component of that product was “especially made or especially adapted” for use in an infringement. The burden of proof is still on the patentee to show that the accused had said knowledge. However, once a patentee establishes the existence of such a component in an accused product, the burden will shift to the accused to *disprove* that it had the requisite knowledge. Thus, even though the Federal Circuit panel split on this point, businesses must now presume that selling a product containing components with no substantial non-infringing uses do so with the presumed intent that said components will be used to infringe and subject the seller to § 271(c) liability.

by Cameron S. Reuber, Associate

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