

**Finding A Common Language With Clients In Patent Litigation:  
Discussion Points For Foreign Clients and their U.S.-Based Counsel**

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In Creating a Working Relationship with A Foreign Company*

Laura Beth Miller  
Shareholder  
Brinks Hofer Gilson & Lione  
455 North Cityfront Plaza  
Suite 3600  
Chicago, IL 60611  
312-321-4715 (office)  
312-622-3480 (cell)  
312-321-4299 (fax)  
[lmiller@usebrinks.com](mailto:lmiller@usebrinks.com)

Ben Sley  
Associate General Counsel, U.S.  
U.S. Patent Attorney  
Foxconn Electronics, Inc.  
100 S. 38th St.  
Harrisburg, PA 17111  
(717) 558-7518 x103 - office  
(717) 558-9306 - fax  
(408) 636-3438 - cell  
[ben.sley@foxconn.com](mailto:ben.sley@foxconn.com)

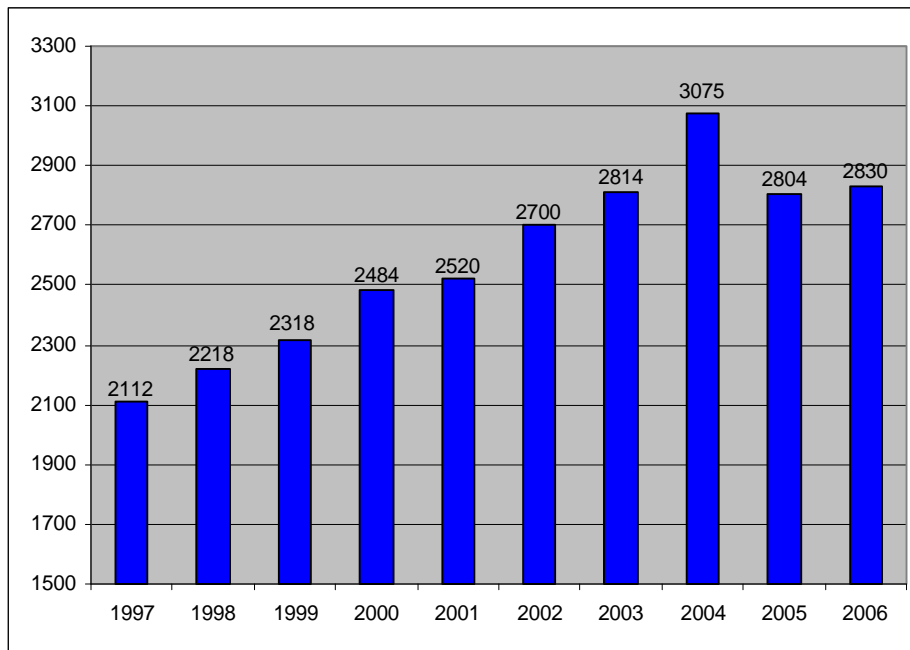
# Finding A Common Language With Clients In Patent Litigation: Discussion Points For Foreign Clients and their U.S.-Based Counsel

## Introduction

It should come as no surprise that the United States is a “destination spot” for foreign businesses and foreign made goods. For example, the United States is China’s largest export market, with over 60% of China’s export products destined for the United States. And, it is not just foreign-made goods that find their way into the U.S. economy. In 2006, the U.S. received \$183.6 billion in foreign direct investments. (Bureau of Economic Analysis of the U.S. Department of Commerce, March 14, 2007).<sup>1</sup>

As the number of foreign companies doing business in the United States increases, so should the number of foreign businesses involved in U.S. litigation, including patent litigation. Also contributing to the number of foreign companies involved in U.S. patent litigation is the fact that the number of federal lawsuits involving patent claims has risen over the last ten years, even while federal civil litigation has remained relatively steady. According to statistics maintained by the Administrative Office of the U.S. Courts, patent litigation in federal district courts has generally increased over the last ten years, as shown in the graph below.

**District Court Filings Involving Patent Claims**



<sup>1</sup> The United States defines foreign direct investment as the ownership or control, directly or indirectly, by one foreign person (individual, branch, partnership, association, government, etc.) of 10% or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise. 15 CFR § 806.15 (a)(1).

(Source: Admin. Office of U.S. Courts annual reports; for 2007: Lexis CourtLink)

Similarly, the number of Section 337 investigations initiated by the U.S. International Trade Commission (the “ITC”) has generally increased over the last ten years as well (note: most 337 investigations involve allegations of patent infringement).

**Number of 337 Investigations Initiated by Fiscal Year (October – September)**

<b>Year</b>	2000	2001	2002	2003	2004	2005	2006	2007
<b>Number</b>	11	29	15	19	27	25	34	31

(Source: J. Whieldon, *Section 337 Caseload Analysis and Projection*, presented at the ITCTLA Annual Meeting, November 27, 2007)

In contrast, civil litigation has held relatively steady over the past several years.

**Number of Civil Cases Initiated in Federal District Court**

<b>Year</b>	<b>Number</b>
1997	272,027
1998	256,787
1999	260,271
2000	259,517
2001	250,907
2002	274,841
2003	252,952
2004	281,338
2005	253,273
2006	259,541

(Source: Admin. Office of U.S. Courts annual reports; for 2007: Lexis CourtLink)

While businesses cannot always predict when the next lawsuit will hit, most can take steps in advance to minimize the risks if they are sued. In general, these steps are based on either U.S. procedural or substantive law, or both. For U.S. corporations, typical steps for minimizing exposure in patent litigation may include:

- Understanding the efforts that went into product development
- Confirming the company’s ownership of developed products
- Obtaining right to use opinions prior to product launch
- Implementing and enforcing a program to maintain a company’s trade secrets
- Recognizing and protecting the privileged nature of attorney communication
- Implementing and enforcing a company’s document destruction program

For foreign corporations, learning of these risk reduction steps once they have been sued is a bit like “closing the barn door after the horse is out.” However, even more than the “too little, too late” nature of the information, some of these steps may be at odds with good business practices in their home country.<sup>2</sup>

Two areas that can be particularly troublesome are the areas of attorney-client privilege and scope of discovery (*see discussion infra for details*). The expectations of a foreign corporation in these areas are likely to be driven by its home country’s rules, and the rules concerning these issues vary by country. In addition, most legal systems in the world are code-based (either exclusively or mixed with common law or religious law), rather than common law based as in the United States. This fact also contributes to differences between a foreign corporation’s expectations of the legal process and the reality of the U.S. legal system. A third factor, which should not be discounted, is the rumor-mill associated with common law systems, particularly the U.S. legal system, where judges and juries are portrayed in the media, including the legal press, as unpredictable.

Developing and maintaining a good working relationship with any client requires addressing the client’s expectations. For lawyers working with foreign corporations recognizing those expectations ***and the reasons for them*** is particularly important. Lawyers often spend time researching the industry and particular business of new or potential clients. When developing a relationship with a foreign corporation, lawyers should expand this background research to include information about the legal system and culture of the client’s home country. This knowledge may help to draw more meaningful analogies and distinctions between U.S. procedures and the procedures in the client’s home country.<sup>3</sup> Until the client’s expectation of the U.S. litigation process matches the reality of its particular case, the client may perceive the U.S. legal system as unfair and unpredictable, making it more difficult for the client to develop reasoned business judgments.

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<sup>2</sup> While beyond the scope of this paper, U.S. corporations, when engaging in overseas operations, should consider how variations in the procedural and substantive rules of the foreign jurisdiction impact both U.S. and foreign operations. This is not just a theoretical concern for U.S. businesses. The Commerce Ministry of China reported that over \$61.67 billion of foreign capital was invested in China during the first eleven months of 2007. According to the World Trade Center of St. Louis, Mo, U.S. exports to China totaled approximately \$52.5 million from January through October 2007.

<sup>3</sup> Lawyers also should be sensitive to cultural differences. For example, raising opposing views in a group discussion or “talking through an issue” may be commonplace in American businesses, but it is not a universal practice. Do not confuse a client’s silence with agreement. Likewise, don’t be surprised if a client fails to correct a factual assumption underlying your analysis, particularly if you are presenting the analysis in a group setting. They may be holding back because of language barriers or cultural ones that teach deference to the leader or “teacher” in a group setting. It is important for clients to understand and appreciate the need for them to speak up if the facts are wrong or if they do not understand the facts as you are presenting them. It is up to you to instill a sense of collaboration with your clients.

## **Explaining the Mechanics of Patent Litigation**

Nearly every country in the world offers inventors patent rights for their inventions. However, the scope and enforcement of those rights vary by country, even among member countries to various treaties such as the Paris Convention, the Patent Cooperation Treaty (PCT), and the WTO's Trade Related Aspects of IP (TRIPs). The following are a few of the many questions you are likely to hear from any client that has been sued for patent infringement in the United States. However, for foreign clients, the anticipated answers may be different based on the laws in their home country.<sup>4</sup>

***Question: "Why us? Our company didn't even know about this patent."***

***Requirements of Prior Notice.*** Patent infringement is a strict liability tort in the United States. Prior knowledge of the patent, at least for direct infringement, is not an element. In other countries, there may be an expectation that the patentee will bring the alleged infringement to the attention of the accused infringer before initiating an infringement action. For example, the Patent Law of China provides that

Where a dispute arises as a result of the exploitation of a patent without the authorization of the patentee, that is, the infringement of the patent right of the patentee, it shall be settled through consultation by the parties. Where the parties are not willing to consult with each other or where the consultation fails, the patentee or any interested party may institute legal proceedings in the people's court, or request the administrative authority for patent affairs to handle the matter.

(Patent Law of the People's Republic of China, Chapter VII, Art. 57, SIPO Official Translation). Although prior notice is not mandated by this provision of the law, it is encouraged, particularly when the patentee seeks SIPO's assistance in resolving the infringement dispute. Therefore, foreign corporations may be surprised to learn of the alleged infringement only after the litigation was commenced.

***Question: "How can we be sued in YOU NAME THE FORUM."***

***Personal Jurisdiction and Venue.*** In determining whether a federal district court has personal jurisdiction over a foreign corporation, the judge will determine whether the defendant has established sufficient minimum contacts with the forum (e.g., was it foreseeable that products entering the stream of commerce would end up in the forum?). In patent infringement cases, foreign corporations with products destined for the United States market often find themselves subject to personal jurisdiction in any district court the plaintiff selects.

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<sup>4</sup> While this paper highlights some of the differences between Chinese and U.S. patent law to illustrate various points, differences in these topic areas also may be reflected in the laws of several countries and the United States.

If a foreign corporation is subject to the personal jurisdiction of the district court, the venue provision governing patent cases (28 U.S.C. § 1400(b)) will not effect a change in the selected forum. The Supreme Court has held that 28 U.S.C. § 1391 (d), which permits an alien to be sued in any district, is not superseded by any special venue provisions such as section 1400(b). *See Brunette Machine Works, Ltd. v. Kockum Indus., Inc.*, 406 U.S. 706 (1972).

Yet, even if applicable, section 1400(b) does not narrow the results in the case of corporate defendants. Under 28 U.S.C. § 1391(c), **a corporation** is deemed to reside in any judicial district in which it is subject to personal jurisdiction. The Federal Circuit has held that this definition of “resides” applies to the patent venue provision, making venue co-extensive with personal jurisdiction for corporate defendants. *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990). The same result is not true, however, for non-corporate defendants. For example, in *L & H Concepts LLC v. Schmidt*, 2007 WL 4165259 (E.D.Tex. Nov 20, 2007), the court dismissed a plaintiff’s patent infringement complaint for lack of proper venue because the plaintiff had not established that the individually named defendants were residing in the district. The plaintiff was given leave to replead to establish proper venue.

Given this result, is there anything a foreign corporation can do to direct litigation to a particular venue? A foreign corporation, like any domestic corporation, can rely upon the change of venue provision found at 28 U.S.C. § 1404. Even jurisdictions that traditionally give a patentee’s choice of forum due consideration will transfer patent infringement cases under the appropriate conditions. *See, e.g., LG Elec. v. Hitachi, Ltd.*, 9:07cv138 (E.D. Tex. Dec. 3, 2007) (J. Clark, presiding) (transferring case to N.D. Cal., where the patents-in-suit were already the subject of extensive litigation). Also, if a foreign corporation anticipates that litigation is likely, it should consider whether the facts warrant instituting a declaratory judgment action under 28 U.S.C. § 2201. The U.S. Supreme Court’s decision in *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2006) and subsequent Federal Circuit cases such as *Teva Pharms. USA, Inc. v. Novartis Pharms. Corp.*, 482 F.3d 1330 (Fed. Cir. 2007) and *Sandisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1385 (Fed. Cir. 2007), have brought declaratory relief in patent cases more in line with other areas of U.S. law, making it easier for accused infringers, including licensees and potential licensees, to obtain legal redress without waiting to be sued by the patentee.

***A Note About ITC Jurisdiction:*** Unlike district courts, which must have personal jurisdiction over the parties in a patent infringement action, an ITC proceeding is more akin to an *in rem* action against the imported article. The ITC’s jurisdiction is nationwide and based on subject matter, in that the ITC has jurisdiction over charges of unfair acts of importation into the United States, regardless of the residency or citizenship of the named respondents. As such, as long as notice and due process is accorded the parties in interest, the ITC does not need to have personal jurisdiction over a foreign manufacturer in order to issue an effective remedy. For example, in *Sealed Air Corp. v. U.S. Int’l Trade Comm.*, the court confirmed that the ITC had the authority to issue an order excluding from importation:

products sold by a domestic owner/importer/consignee, under its subject matter jurisdiction, whether or not it named the foreign manufacturer as a respondent or gave notice to that foreign manufacturer.

645 F.2d 976, 986-87 (CCPA 1981) (assuming adequate notice and due process procedures were followed); *see also, In re Certain Cloisonne Jewelry*, 337-TA-195 (1985) (distinguishing between notice sufficient to support due process in an *in rem* action from that sufficient to assert personal jurisdiction); *see also In re Certain Steel Rod Treating Apparatus*, 337-TA-97, 215 USPQ (BNA) 229 (U.S. Int'l Trade Commission 1981) (affirming the ALJ's refusal to dismiss named respondents on the ground that the lack of *in personam* jurisdiction is not a basis for dismissal). Through its jurisdiction and remedial powers, the ITC also has the ability to issue cease and desist orders to remedy unfair trade practices under section 337(f), even in the absence of personal jurisdiction over the named respondents. *See In re Certain Steel and Tube*, ITC Inv. No. 337-TA-29.

Given the jurisdictional scope and remedial authority of the ITC to exclude importation of articles found to violate section 337 of the Trade Act, an ITC action may be particularly advantageous to patentees seeking to exclude infringing imports where personal jurisdiction over the importer or foreign manufacturer is questionable. In fact, it is not unusual for patentees to seek relief for alleged patent infringement in both district court and the ITC.

**Question: “Why are we named in this lawsuit; we’re not practicing the invention in the United States!”**

**The Extra-territorial Reach of U.S. Patent Laws.** Assuming that long-arm jurisdiction extends to the foreign corporation, a client likely will still question the reach of the U.S. patent law, where the client’s activities occur outside the United States. Prior to the enactment of 35 U.S.C. § 271(g), a patentee had no recourse against an imported product manufactured using a process covered by a U.S. patent, unless the product (or its use) was covered by a U.S. patent. This result was perceived as unfair to both the U.S. patent holder and to domestic manufacturers who could not use the patented process without permission of the patentee. The enactment of section 271(g) remedied this perceived unfairness and brought U.S. patent law in line with the laws of certain other countries.<sup>5</sup> Thus, while foreign-based operations may not serve as a basis for infringement under 35 U.S.C. § 271(a), the activities may still subject the foreign company to infringement charges under 35 U.S.C. § 271(g). *See, e.g., CNET Networks Inc. v. Etilize Inc., 3:06cv05378* (N.D. Cal. 2007). Section 271(g) is not, however, without limits. A product made by a patented process that (a) is materially changed by subsequent processes or (b) becomes a trivial or nonessential component of another product, is not considered infringing under section 271(g).<sup>6</sup>

Congress, while enacting section 271(g), also enacted section 295 of the Patent Act. Section 295 shifts the burden of proof (if certain conditions are met) to the accused infringer to establish that the product **was not made** using patented process. This burden-shifting provision should be discussed with any defendant, but particularly foreign corporations that may hope to avoid disclosure of manufacturing processes by relying upon laws in their home country that prevent or deter discovery. One of the conditions that will trigger this shift in the burden of proof is the patentee’s inability to determine the process actually used in the production of the product.

**Question: “How long will this litigation take?”**

**The Phases of Litigation.** In patent litigation, like other federal civil litigation, the district court judge sets a case management schedule that controls the timing and events leading to trial or final resolution of the case. Nevertheless, all patent cases

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<sup>5</sup> Interestingly, 35 U.S.C. § 271(g) covers both imported and domestic products made using a patented process. Therefore, a defendant allegedly practicing a patented process within the United States that produces a commercial product may be sued for infringement under both 35 U.S.C. § 271(a) and 271(g), making it potentially vulnerable to the burden shifting provisions of section 295 (discussed *infra*).

<sup>6</sup> The law governing section 337 actions before the U.S. International Trade Commission can be found at 19 U.S.C. § 1337. That statute defines unlawful activities in the import trade to include importation of articles “made, produced, processed, or mined under, or by means of a process covered by the claims of a valid and enforceable United States Patent.” 19 U.S.C. § 1337(a)(1)(B)(ii). Unlike 35 U.S.C. § 271(g), section 1337 does not expressly exclude products that have been materially changed by subsequent processes or which become only a trivial or nonessential component of another product, although at least one Administrative Law Judge has construed this section of the Trade Act as not applying to imported products that have been materially altered by subsequent processes prior to importation.

progress to trial in a similar manner, beginning most often with at least some written discovery and exchange of documents. A number of jurisdictions have adopted uniform patent rules that direct the pretrial discovery events and timing, including early disclosure of infringement and invalidity contentions. In these jurisdictions, as well as others where directed by the case management schedule, the court holds a claim construction hearing and issues an order construing disputed claim terms (referred to as *Markman* hearings and rulings) in advance of the trial and generally before discovery closes. Given that the ultimate issue of infringement or invalidity often hinges on claim construction, claim construction rulings can have a dispositive effect on the case. In part this may explain why so few patent cases proceed to trial on the merits, as evidenced in the chart below. Another reason for the relatively few patent trials each year is the district court's use of summary judgment to dispose of patent infringement cases.

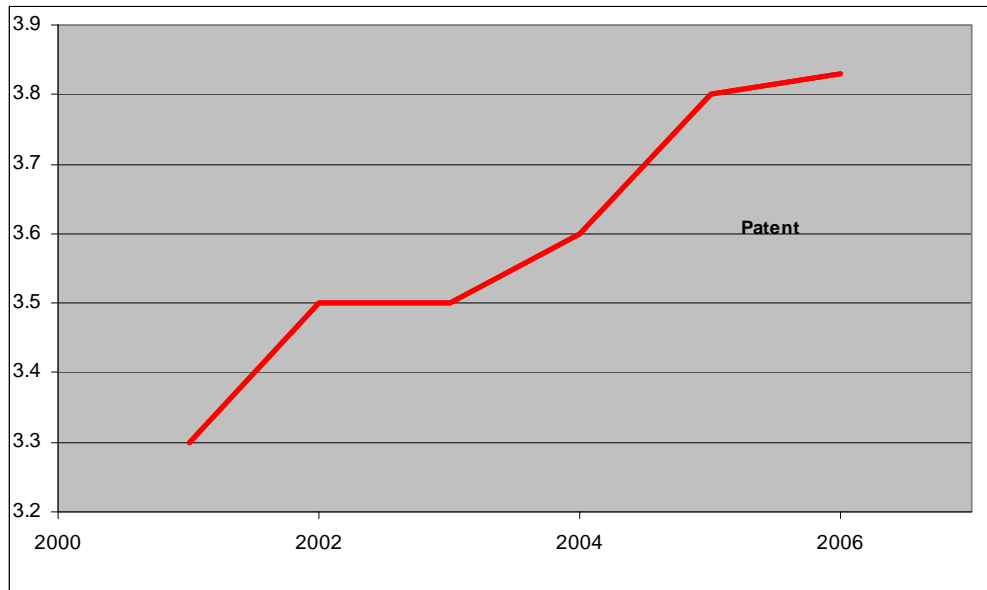
**Patent Trials In Federal District Court: 2001-2006**

<b>Trial Type</b>	<b>Year 2001</b>	<b>Year 2002</b>	<b>Year 2003</b>	<b>Year 2004</b>	<b>Year 2005</b>	<b>Year 2006</b>	<b>Total</b>
Jury	55	61	57	71	76	71	391
Bench	28	25	26	27	31	35	172

(Source: Federal Judiciary Center).

While the percentage of patent cases proceeding to trial has increased slightly in the last few years, the percentage remains less than four percent.

**Percentage of Patent Cases Proceeding To Trial**



(Source: Federal Judiciary Center)

Still, the speed with which a patent case progresses to final resolution varies widely among the district courts. On average, patent cases take two or more years to resolve. However, certain jurisdictions (referred to as “rocket dockets”) are known for the speed in which cases proceed to trial. For example, the average patent case in the Eastern District of Virginia proceeds to trial in 9.2 months, in the Western District of Wisconsin in 10.5 months, and the Eastern District of Texas in 18 months.

Yet, the speed of these rocket dockets tends to pale in comparison to the speed of ITC proceedings. Most investigations have a target date for final resolution of 15 months from the date the investigation is instituted. In order to meet this deadline, the Administrative Law Judge will generally hold a hearing on the merits within 9 months of institution. This provides the ALJ with sufficient time to issue an Initial Determination and Recommendation on Remedy to the Commission, which is charged with issuing the Final Determination and Order. The chart below compares the timing of a “typical” ITC proceeding with the timing of a “typical” patent infringement action in district court.

**Timing Comparison of ITC Activities to District Court Activities**

Case Activity	ITC	District Court
Start of Discovery	30 days	120 days
Time to Trial/Hearing	6-9 months	24-28 months
Time to Decision	9-12 months	24-28 months
Final Decision/Post Trial Remedies	12-15 months	28-30 months
Likelihood of proceeding to trial/hearing	60% for ITC patent cases	Less than 4% in district court

It also is worth noting that ITC investigations proceed to hearing at a much higher rate than district court cases proceed to trial. This difference may be attributed to the type of relief sought by the patentee, the lack of Markman rulings issued by the ALJ in advance of a hearing, the disinclination of ALJs to grant summary judgment of infringement in ITC proceedings, or simply the speed with which a hearing can be obtained in the ITC.

**Question: “How much will it cost?”**

**The Cost of Litigation.** Most foreign corporations are not accustomed to the cost of U.S. litigation. Patent litigation can be particularly expensive given the far reaching nature of the discovery that can be sought. Discussing costs in terms of the phases of

litigation puts the costs in perspective and provides the client with more information on which to plan a budget. Trial budgets should identify not only the attorneys/other professionals working on the case and their billing rates, but also the activities and timing of events in which the attorneys will be engaged. An activity-based budget that estimates the scope of activities, their timing and the associated costs may be more helpful than an overall bottom line estimate. Also, it is important to identify the “hidden” costs of litigation to a client, including the costs of vendor services and experts. With the increasing emphasis on electronic discovery, more and more cases require the use of third party vendors to capture, store and decipher electronic information. In the case of foreign companies, another “hidden” cost may well be the cost of translation services, even when the foreign corporation retains attorneys and other professionals and paralegals who speak or read the native language of the client.

Clients also should be aware of the common reliance on multiple experts and consultants in patent litigation and the fact that these experts can add significantly to the costs of the case. In some countries, reliance on expert testimony, particularly experts selected by the parties instead of the court, is not customary. Therefore, explaining the role and benefits and costs of experts is important.

*A Note About The Use of Experts in ITC Proceedings:* Compared to district court complaints, which are based on notice pleading, ITC complaints are fact-based and must include significant technical and financial details, for which an expert’s assistance and declarations may be required. For example, the typical ITC complaint of patent infringement will include a chart identifying the allegedly infringing imported article and comparing that accused article to one or more claims of the asserted patent. Because a complainant (generally the patentee) in an ITC proceeding also must show that it or its designees are making use of the asserted patent in the United States (to demonstrate that it can satisfy the “technical prong” of the domestic industry requirement under section 337), another chart (or comparable evidence) showing that the complainant’s product is practicing a claim of the asserted patent should be included with the complaint. This type of evidence is often obtained through use of experts or consultants, adding to the upfront costs of such a proceeding. While it is not uncommon to consult with technical experts in advance of filing a district court litigation, the level of involvement and amount of time invested in the pre-filing analysis tends to be higher for experts involved in ITC proceedings. The fact that the complainant’s product is also “at issue” in an ITC proceeding adds to the cost. In contrast, even if these costs are incurred in a district court proceeding, they tend to be spread over the course of the case and are not as great an upfront cost.

The technical proofs required in an ITC proceeding are not the only distinguishing feature of an ITC proceeding. Complainants also are required to demonstrate that they can satisfy the economic prong of the domestic industry requirement. This may require the assistance of a financial expert early in the case. Moreover, financial or economic experts, even if not required at the outset of an ITC proceeding, are generally retained to assist in review of the financial information relating to the respondents’ import activities, even though monetary damages are not recoverable in an ITC proceeding. Therefore, the

parties to an ITC proceeding, just like parties to a district court proceeding, should anticipate the need for financial experts or consultants in addition to technical experts.

**Question:** “What’s the risk if we lose?”

**Remedies Available for Patent Infringement.** In district court, if a patent owner successfully proves patent ownership and infringement, the Patent Act provides that the Court shall award “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.” 35 U.S.C. § 284. As section 284 implicitly recognizes, compensatory damages are not limited to a reasonable royalty. They may include lost profits or a combination of both reasonable royalty and lost profits, depending on the facts of the case. In exceptional cases, the court may increase the damage up to three times the amount found to be adequate compensation. 35 U.S.C. § 284. In 2006 alone, at least five cases reported damage awards of over \$100,000,000. (Source: [www.fticonsulting.com/media/3491/Intellectual\\_Property\\_Statistics.pdf](http://www.fticonsulting.com/media/3491/Intellectual_Property_Statistics.pdf)). Still, the *Polaroid v. Eastman Kodak* case (17 U.S.P.Q.2d 1711 (1991)) remains the highest reported patent damage award at over \$873,158,971. (*Id.*)

In contrast to district courts, the ITC does not have authority to award monetary damages, although it can impose monetary sanctions for violations of its orders. Because compensatory damages are not available through the ITC, patentees often will initiate actions in district court at the same time they pursue relief through the ITC.

Until the Supreme Court decision in *eBay v. MercExchange*, 126 S. Ct. 1837 (2006) it was presumed that a successful patentee in district court also would obtain injunctive relief, absent extraordinary circumstances. In fact, injunctive relief was the general rule in patent infringement cases, as the Patent Act recognizes that the rights afforded a patentee include “the right to exclude others from making, using, offering for sale, or selling the invention.” 35 U.S.C. § 154(a)(1). Injunctive relief remains a viable remedy for many patentees following *eBay*. For those situations where injunctive relief is not appropriate, the court may impose a compulsory royalty rate for future infringing activity. See *MercExchange, L.L.C. v. eBbay, Inc.*, 500 F.Supp.2d 556 (E.D. Va., July 27, 2007).

The results of *eBay* and the concept of a compulsory license may ring a bell with some foreign corporations. For example, Chapter VI of the Patent Law of China provides for compulsory licensing of patents under certain circumstances. (Patent Law of the People's Republic of China, Chapter VII, Arts. 48-50, SIPO Official Translation) These circumstances include the situation “[w]here a national emergency or any extraordinary state of affairs occurs, or where the public interest so requires.” (*Id. at Art.49*) The question of whether compulsory licensing under Chinese law would extend to a factual scenario such as that found in *eBay* or subsequent cases, remains unanswered at this time, as there have been no reported cases granting compulsory licenses.

## **Preparing Clients For the Scope of Discovery**

No aspect of litigation for both domestic and foreign clients raises more questions and confusion than the scope of discovery (and don't be surprised if it raises some hostility as well). As the *Restatement (Third) of Foreign Relations Law* notes:

[N]o aspect of the extension of the American legal system beyond the territorial frontier of the United States has given rise to so much friction as the request for documents . . . .

*Restatement (Third) of Foreign Relations Law* § 442, Rptr. Note 1 (1987).

This “friction” is created, in part, because few, if any, countries permit as far-reaching discovery as the United States. In part, this friction is created by the nature of notice pleading and the potential scope of relief in patent cases. For example, a federal complaint for patent infringement may provide little detail beyond the identification of one accused product and the asserted patent. The details of the patentee's infringement claims are generally left for discovery. And, even when the patentee provides its infringement contentions, some courts will permit discovery beyond the specifically accused products. *See, e.g., Epicrealm Licensing, LLC v. Autoflex/Franklin Covey*, 5:07cv00125/5:07cv00126 (E.D. Tex Order dated August 27, 2007) (Judge Folsom, presiding) (granting motion to compel discovery of products not identified in patentee's infringement contentions but “reasonably similar” to those accused).

Other countries, such as China, do not provide for such extensive discovery. Courts may direct the parties to exchange evidence, but that exchange of information is generally tailored very narrowly to the direct issues of a case.

For most foreign defendants, participating in the U.S. discovery process becomes a “cost of doing business” in the United States. However, these defendants and their U.S. attorneys should be aware of laws within the client's home country that may prevent the company from disclosing certain information, particularly privacy data or information about its citizens or confidential and trade secret information of third parties in the possession of the defendants. Production of such information can put clients at risk of prosecution in their home countries. Therefore, it is important for their U.S. counsel to recognize the risk and develop a balanced approach that meets the client's obligations to comply with discovery<sup>7</sup> while satisfying the home country's restrictions on disclosure of sensitive information.

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<sup>7</sup> In determining whether to compel discovery against foreign defendants, U.S. courts tend to employ a balancing test. *See also, Restatement (Third) of Foreign Relations Law* § 441(1)(a) (“a state may not require a person to do an act in another state that is prohibited by the law of that state or by the law of the state of which he is a national.”)

## **Recognizing Differences in Attorney-Client Privilege**

Under the Federal Rules of Evidence, common law generally apply to claims of privilege in patent cases, since Rule 501 provides:

. . . the privilege of a witness, person, government, State or political subdivision thereof shall be governed by the principles of the common law as they may be interpreted by the courts of the United States in the light of reason and experience.

Fed. R. Evid. 501. From this, it follows that the common law of the home country should influence whether a privilege attaches to documents and information of a foreign corporation. Notions of comity and international law also recognize that foreign privileges should be given some deference in U.S. courts. Nevertheless, the question of whether foreign privilege will shield communications from discovery in the United States remains murky. Some courts have recognized that communications with foreign patent agents or in-house counsel (who may not be licensed “attorneys” under the laws of the home country) should be protected, while others have held to the contrary. *Compare Golden Trade v. Lee Apparel Co.*, 143 F.R.D. 512 (S.D.N.Y. 1992), *Renfield Corp. v. E. Remy Martin & Co.*, 98 F.R.D. 442 (D. Del. 1982) and *Duplan Corp. v. Deering Milliken, Inc.*, 370 F. Supp. 761 (D.S.C. 1972) with *Status Time Corp. v. Sharp Elec. Corp.*, 95 F.R.D. 27 (S.D.N.Y. 1982). Often the decision whether to extend the privilege hinges on whether the advice being provided concerns activities in the home country. *See, e.g., Golden Trade*, 143 F.R.D. at 519; *In re Ampicillin Antitrust Litigation*, 81 F.R.D. 377 (D.D.C. 1978).

This distinction becomes particularly important when communicating with patent managers and other “non-attorney” corporate employees about the pending litigation. While the law in their home countries may recognize that their legal advice and communications within the corporation is protected as privileged, U.S. law may not recognize the privilege as a traditional attorney-client communication. Instead, those communications may need to fall within an attorney-work product privilege of U.S. counsel in order to remain privileged. Foreign corporations and their U.S. counsel should be aware of this issue and plan accordingly.

## **Conclusion**

While every new client and case presents its own unique facts, foreign corporations warrant special consideration because of the interplay that will inevitably exist between the laws of their home country and the U.S. forum. U.S. counsel should be alert to those differences. By anticipating and preparing for these differences, U.S. counsel will help foreign corporations better prepare for and participate in U.S. litigation.

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