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**EXTRA - WHAT ?**

**‘CLEAR’ RULES CONTINUALLY CLARIFIED ON EXTRATERRITORIAL APPLICATION OF PATENT LAWS**

Extraterritorial application of patent laws continues to supply many surprises, despite a seemingly crystal-clear rule. In 2007, the U.S. Supreme Court reiterated a 150-year-old rule on the extraterritorial application of U.S. patents:

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; and we correspondingly reject the claims of others to such control over our markets.<sup>1</sup>

Then, the Federal Circuit Court of Appeals (CAFC) provided the latest plot twist when it decided that method patents are not protected by 35 U.S.C. § 271(f).<sup>2</sup> In our global economy, understanding the effect of domestic patent laws beyond our borders can be critical. The law regarding the extraterritorial application of U.S. patent laws ought to be a part of your IP IQ.

**1. Fundamentals of Extraterritorial Infringement**

The basic rules of extraterritorial patent enforcement appear to be straightforward. According to 35 U.S.C. § 271(a), patent rights begin and end at the border:

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. (emphasis added)

Thus, acts of both domestic infringement and unauthorized importation of patented inventions are prohibited. The section also prohibits the sale or importation of specialized parts made or adapted for the infringement of a patented process or apparatus.<sup>3</sup>

**2. The U.S. Supreme Court Identifies a Loophole**

In its 1972 opinion in *DeepSouth Packing Co. v. Laitram Corp.*,<sup>4</sup> the U.S. Supreme Court identified a “loophole” in the then-existing domestic patent-protection scheme. There, the Court acknowledged that the patentee was entitled to an injunction in this country

1 *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 444 (2007) (quoting *Brown v. Duchesne*, 19 How. 183, 195, 15 L.Ed. 595 (1857), and *DeepSouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972)).

2 *Cardiac Pacemakers, Inc. v. St. Jude Med. Ctr., Inc.*, 576 F.3d 1348, (Fed. Cir. 2009) (*en banc* as to application of § 271(f) to method patents).

3 35 U.S.C. § 271(c).

4 406 U.S. 518 (1972).



## ENHANCING YOUR IP IQ

Vol.1, No.8

NOVEMBER 2009

Reasoning that the substantial manufacture of constituent parts could not constitute infringement, “when we have so often held that a combination patent protects only against the operable assembly of the whole and not the manufacture of its parts,” the Court held that the alleged foreign infringer did not “make” the infringing product in the United States.

to prevent infringement of its patents.<sup>5</sup> The Court also addressed the question of whether the domestic infringer was foreclosed from exporting the infringing apparatus in less-than-fully-assembled-for-use abroad.<sup>6</sup>

The facts in *Deepsouth* were stark:

[The domestic infringer] in all respects save final assembly of the parts ‘makes’ the invention. It does so with the intent of having the foreign user effect the combination without . . . permission. [The domestic infringer] sells these components as though they were the machines themselves; the act of assembly is regarded, indeed advertised, as of no importance.<sup>7</sup>

Notwithstanding these “bad facts,” the Court said the then-existing language of 35 U.S.C. § 271 did not prohibit the conduct challenged.<sup>8</sup>

Reviewing § 271(a), the Court found that, “The statute makes it clear that it is not an infringement to make or use a patented product outside of the United States.”<sup>9</sup> Thus, to prove infringement, the statute required the patentee to show that the alleged infringer made, used or sold the patented product within the United States.<sup>10</sup>

Reasoning that the substantial manufacture of constituent parts could not constitute infringement, “when we have so often held that a combination patent protects only against the operable assembly of the whole and not the manufacture of its parts,” the Court held that the alleged foreign infringer did not “make” the infringing product in the United States.<sup>11</sup>

The Court concluded, “we would . . . insist on a clear congressional indication of intent to extend the patent privilege before we could recognize the monopoly here claimed. Such an indication is lacking.”<sup>12</sup>

### 3. 35 U.S.C. § 271(f) Closes a Loophole

The “congressional indication” the Court was seeking followed in 1984 when Congress enacted 35 U.S.C. § 271(f)(1):

Whoever without authority **supplies** or causes to be **supplied** in or from the United States all or a substantial portion of the **components** of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer. (emphasis added)

<sup>5</sup> *Id.* at 519.

<sup>6</sup> *Id.* at 519.

<sup>7</sup> *Id.* at 524.

<sup>8</sup> *Id.* at 526.

<sup>9</sup> *Id.* at 527.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.* at 528.

<sup>12</sup> *Id.* at 532.

Given this legislative patch, it appeared that Congress had fully addressed the “DeepSouth Loophole.”

Sections 271(f)(1) and (f)(2)<sup>13</sup> thus prohibit the sale of all, substantially all, or especially made, component parts of a patented invention for assembly and use outside the United States. Concurrently with the enactment of § 271(f), Congress enacted § 271(g), which prohibits the importation of products made using a patented process.<sup>14</sup>

Given this legislative patch, it appeared that Congress had fully addressed the “DeepSouth Loophole.”

Based on the statutory language, and as later cases make clear, the statute’s critical terms are “supplied” and “components.” The statute’s plain language applies only to circumstances where an invention’s “components” can be “supplied” from the United States.

#### 4. The CAFC—“35 U.S.C. § 271(f) Covers Method Patents”

The CAFC first considered § 271(f) in *Standard Havens Products, Inc. v. Gencor Industries, Inc.*<sup>15</sup> There, the court considered a method patent relating to the production of asphalt and, without elaboration, held that the sale of an asphalt plant to a foreign customer did not implicate § 271(f).<sup>16</sup>

More than 10 years later, the CAFC undertook a far more detailed analysis in *Eolas Technologies, Inc. v. Microsoft Corp.*<sup>17</sup> The case involved a patent claiming a method for using a web browser in a fully interactive environment.<sup>18</sup> The patentee alleged that Microsoft infringed the patent by exporting a limited number of “golden master disks” containing software code for use in replicating the code onto computer hard drives for sale outside the United States.<sup>19</sup>

After construing the statutory language, reviewing the legislative history of § 271(f) and examining case law precedent, the CAFC concluded that the “components,” as described in § 271(f), included software on golden master disks.<sup>20</sup> The court then affirmed the lower court’s finding of infringement, which allowed damages for foreign sales.<sup>21</sup>

Shortly after issuing its opinion in *Eolas*, the CAFC addressed similar issues relating to § 271(f) in *AT&T Corp. v. Microsoft Corp.*<sup>22</sup> In that case, the CAFC again considered whether golden master disks sent abroad for copying onto hard drives and sold to foreign customers were infringing.<sup>23</sup>

13 Section 271(f)(2) provides:

Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

14 Section 271(g) provides:

Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent.

15 953 F.2d 1360 (Fed. Cir. 1991).

16 *Cardiac Pacemakers, Inc. v. St. Jude Med. Ctr., Inc.*, 576 F.3d 1348, 1360 (Fed. Cir. 2009) (citing *Standard Havens Prods., Inc. v. Gencorp Indus., Inc.*, 953 F.2d at 1372-74).

17 399 F.3d 1325 (Fed. Cir. 2005), *overruled by*, *Cardiac Pacemakers, Inc. v. St. Jude Med. Ctr., Inc.*, 576 F.3d 1348 (Fed. Cir. 2009) (*en banc*).

18 *Id.* at 1328.

19 *Id.* at 1331.

20 *Id.* at 1328, 1341.

21 *Id.*

22 414 F.3d 1366 (Fed. Cir. 2005), *rev'd*, 550 U.S. 437 (2007).

3 | 23 *Id.* at 1368.

In the 2006 case of *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*, the CAFC “explicitly held that Section 271(f) applied to method claims.”

In that case, the court examined whether the software was “supplied” for purposes of § 271(f).<sup>24</sup> Relying on *Eolas*, the CAFC held that intangible software code was capable of being a “component” of a patented invention and that the software was “supplied” for purposes of § 271(f).<sup>25</sup>

While *AT&T Corp.* was pending on appeal before the U.S. Supreme Court, the CAFC also rendered an opinion in *NTP, Inc. v. Research in Motion, Ltd.*<sup>26</sup> In the “BlackBerry Case,” the CAFC incidentally considered § 271(f) and decided,

‘While it is difficult to conceive of how one might supply or cause to be supplied ... the steps of a patented method,’ the supply of BlackBerry devices to customers in the United States did not constitute the supply step required by Section 271(f).<sup>27</sup>

In the 2006 case of *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*,<sup>28</sup> the CAFC “explicitly held that Section 271(f) applied to method claims.”<sup>29</sup> There, a CAFC panel reviewed a lower court ruling that 35 U.S.C. § 271(f) damages were not available for process claims.<sup>30</sup>

Reversing the lower court’s ruling, the CAFC distinguished *NTP*<sup>31</sup> and observed that, ‘[A]s *Eolas* explained, the statute makes no distinction between patentable method/process inventions and other forms of patentable inventions.’<sup>32</sup> The court then said, “because § 271(f) governs method/process inventions, Shell’s exportation of catalysts [used to practice the patented method] may result in liability under § 271(f).”<sup>33</sup>

Thus, the law relating to the applicability of § 271(f) to method patents appeared settled—method patents were subject to statutory protection.

### 5. The U.S. Supreme Court—“Not So Fast”

In 2007, the U.S. Supreme Court again upset the law when it reversed the CAFC’s earlier holding in *Microsoft Corp. v. AT&T Corp.*<sup>34</sup> The Court analyzed and answered the question, “Does Microsoft’s liability extend to computers made in another country when loaded with Windows software copied abroad from a master disk or electronic transmission dispatched by Microsoft from the United States? Our answer is ‘No.’”<sup>35</sup>

To reach this conclusion, the Court specifically addressed two critical questions, “First, when, or in what form, does software qualify as a ‘component’ under § 271(f)? Second, were ‘components’ of the foreign-made computers involved in this case ‘supplie[d]’ by Microsoft ‘from the United States?’”<sup>36</sup>

24 *Id.* at 1369.

25 *Id.* at 1369-70.

26 418 F.3d 1282 (Fed. Cir. 2005).

27 *Cardiac Pacemakers, Inc.*, 576 F.3d at 1361 (citing *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d at 1322).

28 *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 425 F.3d 1366 (Fed. Cir. 2005), *overruled by*, *Cardiac Pacemakers, Inc. v. St. Jude Med. Ctr., Inc.*, 576 F.3d 1348 (Fed. Cir. 2009).

29 *Cardiac Pacemakers, Inc.*, 576 F.3d at 1361 (citing *Union Carbide*, 425 F.3d 1366).

30 *Union Carbide*, 425 F.3d at 1369.

31 *Id.* at 1380.

32 *Id.* at 1379.

33 *Id.* at 1380.

34 550 U.S. 437, 456 (2007).

35 *Id.* at 442.

36 *Id.* at 447.

In 2007, the U.S. Supreme Court again upset the law when it reversed the CAFC's earlier holding in *Microsoft Corp. v. AT&T Corp.*

To answer these questions, the Court relied on the following key facts:

- "Neither Windows software (*e.g.*, in a box on the shelf) nor a computer standing alone (*i.e.*, without Windows installed) infringes AT & T's patent. Infringement occurs only when Windows is installed on a computer, thereby rendering it capable of performing as the patented speech processor."<sup>37</sup>
- "[T]he copies of Windows actually installed on the foreign computers were not themselves supplied from the United States."<sup>38</sup>

Answering the first question, the Court found that, "[A] copy of Windows, not Windows in the abstract, qualifies as a 'component' under § 271(f)."<sup>39</sup> Importantly, the Court also noted in a footnote,

We need not address whether software in the abstract, or any other intangible, can ever be a component under § 271(f). If an intangible method or process, for instance, qualifies as a "patented invention" under § 271(f) (a question as to which we express no opinion), the combinable components of that invention might be intangible as well. The invention before us, however, AT & T's speech-processing computer, is a tangible thing.<sup>40</sup>

Focusing on the second question, the Court asked, "[H]as Microsoft 'supplie[d] ... from the United States' components of the computers here involved?"<sup>41</sup> Answering its own question, the Court held, "Under a conventional reading of § 271(f)'s text, the answer would be 'No,' for the foreign-made copies of Windows actually installed on the computers were 'supplie[d]' from places outside the United States."<sup>42</sup>

Recognizing that its opinion once again identified a "loophole,"<sup>43</sup> the Court referenced its opinion in *Deepsouth*, and invited a legislative fix.<sup>44</sup>

#### 6. The CAFC Does an About-Face—"Method Patents Don't Get 35 U.S.C. § 271(f) Protection"

Following the U.S. Supreme Court's decision in *AT&T*, the CAFC recently considered § 271(f) in *Cardiac Pacemakers, Inc. v. St. Jude Medical Center, Inc.*<sup>45</sup> In its *en banc* opinion, the court reversed the district court's determination that 35 U.S.C. § 271(f) applies to method claims.<sup>46</sup>

By way of background, the district court, following the CAFC's decision in *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*,<sup>47</sup> found that 35 U.S.C. § 271(f) applied to method claims.<sup>48</sup> A CAFC panel affirmed the court's decision.<sup>49</sup>

<sup>37</sup> *Id.* at 446.

<sup>38</sup> *Id.* at 453.

<sup>39</sup> *Id.* at 452-53.

<sup>40</sup> *Id.* at 452 n.3.

<sup>41</sup> *Id.* at 452.

<sup>42</sup> *Id.*

<sup>43</sup> *Id.* at 456-57, 458.

<sup>44</sup> *Id.* at 442.

<sup>45</sup> 576 F.3d 1348 (Fed. Cir. 2009) (*en banc* as to application of § 271(f) to method patents).

<sup>46</sup> *Id.* at 1351.

<sup>47</sup> 425 F.3d 1366 (Fed. Cir. 2005).

<sup>48</sup> *Cardiac Pacemakers, Inc. v. St. Jude Med. Ctr., Inc.*, 418 F. Supp. 2d 1021, 1042-43 (S.D. Ind. 2006), *rev'd*, 576 F.3d 1348 (Fed. Cir. 2009).

<sup>49</sup> *Cardiac Pacemakers, Inc. v. St. Jude Med. Ctr., Inc.*, 303 Fed. Appx. 884 (Fed. Cir. 2008), *vacated*, 315 Fed. Appx. 273 (Fed. Cir. 2009)



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The CAFC then agreed to consider the 35 U.S.C. § 271(f) issue *en banc* and began its analysis by reviewing the case law set forth above,<sup>50</sup> and then the *en banc* court turned its attention to the statutory language.<sup>51</sup> Based on its analysis, the court observed,

Congress clearly believed that a “component” was separate and distinct from a “material or apparatus for use in practicing a patented process.” Thus, a material or apparatus for use in practicing a patented process is not a component of that process. The components of the process are the steps of the process.<sup>52</sup>

Continuing its reasoning, the court stated, “Although such patented methods do have components, as indicated, Section 271(f) further requires that those components be ‘supplied.’”<sup>53</sup> The court then logically concluded, “because one cannot supply the steps of a method, Section 271(f) cannot apply to method or process patents.”<sup>54</sup>

Based on its analysis and findings, the court *en banc* concluded,

In sum, the language of Section 271(f), its legislative history, and the provision’s place in the overall statutory scheme all support the conclusion that Section 271(f) does not apply to method patents. We therefore overrule, to the extent that it conflicts with our holding today, our decision in *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*, 425 F.3d 1366 (Fed.Cir.2005), as well as any implication in *Eolas* or other decisions that Section 271(f) applies to method patents.<sup>55</sup>

**7. What’s Next?**

Given this surprising turnaround, what’s next? Here are a few thoughts to consider:

- The U.S. Supreme Court left open the issue of whether software or any other intangible can *ever* be a component. Creative litigants will undoubtedly explore what appears to be an invitation to creative lawyering.
- There may be a tension between the U.S. Supreme Court’s refusal to address whether software in the abstract, or any other intangible, can *ever* be a component under § 271(f) and the CAFC’s broad holding that § 271(f) does not apply to method patents.
- Any “fix” will likely be legislative, and it is uncertain that everyone will agree on whether the fix is necessary. If legislative initiatives are forthcoming, you can expect intense debate.

<sup>50</sup> *Cardiac Pacemakers, Inc.*, 576 F.3d at 1359-62.

<sup>51</sup> *Id.* at 1362-66.

<sup>52</sup> *Id.* at 1363-64.

<sup>53</sup> *Id.* at 1364.

<sup>54</sup> *Id.*

<sup>55</sup> *Id.* at 1365.