

# Increasing Limitations On Patent Extraterritoriality

## The Supreme Court Sanctions Stricter Limits on Foreign Enforcement of U.S. Methods

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Following a period of expanding patentable subject matter over much of the 20th century, Supreme Court decisions are reflecting a more restrictive view of patent rights. The recent *certiorari* denial in *Cardiac v. St. Jude*,<sup>1</sup> excluding method steps from infringement under 35 U.S.C. § 271(f), continues the trend, further limiting patent holders' ability to pursue infringers outside the United States.

Prior to 1984, Title 35 prohibited the importation, manufacture, sale and use of U.S. patented inventions. Infringers could still send non-infringing subparts of an otherwise infringing article abroad for assembly however. Courts initially allowed these subpart assembly exports, finding no statutory basis for infringement.<sup>2</sup>

In response Congress introduced section 271(f)<sup>3</sup> with the 1984 Patent Law Amendments Act, eliminating the exports loophole. Under 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.”

and

“(2) 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.”

The 1984 amendment characterized components as “staple articles” or “commodities of commerce.”<sup>4</sup> Since both sections of 271(f) make specific reference to *components* of patented inventions, courts initially construed the provision inapplicable to patented method steps.

One of the first method step cases based on 271(f) was *Standard Havens Products v. Gencor*.<sup>5</sup> Standard owned the patent for certain asphalt production methods. Gencor sold asphalt manufacturing plants to foreign customers. While Gencor's physical plants weren't infringing, they were used to perform the patented method. The court, finding that the patent claimed only the method and not the plant used to perform the method, held Gencor's foreign sales permissible since the plants weren't a method component.<sup>6</sup>

*Standard* left unresolved the issue of what, exactly, could be classified as a method component under 271(f). Defining method components in a software context proved particularly difficult, courts initially avoiding the issue altogether. In *Southwest Software, Inc. v. Harlequin Inc.*<sup>7</sup> the Federal Circuit specifically declined to decide whether or not 271(f) “only covers apparatus claims”<sup>8</sup> and was therefore inapplicable to methods in a software context. The Circuit didn't address whether or not software methods could constitute components until 2005 in *Eolas Technologies, Inc. v. Microsoft Corp.*<sup>9</sup>

In *Eolas*, Microsoft exported a number of disks containing Eolas' U.S. patented software. Third parties received and installed the software on computers outside the country. Eolas sued, arguing that the software itself constituted a component according to

271(f). In defense, Microsoft argued that since the disks bearing the software never became a part of the infringing computers, 271(f) shouldn't apply.

Rejecting Microsoft's argument, the court concluded that software code was a component of the patented invention for purposes of the statute. According to the court, “[t]he statute did not limit section 271(f) to ‘machine’ components or ‘structural or physical’ components. Rather every component of every form of invention deserves the protection of section 271(f).”<sup>10</sup> The court also took up the issue in a companion case, *AT&T Corp. v. Microsoft*.<sup>11</sup>

In *AT&T* as in *Eolas*, Microsoft exported software to be incorporated into foreign computers which would have infringed AT&T's patent in the U.S. In *AT&T* however, Microsoft exported only uploads and master disks, licensing foreign manufacturers to copy and install the software on individual computers. Nevertheless, the Court again found infringement holding that since uploading a single copy for download constituted “supplying” the software, “the act of copying is subsumed in the act of ‘supplying’ such that sending a single copy abroad with the intent that it be replicated invokes §271(f) liability[.]”<sup>12</sup>

In 2006, following *Eolas* and *AT&T*, the Federal Circuit expanded 271(f) beyond software method claims. In *Union Carbide v. Shell*<sup>13</sup>, it found that 271(f) applies to chemical process claims as well. Union Carbide patented a more efficient catalyst driven ethylene oxide production method, without patenting the catalyst itself. Shell sold the catalyst to foreign purchasers who used it to practice Union Carbide's patented process abroad. While the district court *in limine* found 271(f) not directed to Union Carbide's process claims, the Federal Circuit reversed, elaborating on *Eolas* that “the statute makes no distinction between patentable method/process inventions and other forms of patentable inventions.”<sup>14</sup>

*Union Carbide* gave 271(f) its broadest effect and lasted only briefly. In 2007, the Supreme Court curtailed the Circuit's expansive view in Microsoft's appeal of the *AT&T* case.<sup>15</sup> In *Microsoft*, the Court conceded; “no one in this litigation argues that software can never rank as a ‘component’ under §271(f).”<sup>16</sup> Nevertheless, it agreed with Microsoft that the copied disks were analogous to blueprints or design tools for tangible patented goods which would not give rise to infringement if shipped

abroad to create an infringing article. As Justice Ginsberg noted, “[c]opying software abroad, all might agree, is indeed easy and inexpensive. But the same could be said of other items: ‘Keys or machine parts might be copied from a master; chemical or biological substances might be created by reproduction; and paper products might be made by electronic copying and printing.’”<sup>17</sup>

In 2009, Responding to *Microsoft*, the Federal Circuit issued its *en banc* decision in *Cardiac* finding Section 271(f) inapplicable to method patents. The Court found that steps comprising methods “are not the physical components used in performance of the method”<sup>18</sup> and therefore cannot be “components” for purposes of the statute. Analyzing the statutory construction, legislative intent and “the provision’s place in the overall statutory scheme” led the Circuit to conclude that Section 271(f) simply does not apply to method patents at all.<sup>19</sup>

Arguably, in *Cardiac*, the Federal Circuit restricted §271(f) further than the Supreme Court intended in *Microsoft*, where Justice Ginsberg found that software might, under the right conditions, rank as a component under 271(f). In particular, *Microsoft* specifically addressed computer software and its ephemeral nature, concluding that “[a]bstract software code is an idea without physical embodiment, and as such, it does not match §271(f)’s categorization: ‘components’ amenable to ‘combination.’”<sup>20</sup> Dissenting in the *Cardiac* decision, Judge Newman criticized the majority for its expansive view.

“The court’s interpretation of §271(f) to exclude all process inventions is contrary to the text of the statute, ignores the legislative history, is without support in precedent, and defeats the statutory purpose.”<sup>21</sup>

By interpreting the Supreme Court’s rejection of software as a component in *Microsoft* to include all methods, the Federal Circuit seemed to be inviting Supreme Court review. *Cardiac Pacemakers* appealed the Federal Circuit’s decision, but in January, the Court issued its *cert. denial*.

The Supreme Court’s tacit approval of *Cardiac* reflects the continuing disposition toward a more restrictive view of patent rights, and has implications beyond §271(f). Holding that all method steps are not “components” for purposes of §271(f) infringement arguably affects the defini-

tion of a “patented invention” as used in other parts of Title 35, where processes remain patent eligible subject matter. To standardize the language of Title 35, conflicting interpretations of what constitutes a method component may warrant a more fundamental review of method patent subject matter as a whole. Until the issue is addressed further, inventors should be aware that patents covering only methods are vulnerable to piecemeal exportation and use, highlighting the importance of obtaining individual foreign patent protection for U.S. method inventions.

## ENDNOTES

1. *Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc. et al*, 576 F.3d 1348 (Fed. Cir. 2009)
2. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972)
3. 35 U.S.C. 271(f), as amended by P.L. 98-622, Sec. 101, 98 Stat. 3383
4. “Section-by-Section Analysis of H.R. 6286, Patent Law Amendments Act of 1984,” Congressional Record, Oct. 1, 1984, H10525-26
5. *Standard Havens Products, Inc. v. Gencor Industries, Inc.*, 21 USPQ2d 1321 (Fed. Cir. 1991), *cert denied*, 506 U.S. 817 (1992)
6. *Id.* at 1332
7. *Southwest Software, Inc. v. Harlequin Inc.*, 56 USPQ2d 1161 (Fed. Cir. 2000)
8. *Id.* at 1168
9. *Eolas Technologies, Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005)
10. *Id.* at 1339
11. *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366 (Fed. Cir. 2005)
12. *Id.* at 1370
13. *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*, 425 F.3d 1366 (Fed. Cir. 2006)
14. *Id.* at 1379
15. *Microsoft v. AT&T*, 127 S.Ct. 1746 (2007)
16. *Id.* at 1754
17. *Id.* at 1757
18. *Cardiac* at 1363
19. *Id.* at 1365
20. *Microsoft* at 1755
21. *Cardiac* at 1366