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PATENTS

The author describes current jurisprudence on infringement analysis when part of an alleged infringing system or infringing product assembly takes place outside the United States.

Understanding Patents Without Borders: Extraterritorial Enforcement of U.S. Patents

By JAMES H. WALLACE JR.

The Statutory Classes of Inventions.

Section 101 of Title 35 identifies the statutory classes of patentable inventions as “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.”

Section 271 of Title 35 identifies the various acts that can be considered infringement of United States pat-

ents. Included in Section 271 are provisions for, inter alia: (1) direct infringement based on the making, using, offering for sale, selling or importing of patented inventions (Section 271(a)); (2) indirect infringement (Sections 271(b) and (c)), (3) infringement based on supplying in or from the United States all or a substantial portion of the components of a patented invention assembled outside the United States (Section 271(f)); and (4) infringement based on importing a product into the United States that is made outside the United States by a method or process patented in the United States (Section 271(g)).

Patent practitioners have long drafted claims directed to the various statutory classes for a number of reasons, including to expand the breadth of protection and to target particular potential direct infringers. Indeed, individual patents often include a number of different statutory classes of claims directed to the same “invention.” For example, in the context of inventions using computer networks or the Internet, practitioners commonly use system and/or apparatus claims (falling within the “machine” or “manufacture” statutory classes) as well as method claims (falling within the “process” statutory class).

James H. Wallace Jr. is a patent attorney with Wiley Rein, Washington, D.C., and is a member of this publication's advisory board.

Wallace represented patent holder NTP Inc. in its lawsuit against Blackberry manufacturer Research in Motion Ltd.

He presented a version of this article at the 2009 spring meeting of the American Intellectual Property Law Association in San Diego.

Section 271(a), however, makes clear that the “invention” must be located “within the United States” for purposes of direct infringement by limiting infringement liability to a person who “makes, uses, offers to sell, or sells . . . within the United States . . . any patented invention.”

For at least 150 years, courts have addressed the extraterritorial reach of U.S. patents. The basic infringement right now codified as 35 U.S.C. § 271(a), limits infringement liability to a person who “makes, uses, offers to sell, or sells . . . within the United States.”

Courts Generally Rule Against Extraterritoriality.

The Supreme Court 150 years ago made it plain: “But these acts of Congress do not, and were not intended to, operate beyond the limits of the United States.” *Brown v. Duchesne*, 60 U.S. (19 How.) 183 (1856).

This is consistent with the fundamental “all elements rule.” *Unique Concepts Inc. v. Brown*, 939 F.2d 1558, 1562, 19 USPQ2d 1500 (Fed. Cir. 1991).

But complications arise when part of the activity is in the United States and part is outside the United States.

Deepsouth—Assembly of Apparatus Components Overseas.

With this basic principle in mind, creative people designed schemes to evade the U.S. patent laws. In *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 173 USPQ 769 (1972), Laitram Corp. had a patent on shrimp peeling machines.

Deepsouth made the components specifically designed to make the patented machines in the United States but shipped them overseas unassembled. Despite the patentee’s sympathetic case, the U.S. Supreme Court said that any loopholes in the statute are for Congress to fix.

Congress did attempt to fix the *Deepsouth* loophole with passage of Section 271(f) twelve years later making it an infringement to supply “all or a substantial portion of the components of a patented invention” in the United States.

Decca—A Patented System, Part in and Part out of the United States.

In *Decca Ltd. v. United States*, 544 F.2d 1070, 191 USPQ 439 (Cl. Ct. 1976), the United States created and operated a radio triangulation navigation system with one transmitter located in Norway. The system was used by ships within the United States.

The court found infringement of a patented triangulation navigation system, holding that even though a key part of the system was outside the United States, the beneficial use of the system was in the United States.

NTP v. RIM—System and Methods, Partly in and Partly out of the United States.

In the *Blackberry* case—*NTP Inc. v. Research in Motion Ltd.*, the patents included system and method claims. A key part of the accused system was in Canada, as seen in the accompanying illustration.

The district court in *NTP* held that if sale and beneficial use are in the United States, there is infringement under Sections 271(a), (f) and (g) of both system and

method claims even if part of the system or some of the method steps are outside of the United States.

The U.S. Court of Appeals for the Federal Circuit initially agreed. 392 F.3d 1336, 73 USPQ2d 1231 (Fed. Cir. 2004) (69 PTCJ 159, 12/17/04).

On reconsideration, the court agreed regarding the system claims under Section 271(a) based on *Decca*, while refusing to reach Section 271(f), but it disagreed regarding the method claims under §§ 271(a), (f) and (g). 418 F.3d 1282, 75 USPQ2d 1763 (Fed. Cir. 2005) (70 PTCJ 402, 8/5/05). It reasoned that if any one method step was performed outside the United States, there is no infringement.¹

This is consistent with UK law. *Menashe Business Mercantile Ltd. v. William Hill Organisation Ltd.*, [2002] EWCA Civ. 1702 (28 Nov. 2002).

The *NTP* method/system split may ultimately be resolved by the Supreme Court, but the *NTP* case was procedurally unsuitable for Supreme Court review.

While future patents can no doubt be drafted by skilled practitioners to address extraterritoriality concerns, the substantial number of already issued patents now face significant uncertainty as to their enforceability value. Skilled practitioners will no doubt exploit this distinction in litigation or counseling when it comes to systems that can be, or are, implemented, at least in part, outside the United States. Indeed, this is increasingly becoming possible in the context of the Internet and other technologies, such as wireless and satellite communications, where a single step of a method can easily be performed outside the United States.²

¹ It has been said that the Federal Circuit’s system/method split is like putting “a foreign square peg in a domestic round hole.” Harold C. Wegner, *A Foreign Square Peg in a Domestic Round Hole: The Eolas-AT & T-Carbide Trilogy*, “Hot Topics in Patent Law” Conference, George Mason University School of Law, July 18, 2006, Arlington, Va., available at http://www.foley.com/files/tbl_s31Publications/FileUpload137/3467/Foreign%20Square%20Peg.pdf

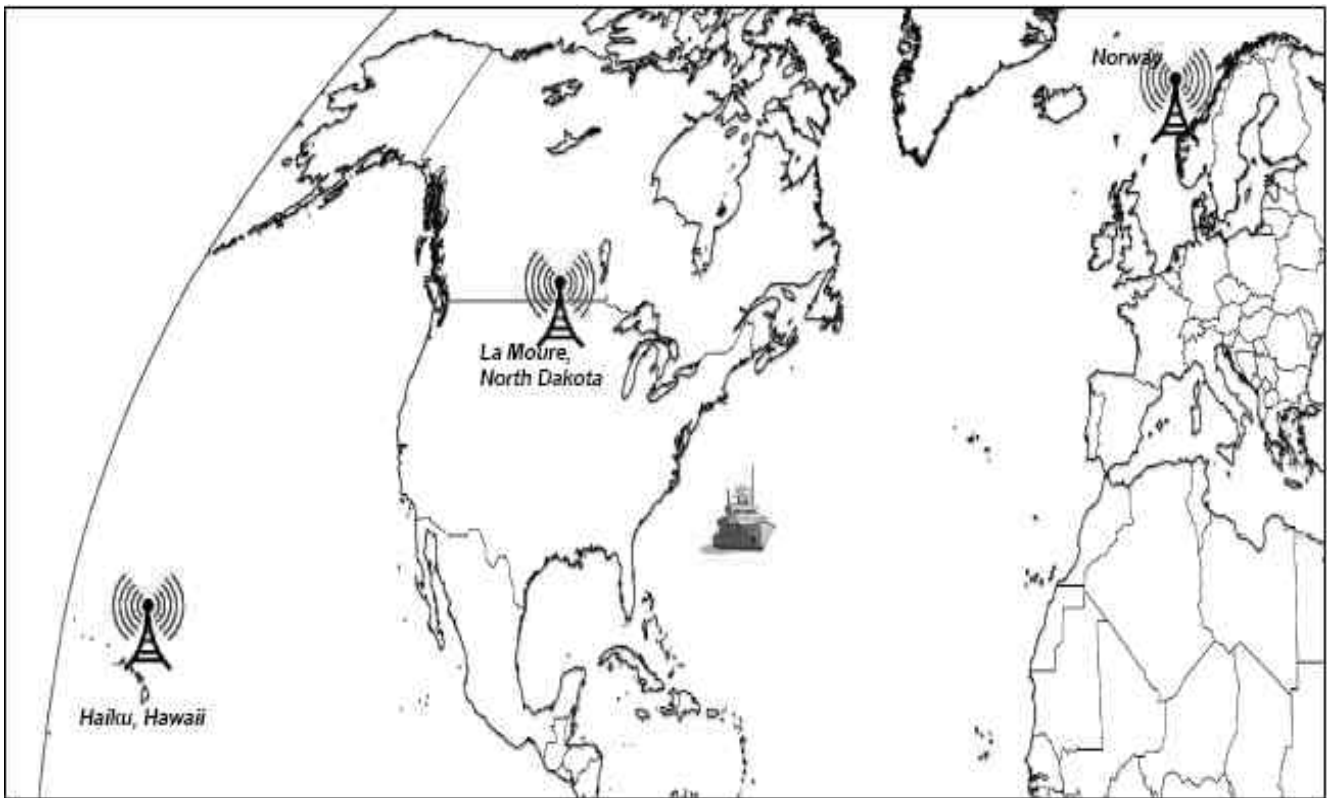
² The following hypothetical claim would not be infringed under the holding in *NTP*: A method for wireless transmission of an e-mail message from a PC to a wireless handheld device comprising:

- (a) transmitting said e-mail message from a PC to a gateway switch via a wire line;
- (b) transmitting said e-mail message from said gateway switch to an interface switch;
- (c) transmitting such e-mail message from said interface switch to said wireless handheld device via an RF transmission network.

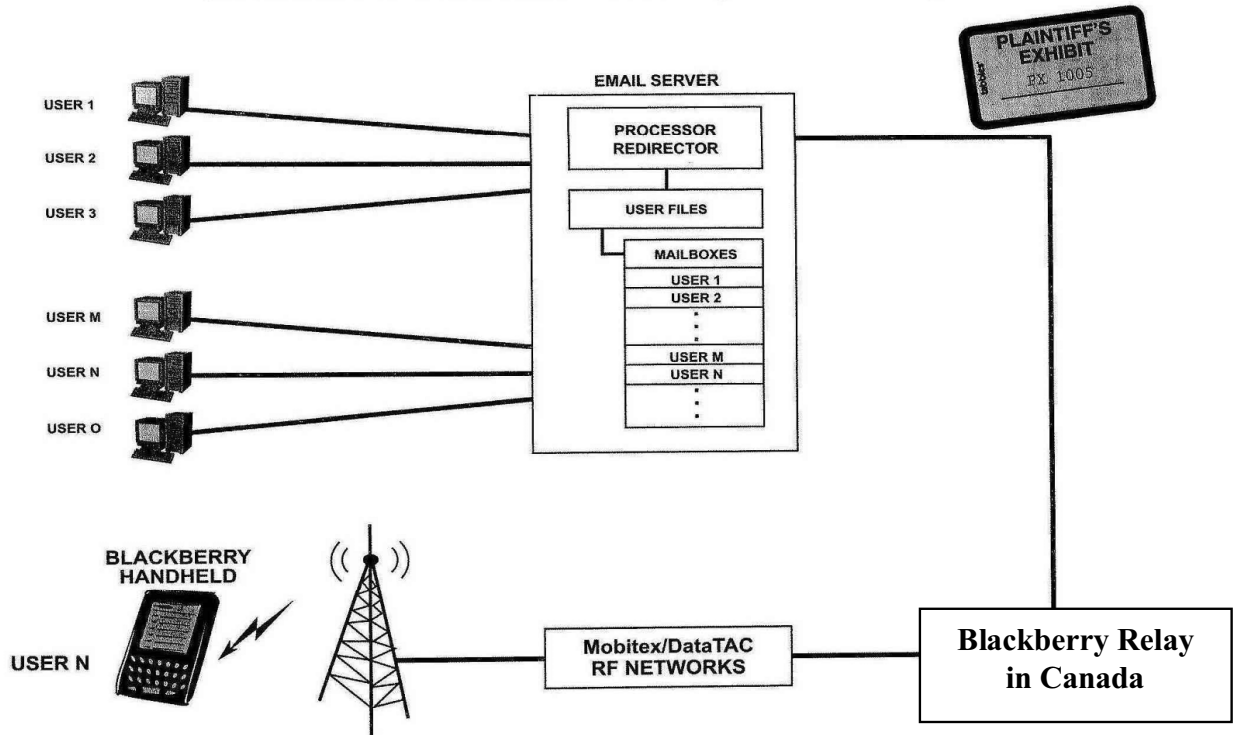
Conversely, the following hypothetical claim would be infringed under the holding in *NTP*—A method for wireless transmission of an e-mail message from a PC to a wireless handheld device comprising:

- (a) transmitting said e-mail message from a PC to a gateway switch via a wire line;
- (b) transmitting said e-mail message from said gateway switch, destined for an interface switch;
- (c) receiving said e-mail message from said interface switch at said wireless handheld device via an RF transmission network.

Thus, the same system with a necessary component outside the United States will either infringe or not infringe based on minor claim language differences. The obvious problem is that when the attorney is writing the claim, he or she does not know which method step might be located outside the United States. In Internet methods with a large numbers of steps, most of which could easily be performed across the border, the problem is almost insurmountable.



Accused RIM Products and Methods (Server Version)



With Patent and Trademark Office rules regarding claim limits and substantial fees for additional claims, the cost and difficulty of crafting meaningful claims,

particularly in the context of globally implemented inventions, is significantly increased for prospective patentees.

Union Carbide v. Shell—Catalysts Shipped From the United States to Be Used in Patented Process or Method Overseas.

In *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*, 425 F.3d 1366, 76 USPQ2d 1705 (Fed. Cir. 2005) (70 PTCJ 625, 10/7/05), *petition for rehearing denied*, 434 F.3d 1357, 77 USPQ2d 1634 (Fed. Cir. 2006) (Dyk, Lourie, Linn, Michel dissenting) (71 PTCJ 244, 1/13/06), Union Carbide had a patent on a chemical process that used various catalysts. Shell made the special catalysts in the United States and shipped them overseas to be used in the patented process.

The Federal Circuit held that shipping catalysts from the United States for use in a patented process or method is covered by Section 271(f).

Microsoft Corp. v. AT&T Corp.—Master Software Disk Shipped Overseas.

In *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 82 USPQ2d 1400 (2007) (74 PTCJ 7, 5/4/07), AT&T had a patent on a computer used to encode and compress speech. Microsoft sent master disks overseas with software which when copied and installed on computers encoded and compressed speech as set forth in the patent. Copies of the software from the master disk were installed on computers overseas.

The Supreme Court held that the master disk was not a “component” under Section 271(f) because Microsoft does not export from the United States the software

copies actually installed, thus no infringement. The court said Section 271(f) is the exception to the general rule and that any doubts are to “be resolved by the presumption against extraterritoriality.” The court expressly left open whether Section 271(f) applies to intangible method and process claims.

Cardiac Pacemakers Inc. v. St. Jude Medical Inc.—Method Practiced Overseas.

In *Cardiac Pacemakers Inc. v. St. Jude Medical Inc.*, 303 Fed.Appx. 884 (Fed. Cir. 2008) (nonprecedential) (77 PTCJ 491, 3/13/09), *en banc petition granted*, No. 2007-1296 (Fed. Cir. *argued* May 29, 2009), the patent covers a *method* of heart stimulation using an implantable cardioverter defibrillator capable of detecting heart arrhythmias.

Judges Alan D. Lourie, Pauline Newman, and Haldane Robert Mayer of the Federal Circuit recognized that the Supreme Court had left open the Section 271(f) method issue. Thus, it found infringement under *Union Carbide v. Shell*. The issue may be clarified when the en banc court issues its ruling.

Conclusions.

- Components of a patented apparatus shipped for assembly overseas are now effectively covered by Section 271(f)’s statutory reversal of *Deepsouth*.
- The *NTP v. RIM* system/method anomaly remains.
- Applicability of Section 271(f) to process/method claims may be clarified by the Federal Circuit en banc in *St. Jude*.