

EXTRATERRITORIAL REACH OF U.S. PATENTS IS NARROWED TO EXCLUDE METHOD PATENTS

Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc.
91 USPQ2d 1898 (Fed. Cir. 2009)

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Background:

In the 1972 case of *Deepsouth Packing Co. v. Laitram Corp*, the Supreme Court held that shipping parts of a patented device for final assembly outside the country did not infringe the patent. More particularly, in *Deepsouth*, a U.S. manufacturer who shipped unassembled parts of a patented shrimp deveining machine abroad for assembly and use was found not liable for patent infringement because “it is not infringement to make or use a patented product outside of the United States.”

In response, Congress in 1984 enacted 35 U.S.C. §271(f) to overturn the Supreme Court’s ruling in *Deepsouth Packing*. Section 271(f) prohibits supplying in or from the United States unassembled components of a patented invention abroad so as to induce assembly of those components in a way that would infringe the U.S. patent if the combination occurred in the U.S. Particularly, §271(f) was enacted to change the existing case law that held that manufacturers who shipped components of a patented device overseas, where the device was then assembled, were not infringers. However, the language of §271(f) has caused considerable controversy as to what is and what is not covered by §271(f).

35 U.S.C. § 271 defines various types of patent infringement including direct infringement under §271(a), inducement to infringe under §271(b), and contributory infringement under §271(c). Section 271(f) provides a cause of action for patent infringement when a defendant “supplies” for assembly outside of the U.S. the “components” of a patented invention.

35 U.S.C. 271 Infringement of Patent

- (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.
- (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.

35 USC §271(f) comprises two subparts which are directed at different types of infringing activity. The first subpart addresses “inducing infringement” similar to §271(b). By contrast, the second subpart addresses “contributory infringement” similar to §271(c).

Both subparts require that the “component” or “components” of the “patented invention” be supplied or “caused to be supplied” in or from the United States.

Eolas Case:

In the case of *Eolas Technologies Inc. v. Microsoft Corp.*, 73 USPQ2d 1782 (Fed. Cir. 2005), the district court found that Microsoft infringed both method and product claims of Eolas’ patent relating to a method of using a web browser in an interactive environment, and that Microsoft actively induced users of Microsoft’s Internet Explorer IE to

infringe the method claim. The district court further held that Eolas' royalty for Microsoft's infringement should include foreign sales of the patented computer code *under* §271(f).

In more detail, Microsoft exports a limited number of "master" disks containing the software code for the Windows operating system to Original Equipment Manufacturers (OEMs) abroad who use that disk to replicate the code onto computer hard drives for sale outside of the United States. The "master disk" itself does not end up as a physical part of an infringing product. However, the program code causes the computer to perform the steps of the patented method.

Eolas claimed royalty damages for both foreign and domestic sales of Windows with IE. Microsoft moved to prevent Eolas from seeking damages based on foreign sales under §271(f) which the district court denied, holding that the master disks constitute "components" of an infringing product for combination outside of the United States under §271(f).

On appeal, a three judge panel of the Federal Circuit (Rader, Friedman and Plager) held that §271(f) does apply to Microsoft's exported component. In holding that Microsoft was liable under §271(f), the court held that the software code included on Microsoft's "master" disks was a "component" of a patented invention.¹ Because §271(f) uses broad and inclusive terminology, and because §101 of the Patent Act refers to an "invention" as "any new and useful process, machine, manufacture or composition of matter," the court reasoned that "every form of invention eligible for patenting falls within the protection of section 271(f) – including process inventions. Further, because the statute does not limit section 271(f) to "machine" components or "structural or physical" components, "every component of every form of invention deserves the protection of section 271(f)."

Note: The *Eolas* case does not distinguish between "machines" and "processes" as to application of §271(f), and it is unclear from the decision whether the court found liability under §271(f) for infringement of the product claim or the method claim.

¹ The product claim was directed to a computer program product including a computer usable medium having computer readable program code physically embodied therein, the computer program product further comprising computer readable program code for carrying out certain functions.

Union Carbide Case:

The patents at issue in the case of *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*, 76 USPQ2d 1705 (Fed. Cir. 2005) related to a process for producing ethylene oxide (EO) using an improved silver catalyst containing certain additional metals (US 4,916,243, US 4,908,343 and US 5,057,481).

Particularly, Shell was found liable for exporting a catalyst for use abroad by its affiliates for the purpose of practicing Union Carbide's patented method. More particularly, another three judge panel of the Federal Circuit (Mayer, Rader and Prost) held that infringement liability under §271(f) extends to the exportation of catalyst used in a patented chemical process performed abroad.

In analogy with the *Eolas* case, the court reasoned that:

- (1) both this case and *Eolas* feature the exportation of a component (i.e., a computer disc with program code in *Eolas* and a catalyst in this case);
- (2) the subject "component" is used in the performance of a patented method (i.e., the method steps executed by the computer in response to the computer readable code in *Eolas*, and the commercial production of EO in this case); and
- (3) in that setting, the *Eolas* court applied §271(f) to Microsoft's exported component, and similarly, §271(f) applies to Shell's exportation of catalysts (i.e., a "component") used in the commercial production of EO abroad (i.e., a "patented invention").

The Federal Circuit stressed that "every component of every form of invention deserves the protection of §271(f)" and that a "component" or a "patented invention" under the statute is not limited to a physical machine. That is, the Federal Circuit interpreted §271(f) as encompassing method claims.

The *Union Carbide* case was the precedent followed by both the district court and the Federal Circuit panel in *Cardiac Pacemakers*.

AT&T Case:

In the case of *AT&T Corp. v. Microsoft Corp.*, 75 USPQ2d 1506 (Fed. Cir. 2005), §271(f) was applied to the exportation of Microsoft's "master" disc containing infringing code that was further copied abroad, with copies installed as software on assembled computers. This case concerned whether software code can be considered a "component" under §271(f) and whether "copying" abroad is the same as "supplying."

At issue was AT&T's patent for an apparatus that digitally encodes and compresses recorded speech. Microsoft's operating system has the potential to infringe AT&T's patent because its software, once installed, enables a computer to process speech in the same manner as claimed in the patent. Microsoft conceded that installation of its operating system in its computers during software development, as well as Microsoft's licensing of its operating system to manufacturers of computers that are sold in the United States, infringe AT&T's patent. However, Microsoft denied liability for copies of Windows made from its master disk or electronic transmission dispatched to foreign manufacturers. Specifically, the master disk was sent to foreign manufacturers, who then made copies, and the copies were installed in computers sold abroad. AT&T argued that Microsoft was liable because Microsoft supplied components of the AT&T patent from the United States to foreign manufacturers for combination abroad.² Microsoft's position was that intangible software on a medium cannot be a "component" of an invention under §271(f), and that the foreign copies were not supplied from the United States. The district court held Microsoft liable under §271(f). On appeal, the Federal Circuit affirmed, and determined that for software components, copying is included in supplying because a master sent abroad is identical to its copies. Thus, sending a master disk with the intent that it be replicated results in liability under §271(f).

The decision against Microsoft was reversed by the Supreme Court in 2007. The Supreme Court held that Microsoft had not supplied a component from the United States because the software code was

² AT&T was forced to use §271(f) because its claims were directed to the apparatus as opposed to a disk having the software encoded thereon.

supplied from outside the United States (i.e., the software was copied outside the United States), even though the end-product infringed AT&T's patent (if made, used, sold, offered for sale within the United States or imported into the United States). As stated by the Supreme Court, "the territorial limits of patents should not lightly be breached."

Specifically, the Supreme Court found that §271(f) does not cover foreign duplicated software, holding that "master discs" were not a "component" for the purposes of §271(f) when sent abroad to be copied and then installed in foreign made and sold computers. The Court's reasoning was that software in its abstract form is not a (physical) component of the patented invention, and that the copies of the software were not supplied from the United States. The Supreme Court thus defined the concept of "supplying components" in terms of tangible objects.

Cardiac Pacemakers Case:

In the case of *Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc.*, 91 USPQ2d 1898 (Fed. Cir. 2009), the Federal Circuit (*en banc*) ruled that §271(f) does not apply to method claims such that there is no liability for exporting devices for practicing a patented method abroad. The court overruled a precedential panel decision, namely, the *Union Carbide* decision, which held the opposite.

CPI sued St. Jude for infringing a patent directed to a method of using an implantable heart stimulator (ICD), which the district court found was infringed.³ Some of St. Jude's ICDs were sold in the U.S., while some of the ICDs were shipped abroad. At issue was whether St. Jude infringed the method claim by exporting the ICD for use abroad in practicing the patented method.

Relying on the *Union Carbide* decision, the district court found that §271(f), which imposes liability on those who supply "components of a patented invention" in or from the United States for combination abroad, applied to the method claim.

³ Claim 4 of the '288 patent at issue is directed to a method of heart stimulation using an implantable heart stimulator, which comprises the steps of determining a heart condition, selecting cardioversion as the appropriate therapy, and executing a cardioverting shock.

The district court held that under §271(f), CPI was entitled to recover damages for devices sold by St. Jude from the U.S. to foreign customers (as well as damages for U.S. sales of the device).

On appeal, and bound by the earlier decision in *Union Carbide*, a three judge panel of the Federal Circuit (Newman, Mayer and Lourie) affirmed the district court's finding that St. Jude could be held liable for exporting ICDs used to practice CPI's patented method abroad.

“As a panel, we cannot reverse the holding of another panel of this court. We thus affirm the district court's decisions relating to damages.”

The Federal Circuit granted rehearing *en banc*, reversed the panel decision, overruled the *Union Carbide* decision and held that §271(f) does not apply to method claims.

- Section 271(f) provides for liability when one “supplies” one or more “components” of a “patented invention.”
- The “components” of a patented method are the steps that comprise the method, but the steps are not the physical components used in performance of the method.
- Unlike tangible ingredients, it is not possible to “supply” a step of a method, because this term implies the transfer of a physical object
- Because the steps of a method cannot be “supplied,” as required by §271(f), that section cannot apply to method patents
- The *en banc* court (Federal Circuit) reversed the panel's decision, holding that §271(f) does not apply to method patents. More particularly, the *en banc* court held that St. Jude's sale of ICDs outside the U.S. that practice the method of CPI's patent (also outside the U.S.) cannot constitute infringement under the patent statute.

“Although the ICD that St. Jude produces can be used to perform the steps of the method ... Section 271(f) does not apply to method or process patents. As Section 271(f) does not encompass devices that may be used to

practice a patented method, St. Jude is therefore not liable for infringement of claim 4 of the patent under Section 271(f) for implantable cardioverter defibrillators exported abroad.”

- The *en banc* decision overrules the Federal Circuit’s 2005 decision in *Union Carbide*, which found that §271(f) applies to method claims, and that Shell’s exportation of a catalyst, which catalyst was needed to perform a patented method, could result in infringement liability under §271(f).
- In concluding, the court emphasized that its decision was consistent with the legislative history of the statute and with the Supreme Court’s presumption (AT&T case) against extraterritoriality of patents.

What is the significance of this decision ?

- *Cardiac Pacemakers* limits the scope and enforceability of method claims. Note *In re Bilski*, holding that to be patentable, a process must be tied to a particular machine or transform a particular article into something else.
- This decision narrows the reach of U.S. patent laws covering a company’s overseas production and sales.

Particularly, a limit on exports can create adverse economic incentives, especially as to technology companies. Writing for Cisco, Intel, Microsoft, Oracle and Symantec:

“A common business arrangement is for United States companies to export instructions, materials, recipes and other knowledge-exports abroad where manufacturing processes take place. An overbroad extraterritorial interpretation of §271(f) to apply to process patents creates potential worldwide liability for companies based in the United States that export anything that can properly be considered a process step. Yet, if their competitors exist outside the United States, they are not exposed to liability for United States patent infringement for supporting foreign manufacturing processes.”