

## REPORT

**EXPORTING PRODUCTS THAT ARE USED IN PATENTED METHODS DOES NOT INFRINGE U.S. METHOD CLAIMS**

September 1, 2009

**I. Summary**

Supplying components of a patented invention in or from the United States for combination in a foreign country constitutes patent infringement under 35 U.S.C. § 271(f). On August 19, in *Cardiac Pacemakers, Inc v. St. Jude Medical, Inc.*,<sup>1</sup> the Federal Circuit issued an *en banc* decision holding that § 271(f) does not apply to method claims. In so holding, the Court determined that St. Jude is not liable for infringement for exporting implantable cardioverter defibrillators that, in use, practiced the method steps of claim 4 of Cardiac's patent. The Federal Circuit's *en banc* decision overruled its 2005 decision in *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*<sup>2</sup>

**II. Background**

The *Cardiac Pacemakers* decision is the latest chapter in the effort to define the limits of extraterritorial application of U.S. patent laws. The decision was foreshadowed by the U.S. Supreme Court's 2007 decision in *Microsoft Corp. v. AT&T Corp.*<sup>3</sup>

U.S. patent laws generally apply only to activities in the United States and do not support a claim of infringement when an apparatus or product covered by a U.S. patent is made and sold in another country. Congress enacted 35 U.S.C. § 271(f) as an exception to this general rule and as a response to the Supreme Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*<sup>4</sup> That case had

held that U.S. patent laws did not prohibit a U.S. manufacturer from making in the United States the unassembled parts of a patented machine, as opposed to the fully assembled machine itself, and selling those parts to foreign buyers for assembly and use abroad. To close this "loophole," Congress enacted § 271(f), which provides that infringement occurs when one "suppl[ies] ... in or from the United States," for "combination" abroad, one or more of a patented invention's "components."<sup>5</sup>

**A. The Federal Circuit's 2005 § 271(f) Cases**

The Federal Circuit previously addressed the scope of § 271(f) in four cases decided in 2005: (1) *Eolas Technologies, Inc. v. Microsoft Corp.*;<sup>6</sup> (2) *AT&T Corp. v. Microsoft Corp.*;<sup>7</sup> (3) *NTP, Inc. v. Research In Motion, Ltd.*;<sup>8</sup> and (4) *Union Carbide Chemicals & Plastics Technology Corp. v. Shell Oil Co.*<sup>9</sup> All of those cases but *NTP* found liability under § 271(f).

*Eolas* involved a claim of § 271(f) liability for Microsoft's overseas distribution of its Internet Explorer software application. The software was sent overseas in the

<sup>5</sup> There are two subsections to § 271(f). Section 271(f)(1) applies to supply of all, or a substantial portion, of the components of a patented invention and requires that the supplier "actively induce" the combination of the components. Section 271(f)(2) can apply to a single component, so long as that component is specially adapted for use in the patented invention and not a staple of commerce and that the supplier intends that it will be combined to produce the invention.

<sup>6</sup> 399 F.3d 1325 (Fed. Cir. 2005).

<sup>7</sup> 414 F.3d 1366 (Fed. Cir. 2005).

<sup>8</sup> 418 F.3d 1282 (Fed. Cir. 2005).

<sup>9</sup> 425 F.3d 1366 (Fed. Cir. 2005).

<sup>1</sup> Appeal Nos. 2007-1296, -1347 (Fed. Cir. August 19, 2009).

<sup>2</sup> 425 F.3d 1366 (Fed. Cir. 2005).

<sup>3</sup> 550 U.S. 437 (2007).

<sup>4</sup> 406 U.S. 518 (1972).

September 1, 2009

form of master disks containing the object code, and copies of the software were installed in computers distributed in foreign countries. *Eolas* asserted both a product claim (for a computer program) and a method claim (for a method of using a computer workstation to execute a browser application). The Federal Circuit upheld § 271(f) liability, treating the patented invention as a "software product." It did not separately discuss the method claim. The Court considered the "software code on the golden master disk" to be a component of the invention and refused to treat § 271(f) "components" as limited to physical machines. It likewise refused to distinguish between process inventions and structural products for § 271(f) purposes.<sup>10</sup>

*AT&T Corp.* had similar facts to those of *Eolas*, involving the distribution of Microsoft's Windows operating system overseas, both on master disks and electronically, for installation in foreign computers. AT&T's asserted claim was for a computer capable of processing speech. The Federal Circuit treated both forms of distribution as involving the "supply" of a software component of the invention, even though the copy installed overseas was not the copy sent on the master disk, but a duplicate of that copy.<sup>11</sup> The Court considered that treatment to be consistent with § 271(f)'s purpose of closing a "loophole" in the patent laws.

In *NTP*, there were claims to both a system and a method for receiving emails on a handheld wireless device. The defendant's BlackBerry system utilized a server in Canada, but was nevertheless held to infringe the system claims under 35 U.S.C. § 271(a) when employed by U.S. users.<sup>12</sup> However, the Federal Circuit found no liability with respect to the method claims. With respect to § 271(f), selling BlackBerries to U.S. customers was not considered to be supplying a component for combination outside the U.S. Indeed, the Court commented that "it is difficult to conceive of how one might supply or cause to be supplied all or a substantial portion of the steps of a patented method in the sense contemplated" by § 271(f).<sup>13</sup>

In *Union Carbide*, the asserted claim was a process of producing ethylene oxide by using a certain catalyst in a reactor. The product exported was the catalyst. The Federal Circuit relied on *Eolas* in holding that

method/process inventions are subject to § 271(f), identifying the catalyst as the "component" that was "used in the performance of a patented process or invention."<sup>14</sup>

## B. The Supreme Court's 2007 *Microsoft* Case

In 2007, the Supreme Court decided *Microsoft Corp. v. AT&T Corp.*,<sup>15</sup> reversing the Federal Circuit's 2005 *AT&T* decision. The Supreme Court held that "the very components supplied from the United States, and not copies thereof," must be the things combined abroad to produce § 271(f) liability. Accordingly, because Microsoft's master disks were not themselves incorporated into the foreign computers, there was no infringement. The Court adhered to the general rule that U.S. patent laws are not to be given extraterritorial scope and indicated that any exception should be made by Congress and not by courts based on statutory policy arguments. See our May 7, 2007 Special Report.

The Court noted that software can be conceptualized either as "software in the abstract: the instructions themselves detached from any medium" or as "a tangible 'copy' of software, the instructions encoded on a medium such as a CD-ROM."<sup>16</sup> The Court determined, at least in the context of AT&T's computer invention, that "software in the abstract," without physical embodiment, was not amenable to "combination" and could not constitute a component under § 271(f).<sup>17</sup> The majority opinion's footnote 13 noted, but did not decide, that if an intangible method or process could be a "patented invention" under § 271(f), it might be possible for software in the abstract to be a component of that invention.

A concurring opinion by three Justices relied primarily on the view that a "component" must be something physical.

## III. The *Cardiac Pacemakers* Decision

### A. Background and Decision Below

As noted above, Cardiac accused St. Jude of infringement for exporting implantable cardioverter defibrillators (ICDs) that practiced the method steps of

<sup>10</sup> 399 F.3d at 1338-40.

<sup>11</sup> 414 F.3d at 1369-72.

<sup>12</sup> 418 F.3d at 1317.

<sup>13</sup> *Id.* at 1322.

<sup>14</sup> 425 F.3d at 1378-80.

<sup>15</sup> 550 U.S. 437 (2007).

<sup>16</sup> *Id.* at 447-48.

<sup>17</sup> *Id.* at 449-52.

September 1, 2009

claim 4 of Cardiac's patent. The claimed method of using an implantable heart stimulator included the steps of determining a condition of the heart, selecting a mode of operation of the stimulator corresponding to the heart condition (the potential modes including cardioversion), and executing the mode to treat the heart condition.

The district court, relying on the Federal Circuit's decision in *Union Carbide*, found that such shipment of ICDs violated § 271(f). A Federal Circuit panel initially affirmed, but the Court subsequently granted a petition for rehearing *en banc*, thereby vacating the panel decision.

### B. The *En Banc* Court's Analysis

The *en banc* Court found that the plain language of § 271(f), legal precedent relating to method claims, and the legislative history of the statute all support the conclusion that § 271(f) does not apply to method claims. The *en banc* Court therefore overruled *Union Carbide*.

While conceding that the term "patented invention" used in § 271(f) did not limit the scope of the statute to product claims, the Federal Circuit found that other statutory language did so. In particular, the requirements that a "component" of the patented invention be "supplied" outside the United States were found to be inconsistent with applying § 271(f) to method claims.

The Court noted that a component of a tangible product, device, or apparatus is a tangible part, whereas a component of a method or process is a step in that method or process. Thus, while the steps of a method claim may be the "components" of the claim, "the steps are not the physical components used in performance of the method." Accordingly, such physical apparatus cannot be a "component" of a method invention.<sup>18</sup>

The Federal Circuit supported that reasoning by noting that § 271(c) of the statute distinguished between "a component of a patented machine, manufacture, combination, or composition" and "material or apparatus for use in practicing a patented process." Congress had thus used the term "component" to refer to a part of a physical thing, and treated such a "component" as distinct from "material or apparatus" used in practicing a process.<sup>19</sup>

The requirement that the components be "supplied" was a further basis for the Federal Circuit's conclusion. The Court indicated that the ordinary meaning of "supply" is "to provide that which is required," or "to furnish with . . . supplies, provisions, or equipment." Such meanings imply the transfer of a physical object. As reflected in its comment in *NTP*, the Court considered supply of an intangible step of a method to be a physical impossibility.<sup>20</sup>

The Court found its holding to be consistent with the legislative history of § 271(f). Section 271(f) was enacted to address the situation in *Deepsouth*, which involved shipment abroad of an unassembled patented machine. In enacting § 271(f), Congress referred to avoiding overseas shipment of "components of a product." Thus, there was no clear indication in the legislative history that Congress intended to address method claims.<sup>21</sup>

Construing § 271(f) as not extending to method claims was also found to be consistent with the general presumption against extraterritoriality, prescribed in the Supreme Court's *Microsoft* case.<sup>22</sup>

Accordingly, the Federal Circuit held that § 271(f) does not apply to method claims, overruling *Union Carbide* and disavowing any contrary suggestion in *Eolas* or other cases. In applying that holding, it determined that St. Jude's supply of ICDs outside of the United States capable of practicing the claimed method was not infringement.

### C. Judge Newman's Dissent

Judge Newman dissented from the views of her eleven colleagues who joined the *en banc* decision. Her dissenting opinion has no binding legal effect on subsequent cases.

In a lengthy opinion, Judge Newman focused on the statutory term "patented invention" as being applicable to both product and method claims. Judge Newman discerned a Congressional intent to cover process inventions in § 271(f) based primarily on the difference between the "patented invention" language incorporated in the ultimate statute and language in prior bills submitted to earlier Congresses that had been explicitly directed to "a patented machine."<sup>23</sup>

<sup>20</sup> *Id.* at 26, citing *NTP*, 418 F.3d at 1332.

<sup>21</sup> *Id.* at 27-28.

<sup>22</sup> *Id.* at 28-29.

<sup>23</sup> Dissenting opinion, slip op. at 8-9.

<sup>18</sup> Slip op. at 23-25.

<sup>19</sup> *Id.* at 25-26.

September 1, 2009

In Judge Newman's view, "the claims include both method and structural aspects" such that the heart stimulator may be combined with the process steps abroad to implicate § 271(f).<sup>24</sup>

#### IV. Conclusions and Recommendations

The *Cardiac Pacemakers* decision eliminates potential U.S. patent infringement liability for claimed methods performed abroad using products exported from the United States. *Cardiac Pacemakers* can seek review of the Federal Circuit's decision by the U.S. Supreme Court, although the Supreme Court may decline such review, given the general consistency of the Federal Circuit's *en banc* decision with the Supreme Court's reasoning in its 2007 *Microsoft* decision.

Of course, product claims can cover devices like St. Jude's ICDs, and § 271(a) patent infringement liability would apply to any such devices made in the United States and exported abroad if they infringe an appropriate product claim. Manufacture of a component of a patented device can also potentially support liability under § 271(b) and (c) (addressing induced and contributory infringement, respectively).

Accordingly, we continue to recommend that a broad range of both product and method claims be considered when seeking patent protection for any invention. Also,

where the invention relates to a system, such as in the case of Internet or GPS inventions, a system claim may permit use of the rule announced in the Federal Circuit's *NTP* case that there may be § 271(a) liability in the United States for a system used in the United States, even if some aspects of the system may operate or reside in foreign countries.

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<sup>24</sup> *Id.* at 12.