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Extraterritorial Expansion of U.S. Patent Law

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With the advent of the global economy, the design, manufacturing, marketing, and sales activities of businesses are being performed increasingly overseas. Naturally, the owners of U.S. patents are increasingly attempting to enforce their U.S. patents against activities carried out at least in part, if not entirely, outside the U.S.

Such attempts at first sight appear futile given the basic principle that U.S. patent rights are confined to the U.S. and its territories and infringement of a U.S. patent cannot be predicated on acts wholly done in a foreign country. See *e.g.*, *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641 (1915). However, recent Federal Circuit cases show that such attempts may sometimes be successful. See *e.g.*, *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366 (Fed. Cir. July 13, 2005) and *NTP, Inc. v. Research in Motion, Ltd.*, 2005 U.S. App. LEXIS 15920 (Fed Cir. August 2, 2005).

AT&T involves AT&T's U.S. Reissue Patent No. 32,580 and Microsoft's Windows® software. The Windows® software included certain speech codecs which, when installed on a computer, are alleged to infringe AT&T's '580 patent. Microsoft supplied a limited number of master versions of the Windows® software to authorized foreign "replicators," who pursuant to their licensing agreements with Microsoft, replicated the master versions to generate multiple copies of Windows® for installation on foreign-assembled computers. The master versions were created in the U.S. and sent abroad on so-called "golden master" disks or via electronic transmission.

During the course of AT&T's lawsuit against Microsoft for patent infringement, Microsoft moved *in limine* to exclude evidence of purported liability under 35 U.S.C. §271(f), which provides:

> "(1) Whoever without authority supplies … in or from the United States … the components of a patented invention … 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.
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> (2) Whoever without authority supplies … in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention … 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 motion *in limine* was subsequently converted into a motion for partial summary judgment of noninfringement under §271(f), which the district court denied.

On appeal, Microsoft first argued that software is intangible information that cannot be a "component" under §271(f). However, the *AT&T* court quickly rejected this argument, relying on *Eolas Techs. Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005). *Eolas* had held that "statutory language did not limit section 271(f) to patented ‘machines’ or patented ‘physical structures,’” such that software could very well be a “component” of a patented invention under §271(f).

Microsoft’s second argument was that no actual “components” had been “supplied” from the U.S. as required by §271(f), because the foreign-replicated copies of Windows® software, which were made from a master version supplied from the U.S. and installed on the foreign-assembled computers, had all been “manufactured” abroad. The court rejected this argument, stating that given the nature of the technology, for software “components,” 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 for the foreign-made copies. Microsoft’s suggestion that software sent by electronic transmission must be treated differently for the purposes of §271(f) was also rejected; *AT&T* held that liability under §271(f) does not depend on the medium used for exportation. The court’s view was that its interpretation of “supplied … in or from the United States” of §271(f) in the context of software is consistent with Congress’ motivation for enacting §271(f), i.e., to prevent copiers from avoiding U.S. patents by manufacturing the components of patented products (*e.g.*, the Windows® software) in the U.S. and then shipping them abroad for assembly.

Software companies should pay particular attention to the *AT&T* case, since exportation of software may constitute patent infringement under §271(f), regardless of whether it is in the form of an installation copy or a master copy and regardless of whether it is by a computer-readable medium or by electronic transmission. They should consider the amount of their exposure, if any, from patent infringement arising from exportation of software to foreign countries. Licensors and licensees of software should consider how they should allocate risks of infringing a U.S. patent that could arise from exportation of software to foreign countries, and incorporate appropriate indemnification provisions in their license agreements.

Another case, *NTP*, involved NTP’s U.S. patents that are directed to integration of e-mail systems with RF wireless communication networks. NTP alleged that Research in Motion (“RIM”), through its BlackBerry system, had infringed its patents under 35 U.S.C. §271(a), which provides:

> “… 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 … infringes the patent.”

In the district court, RIM moved for summary judgment of non-infringement, arguing that it could not be an infringer under §271(a) because the BlackBerry Relay, which was alleged to meet the “interface” limitation in the system claims and the method claims of the NTP patents, is located in Canada and thus the infringing activity did not occur within the United States. The BlackBerry Relay routes email messages from a mail server to a partner’s wireless network for delivery to the user’s handheld device. The district court denied the motion and held that the fact that the BlackBerry Relay is located in Canada does not preclude infringement.

On appeal, RIM contended that infringement under §271(a) can occur only if the allegedly infringing activity occurs within the U.S. and that the standard is not met because the BlackBerry Relay component is housed in Canada. RIM argued that, for §271(a) to apply, the entire accused system and method must be contained or conducted within the U.S.

As to the system claims in the NTP patents, *NTP* held that the use of a claimed system under 271(a) is the place at which the system as a whole is put into service, i.e., the place where control of the system is exercised and beneficial use of the system is obtained. According to the *NTP* court, the use of NTP’s asserted system claims occurred within the U.S., because RIM's customers located within the U.S. controlled the transmission of the originated information and also benefited from such an exchange of information. Therefore, *NTP* held that the location of the BlackBerry Relay in Canada did not, as a matter of law, preclude infringement of the system claims under §271(a).

As to the method claims in the NTP patents, however, a different conclusion was reached. The court distinguished methods or processes from systems in which the components are used collectively. The court stated that a process is a sequence of actions and that the use of a process necessarily involves doing or performing each of the steps recited in the method claims. Therefore, *NTP* held that a process cannot be used "within" the United States as required by §271(a) unless each of the steps is performed within the U.S. Because each of NTP's asserted method claims recites a step that utilizes an "interface" which is only satisfied by the use of RIM's BlackBerry Relay located in Canada, the method claims, as a matter of law, could not be infringed by use of RIM's system. *NTP* also added that RIM's performance of at least some of the recited steps of the method claims as a service for its customers cannot be considered selling, offering to sell, or importing the invention under §271(a).

Companies that operate systems with certain components of the systems located outside the U.S. should be alerted by *NTP*, since *NTP* suggests that the mere presence of certain components of the system outside the U.S. does not preclude patent infringement of system claims under §271(a) so long as control of the system is exercised and beneficial use of the system is obtained in the United States. Simply moving a component of an infringing system outside the U.S. would not avoid patent infringement under §271(a).

Both *AT&T* and *NTP* show courts' willingness to expand the reach of U.S. patent law to cover infringing activity that at least in part occurs outside the U.S. Companies involved in technology license agreements or patent infringement actions in the U.S. should consider the risks arising from overseas business activities in their license agreements or litigation strategies.

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