

Extraterritorial Effects Of U.S. Patents

Tuesday, June 27, 2006 --- I. Introduction

Infringement of a United States (U.S.) patent generally results from making, using, selling or offering to sell in the U.S., or importing into the U.S. products (or services) covered by the patent. 35 U.S.C. §271(a). When an activity occurs entirely outside of U.S. borders, there is no infringement under § 271(a). However, some activity outside the U.S. can result in infringement of a U.S. patent. Two relatively recent cases, *NTP, Inc. v. Research In Motion, Ltd.* and *Eolas Technologies, Inc. v. Microsoft Corp.*, illustrate this phenomenon. *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005); *Eolas Technologies Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005). In these two cases, over a billion dollars was awarded to the plaintiffs (\$612.5 million to NTP and \$525 million to Eolas), despite the fact that a significant portion of the activity occurred outside of the U.S. This article will examine infringement based on extraterritorial activity in light of these two cases and proposed legislation that would further expand the reach of U.S. Patents. The article will also identify some questions that remain open despite the Federal Circuit's decisions in these cases. Lastly, this article provides claim drafting tips that patent owners may use to avoid some of the uncertainty of infringement in light of extraterritorial issues.

II. Relevant Law

* The NTP Case *

The Federal Circuit's holding in *NTP* makes clear that the infringement analysis for extraterritorial activities is different for each of the various types of infringing acts (e.g., making, using, selling) and for different types of claims (e.g. system or method).

In *NTP*, the patented invention was an electronic mail system which routed messages from a network mail system to mobile handheld devices. The accused system was similar, but used a server located in Canada to route messages for wireless delivery in the U.S. The Federal Circuit held that the entire accused system was used in the U.S. and affirmed infringement of the system claims despite the server location in Canada. The Federal Circuit analyzed the use of the accused technology based on where (1) the system was put to beneficial use, and (2) control of the system was exercised. This holding demonstrates that a component of an accused system can be located outside the U.S. States and infringement of a system claim can still occur.

In contrast, the Federal Circuit found that the method claims were not

infringed. Unlike the system claims, the Federal Circuit held that infringement of a method claim requires that all claimed steps occur within the U.S. The Federal Circuit concluded that because the server in Canada performed steps outside the U.S., the method claims were not infringed under § 271(a), § 271(f), or § 271(g).

* The Eolas Case *

In Eolas, Microsoft exported from the U.S. golden master disks containing software code. Manufacturers loaded the code onto hard drives outside the U.S. At issue was whether exported software code is a component of a final product under § 271(f). § 271(f) covers supplying components of a patented invention in or from the U.S. for combination outside the U.S. in a manner covered by a U.S. patent. In Eolas, the Federal Circuit held that Microsoft's export of the golden master disks constituted an act of infringement even though copies were made and loaded onto computers outside the U.S. Significantly, the court's damage calculation included the extraterritorial activity (i.e., copies made outside the U.S.).

* Proposed Legislation *

The Informatics Act was introduced in November 2005. H.R. 4208, 109th Cong. (2005). This legislation would expand infringement under § 271(g) to include the importation into the U.S. of information generated outside the U.S. according to a process claimed in a U.S. patent. Under § 271(g), infringement of a U.S. patent can be based on importing into the U.S. a product made from a process patented in the U.S. The Act was proposed in response to Bayer AG v. Housey Pharmaceuticals, Inc., where the Federal Circuit limited the reading of § 271(g) to only physical products produced through a manufacturing process. Bayer AG v. Housey Pharmaceuticals, Inc., 340 F.3d 1367 (Fed. Cir. 2003).

III. Open Issues for Federal Circuit Consideration

Certain issues touched on by the Federal Circuit may warrant further consideration. A few specific areas for additional attention include the degree of system control required to constitute a use, the activities that constitute a beneficial use, the factors necessary to determine where a system is made, and the sale of method claims covering services.

Two open issues resulting from the NTP case are: (1) what constitutes "control of a system;" and (2) what defines "beneficial use." What degree of system control is necessary, from within the U.S., to subject a system to U.S. patent law? In NTP, the accused system's customers who were located in the U.S. were said to control the transmission of the information, despite the physical location of the server in Canada. It is unclear the impact physical domain or the ability to directly operate and service a system component have on control. The Federal Circuit also found "beneficial use" in the U.S., but did not explain the factors that determine beneficial use.

Another open issue is whether a system can be infringed under § 271(a) based on the act of making a system. In NTP, the Federal Circuit did not discuss this issue. However, components often must be assembled to “make” a system. This assembly may be performed in multiple locations. If so, a question arises regarding what factors are relevant to determine where a system is made when assembly occurs partially outside and partially within the U.S.

The NTP case also highlights a possible nuance of method patents not directly related to extraterritorial activity. Whether a method claim can be infringed by the act of selling may need to be clarified. In NTP, the Federal Circuit held that the infringing acts of selling and offering to sell are not applicable to method claims. This is based on the notion that there is no property transferred when a series of steps are performed. However, this logic arguably may not be valid when a method claim is for a service (as opposed to a method claim for making a product). Service providers clearly offer their services for sale. Under the right facts, this issue may warrant further consideration under the sale and offer to sell portions of § 271(a).

IV. Claim Drafting Tips

Globalization is a reality of modern business and the international dimensions of U.S. patent law remain fluid. This creates some uncertainty for U.S. patent owners. Some of this uncertainty can be avoided by using specific claim drafting techniques. A patent should be drafted, where possible, to include multiple claims that parse the patented activity between the different functions performed by each system component. Claim sets should be drafted from the perspective of different system components, in addition to the system as a whole.

Consider as a simple example a client-server system. Assume that (1) a user at the client device issues a request to the server, (2) the server processes the request, and (3) the server transmits the result to the client. A traditional system claim might recite the steps exactly as described above. A potential problem with this claim results if either the server or the client is outside the U.S.

To avoid this issue, you can draft separate claims for server side and client side functions. For example, a server side claim would recite the server receiving a request, the server performing processing, and the server transmitting a processed result in response to the request. A client side claim would recite a client issuing a request to a server and a client receiving, from the server, a processed result in response to the request. It is also advisable to include an overall system claim in the event all of the infringing activity occurs in the U.S. By drafting these different types of patent claims, a patent owner will have greater leverage to pursue direct infringement, even if the client device or server is located outside the U.S.

V. Conclusion

As the world has changed due to globalization, so too the U.S. patent system has changed. U.S. patent law has evolved to include infringement for certain activities not occurring within the U.S. Overseas components of system claims may not shield an actor from infringement when the accused system is ultimately used and controlled in or from the U.S. Furthermore, exporting components to be included as part of a manufactured product opens an actor to possible infringement. Even overseas processes that generate information that is imported into the U.S. may come within reach of U.S. patent law. Drafting claims in the manner suggested can avoid some of the uncertainties resulting from these situations.

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