



RECENT SUPREME COURT *MICROSOFT CORP. v. AT&T CORP.* DECISION REINFORCES NATIONALITY OF UNITED STATES PATENT LAW

On Monday, April 30th, the U.S. Supreme Court ruled in favor of Microsoft in the long-awaited case of *Microsoft Corp. v. AT&T Corp.* No. 05-1056, 550 U.S.____ (2007). The case involved the interpretation of section 271(f) of the Patent Act and the breadth of its reach to extraterritorial activities. Section 271(f) prohibits supplying of “components” of a patented invention for combination abroad. It was enacted in 1984 in response to a Supreme Court ruling in *Deepsouth Packing* that permitted an infringer to supply parts of an infringing machine for assembly abroad. *Deepsouth Packing Co. v. Laitram Corp.* 406 U.S. 518, 519 (1972). In *AT&T*, the Court held that computer software detached from an activating medium is not a “component” under section 271(f). As a result of this decision, patent owners should be aware of the following:

- For companies with a “golden master disc” model – i.e. those who supply software code for replication and installation on computers – there may no longer be liability for domestic contributory infringement under section 271(c), as software is not a “component” of an infringing device.
- Many other industries, such as pharmaceutical, chemical, and biotechnical, that rely on a similar “golden master” model may also avoid 271(f) and 271(c) infringement under this theory. This underscores the importance of considering a range or claim types during prosecution of a patent.

Merchant & Gould
An Intellectual Property Law Firm



- It may now be more difficult for patent holder to prove damages against a company employing such a model where direct infringement is lacking, as liability may only arise from section 271(b), which requires proof of an intent to infringe.
- Unless Section 271(f) is broadened by an act of Congress, protection from foreign copying of software lies in obtaining foreign patent protection.
- The Supreme Court has signaled that there are no special infringement rules for software based inventions, and issues arising in those cases are to be resolved using traditional canons of statutory construction and interpretation.

Several important questions, however, have been left unanswered by this case. These issues will likely be the subject of further dispute and litigation:

- It is unclear whether software is alone patentable.
- It is unclear whether a method invention may be infringed under 271(f).
- It is unclear whether a product is a “component” of a patented method invention.
- It is unclear whether there would be liability under 271(f) for shipping a golden master disc abroad, inserting the disc directly into a computer to install the software and then removing the disc. Four justices expressed no opinion on this issue, three held that it would not be an infringing act under 271(f), and one held that it would be an infringing act.

Merchant & Gould

An Intellectual Property Law Firm



AT&T owned a patent on a computer used to digitally encode and compress recorded speech. Microsoft's Windows operating system, when installed, enabled a computer to process speech potentially in the manner claimed in the patent. Microsoft sent each foreign manufacturer code for Windows on a "golden master disc" or electronically from the U.S. The code was then replicated and installed on computers made and sold abroad. The replicated copies of the code, not the master version, were installed on the computers.

Section 271(f), enacted in 1984, attaches liability to the supply abroad of "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 the United States." Microsoft argued that unincorporated software, because it is intangible information, cannot be a "component" of an invention under 271(f). Further, it argued that because copying of the code occurred abroad, it did not "supply" a component from the United States.

The Court held that software code in the abstract is an idea without physical embodiment, and as such, it is not a "component" amenable to "combination" under 271(f). The Court analogized such software code to a set of instructions, a blueprint or design information, which may contain instructions for the construction and combination of components of a patented device, but is not itself a combinable component. The Court rejected AT&T's argument that the dynamic nature of software in the form of machine readable object code and the fact that software's instructions are continuously performed by a computer, characterizes software uncoupled from a tangible medium as a "combinable component."

The Court also rejected the reasoning of the Federal Circuit's opinion, which held in favor of AT&T, that due to the nature of the technology the act of copying was "subsumed" in

Merchant & Gould
An Intellectual Property Law Firm



the act of supplying. *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366 (Fed. Cir. 2005). Agreeing with Judge Rader's dissent in the Federal Circuit's opinion, the Supreme Court held that the word "supplying" is ordinarily understood to mean an activity separate and distinct from any subsequent copying.

AT&T strenuously argued that Microsoft's interpretation created a "loophole" in section 271(f) that could be exploited by a business arrangement, such as Microsoft's, involving easy copying of software developed in the United States for shipment, re-copying and installation overseas. The Federal Circuit had agreed, noting that a master sent abroad differed not at all from the exact copies that were generated swiftly and easily from the master. In that regard, the Federal Circuit held that section 271(f) should be "interpreted in a manner that is appropriate to the nature of the technology at issue."

The Supreme Court rejected this approach. It held that while copying software abroad is indeed easy and inexpensive, section 271(f) contained no instructions to gauge when duplication is easy and cheap enough to deem a copy made abroad "supplied from the United States." Further, the Court noted that the presumption against extraterritoriality applies with particular force in patent law. Thus, section 271(f) liability is triggered when the very component that is shipped abroad is itself combined to form the patented invention, not when a copy of the shipped element is combined to form the invention.

Three members of the Court concurred in the result and in the holding that the original Windows CD-ROM was not a "component" of the patented invention. The concurrence, however, would go further than the majority and hold that even if the very copy that was shipped abroad was installed onto the computers, because the disc could simply be removed from the computer, it would also not be a component. The sole dissent by Justice Stevens .

Merchant & Gould
An Intellectual Property Law Firm



took the view adopted by the Federal Circuit that shipping the golden master disc was the functional equivalent of a warehouse of components to be incorporated into foreign-manufactured computers.

The *AT&T* case clarifies the reach of Section 271(f), and underscores that the Court will continue to resolve patent issues applying traditional legal principles. In this case, the Court was reluctant to extend the reach of the statute beyond its literal terms, and held that AT&T's remedy was with Congress, or to obtain foreign patent protection for its invention.

The *AT&T* opinion, however, does not fully detail the applicability of 271(f) to patents in general. As this case dealt with the infringement of a physical computer system that executed software instructions, the Court did not address whether a method invention—an invention composed of a series of intangible method steps—may be infringed under 271(f). It is, therefore, still unclear whether a method step is a “component” of patented invention that may be “supplied” abroad, or whether there is a supply-able physical element that functions as a component of a method invention, such as a machine or catalyst (as in *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 425 F.3d 1366 (Fed. Cir. 2005)) that is specially adapted to executing the patented method.

The conclusion that “golden master” software—that is, software which is not itself loaded onto a computer, but rather used to create replicated copies that are in turn loaded onto computers—is not a “component” has implications for liability under section 271(c) for contributory infringement. That section provides liability under certain circumstances against anyone that offers to sell or sells within the United States of a component of a patented invention. Case law and canons of statutory interpretation suggest that the term “component” in section 271(c) is equivalent to the term “component” in section 271(f). Under *AT&T*,

Merchant & Gould
An Intellectual Property Law Firm



“golden master” software is not a “component” and therefore arguably there is no longer section 271(c) liability for the supply of software as a component. This reasoning is likely extendable to other industries, such as pharmaceutical, chemical, and biotechnical, that sell replicatable material (including cell lines or genetic molecules that can be regenerated) in which the replicated copies of the sold material are used, rather than the originally sold element.

It should be noted, however, that one should be cautious in applying the holding of *AT&T* to section 271(c). Section 271(f) requires that a “component” be “supplied,” two concepts that are intertwined and not easily teased apart. As such, *AT&T* does not independently define “component.” Rather, it defines a “supplied component,” a concept narrower than “component” alone. As section 271(c) does not require that a component be supplied, it is unclear whether all that is excluded from the definition of “component” under section 271(f) is also excluded from the definition of “component” under section 271(c).

The possible new limited scope of section 271(c) has additional implications in light of a recent *en banc* Federal Circuit decision, *DSU Medical Corp. v. JMS Co.* 471 F.3d1293 (Fed. Cir. 2006), which clarified that inducement liability under section 271(b) requires proof that the inducer intended the infringement, and not just the acts constituting infringement. Thus, as a practical matter, *AT&T* may have limited the scope of damage recovery for liability for provision of “golden master” elements, such as software, to period of time after the defendant had notice of the patent.

Authored by Benjamin J. Byer and Regina (Gina) Vogel Culbert. For more information please call 612.332.5300.

Merchant & Gould
An Intellectual Property Law Firm