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Supreme Court Clarifies Extraterritorial Reach of 35 U.S.C. § 271(f) with Respect to Software Patents

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In a significant victory for Microsoft and U.S. software manufacturers in general, the Supreme Court issued its decision in *Microsoft Corp. v. AT&T Corp.* (Case No. 05-1056) on April 30, 2007, ending a long-standing patent dispute between the two technology titans. In its decision, the Court answered the following two questions:

1. When, or in what form, does software qualify as a “component” under 35 U.S.C. § 271(f)?
2. Are copies of software code made abroad from a single master version supplied from the United States “supplie[d] . . . from the United States” within the meaning of 35 U.S.C. § 271(f)?

On the first question, the Court held that copies of software code, when embodied in a computer-readable medium, can be a “component of a patented invention” under § 271(f). Software code in the abstract, however, devoid of any physical medium, is not a “component” within the meaning of the statute.

On the second question, the Court held that copies of software code made abroad from a master version of code supplied from the United States were not “supplie[d] from the United States” under § 271(f).

Background

AT&T is the holder of a patent covering an apparatus for digitally encoding and compressing recorded speech, which it asserted against Microsoft in the U.S. District Court for the Southern District of New York. During the district court proceedings, it was conceded that Microsoft’s Windows operating system potentially infringes AT&T’s patent. AT&T and Microsoft settled their dispute concerning sales of computers containing the Windows software in the United States but continued to litigate whether Microsoft was liable for foreign-made computers containing the Windows software. Microsoft shipped master copies of its Windows operating system software on so-called “golden disks” to foreign manufacturers who then made copies for installation into foreign-made computers sold abroad.

The district court found that Microsoft was liable for infringement of AT&T’s patent under § 271(f) for copies of the Windows operating system that had been copied abroad from the master versions sent from the U.S. and thereafter installed onto foreign-made computers.

In affirming the district court’s holding, the Court of Appeals for the Federal Circuit found that software code, even if intangible, was a component of a patented product within the meaning of § 271(f). *AT&T v. Microsoft*, 414 F.3d 1366 (Fed. Cir. 2005). Citing its previous decision in *Eolas Technologies Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005), the Federal Circuit reasoned that software is patentable subject matter and, therefore, may be a “component of a patented invention.”

The Federal Circuit further held that supplying a single master copy of software with the intent that it be copied abroad is the same as supplying each copy of the software individually. The Federal Circuit reasoned that copying is “part and parcel of software distribution. Accordingly, for software ‘components,’ the act of copying is subsumed in the act of ‘supplying.’”

Supreme Court Reverses the Federal Circuit

In reversing the Federal Circuit’s decision, the Supreme Court explained that § 271(f) was enacted by Congress in response to the Court’s holding in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). In that case, Laitram, the holder of a patent on a shrimp deveining machine, sued Deepsouth, which made physical components of a deveining machine in the U.S. and shipped them abroad where they were assembled into an otherwise infringing machine. The physical components themselves were not separately patented. Interpreting the patent laws as then written, the Court held in *Deepsouth* that it was “not an infringement to make or use a patented product outside of the United States.” *Id.* at 527. To overcome the apparent loophole created by the *Deepsouth* decision, Congress enacted § 271(f) in 1984. (Slip op. at 2-4.)

Section 271(f) provides:

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 U.S.C. § 271(f) (emphasis added).

Software Copies Embodied in a Computer-Readable Medium, Not Software in the Abstract, May Be a “Component”

In framing the issue of whether software can qualify as a “component” under § 271(f), the Court noted “no one in this litigation argues that software can *never* rank as a ‘component’ under § 271(f). The parties disagree, however, over the stage at which software becomes a component.” (Slip op. at 7.) In addressing this issue, the Court found that § 271(f) applies to supplying abroad 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*.” (Slip op. at 9.) Focusing on the “combination” language, the Court found that until software is actually expressed as a computer-readable copy, *e.g.*, on a CD-ROM, it is not capable of being combined with anything. In particular, the Court stated that software code “cannot be inserted into a CD-ROM drive or downloaded from the Internet; it cannot be installed or executed on a computer. Abstract software code is an idea without a physical embodiment, and as such, it does not match § 271(f)’s categorization: ‘components’ amenable to “combination.”” (*Id.* at 9-10.) Therefore, the Court held that it is the actual copy of Windows installed into computers, not Windows in the abstract, that qualifies as a “component” within the meaning of § 271(f).

AT&T argued that, because it is so easy to copy software code from the master version, this extra copying step should not play a decisive role under § 271(f). The Court, however, rejected this argument and reasoned that “the extra step is what renders the software a usable, combinable part of a computer; easy or not, the copy-producing step is essential.” (Slip op. at 11.) While recognizing that copying software is indeed easy and inexpensive, the Court noted that the same could be said of physical items such as keys or machine parts copied from a master. (Slip op. at 14.)

The Court further noted that Congress could have explicitly included information, instructions, or tools from which components could be easily made or generated within the meaning of “components” in § 271(f), but chose not to include this language. (Slip op. at 12.)

Supplying a Master Version Did Not Amount to Supplying Each Copy Made Abroad

Having first determined that software code does not become a “component” under § 271(f) until it is copied onto a computer-readable medium, the Court next turned to the question of whether the copies made by foreign OEM’s were “supplied from the United States” within the meaning of § 271(f). The Court noted that the answer to this second question is intertwined with the answer to the first question. (Slip op. at 8.) (“If the relevant components are the copies of Windows actually installed on the foreign computers, AT&T could not persuasively argue that those components, though generated abroad, were ‘supplie[d] . . . from the United States . . .’”).

Thus, the Court held that, because Microsoft did not export the copies of Windows installed on the foreign-made computers in question, Microsoft did not “suppl[y] . . . from the United States” “components” of those computers, and therefore is not liable under § 271(f). (See Slip op. at 13) (“the copies of Windows actually installed on the foreign computers were not themselves supplied from the United States. Indeed, those copies did not exist until they were generated by third parties outside the United States.”). Therefore, the Court held that Microsoft cannot be liable for foreign-made copies of master versions of the Windows operating system supplied from the United States under § 271(f).

In its analysis, the Court cited Judge Rader’s dissent in the underlying Federal Circuit decision, where he noted that “copying and supplying are separate acts with different consequences - particularly when the ‘supplying’ occurs in the United States and the copying occurs in Düsseldorf or Tokyo. As a matter of logic, one cannot supply one hundred components of an invention without first making one hundred copies of the component[.]” (Slip op. at 13.)

Any Loophole Should Be Addressed by Congress

While recognizing that its decision may create a “loophole” in favor of software makers, the Court was “not persuaded that dynamic judicial interpretation of § 271(f) is in order.” (Slip op. at 17) The Court commented that this “loophole” is properly left for Congress to consider, and to close if warranted. (*Id.*)

The Court further noted that “Congress is doubtless aware of the ease with which software (and other electronic media) can be copied” and stated that “[i]f the patent law is to be adjusted better to ‘account for the realities of software distribution,’ the alteration should be made after focused legislative consideration, and not by Judiciary forecasting Congress’ likely disposition.” (Slip op. at 19.)

AT&T Should Enforce Foreign Patent Rights

The Court further recognized a presumption that U.S. law governs only domestic matters, particularly in the context of patent law. Foreign conduct is generally the domain of foreign law, and in the patent area, that law may embody different policy judgments about the relative rights of inventors, competitors and the public. (Slip op. at 15-16.) “In short, foreign law alone, not United States law, currently governs the manufacture and sale of components of patented inventions in foreign countries. If AT&T desires to prevent copying in foreign countries, its remedy today lies in obtaining and enforcing foreign patents.” (Slip op. at 16.)

Justices Alito, Thomas and Breyer Take Narrower View of § 271(f)

It is worth noting that in a concurring opinion written by Justice Alito and joined by Justices Thomas and Breyer, the three Justices agreed with the holding of the majority opinion but further argued that § 271(f) should only apply to physical objects that are permanently combined with the infringing apparatus:

Because no physical object originating in the United States was combined with these computers, there was not violation of § 271(f). Accordingly, it is irrelevant that the Windows software was not copied onto the foreign-made computer *directly* from the master disk or from an electronic transmission that originated in the United States. To be sure, if these computers could not run Windows without inserting and keeping a CD-ROM in the appropriate drive, then the CD-ROMS might be components of the computer. But that is not the case here.

Because the physical incarnation of code on the Windows CD-ROM supplied from the United States is not a “component” of an infringed device under § 271(f), it logically follows that a copy of such a CD-ROM also is not a component.

(Concurring Op. at 4.)

Finally, Justice Stevens dissented and would have affirmed the judgment of the Federal Circuit in favor of AT&T.