Microsoft v. AT&T – US Patents Rarely Reach Abroad

2007-05-17

April 30, 2007, was a big day for patents at the US Supreme Court. In addition to redefining when a US patent is or is not "obvious" (*KSR v. Teleflex*;see our May 4, 2007, email alert), the Court, in *Microsoft v. AT&T*, also reaffirmed "the general rule [is] that our patent law does not apply extraterritorially" and "that no infringement [of a US patent] occurs when a patented product is made and sold in another country."

There are two exceptions to this general rule, and both are the result of explicit congressional action. One, added to the patent laws in 1988, covers an imported product made abroad by a process patented in the United States [35 U.S.C. 271(g)]. The other, involved in *Microsoft* and enacted in 1984, covers the exportation of a "component" that is later combined outside the United States in a way that, had the combination occurred here, would have infringed the US patent [35 U.S.C. 271(f)].

Before section 271(f), a company that made an entire patented machine could avoid infringing a patent by simply shipping the parts abroad in an unassembled state. In one of the first cases applying this rule, RCA shipped a radio and its vacuum tubes in the same carton, but separately packaged. In the case that led to section 271(f), *Deepsouth Packing Co. v. Laitram Corp.*, the accused infringer told its customer "that there are two parts that must not be assembled in the United States, but assembled [in less than an hour] after the machine arrives in Brazil."

In *Microsoft*, the AT&T patent in suit covered a computer on which Windows had been installed. For computers made abroad, Microsoft shipped a so-called "golden master" disk containing the Windows software to the foreign manufacturer who, in turn, made multiple copies of the software on the "golden master" and installed the copies on the computers that were eventually sold. The Federal Circuit held that this activity infringed under section 271(f). The Supreme Court reversed.

The two questions before the Supreme Court were (1) whether the Windows software was a "component," and (2) whether a "component … supplied … from the United States" had been installed on the foreign-made computers. The Supreme Court recognized that, at least in this case, the two questions were closely related: "If the relevant components are the copies of Windows actually installed on the foreign computers, AT&T could not persuasively argue that those components … were 'supplie[d] from the United States'…. If, on the other hand, Windows in the

abstract qualifies as a component…, it would not matter that master copies …. from the United States were not themselves installed abroad as working parts of the foreign computers."

Turning first to “what is a component,” the Court said that “[u]ntil it is expressed as a computer readable ‘copy,’… software … remains uncombinable. It cannot be inserted into a CD-ROM drive or downloaded from the Internet; it cannot be installed or executed on a computer.” It recognized that software, per se,is information, but compared it to a blueprint that the Federal Circuit—in *Pellegrini v. Analog Devices*—held was not a component covered by section 271(f). The Court apparently recognized that it was easy to encode a software instruction on a medium, but said 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.”

Addressing the question of what Microsoft had “supplied,” the Federal Circuit had concluded that “for software ‘components,' the act of copying is subsumed in the act of ‘supplying.’" The Supreme Court disagreed: “[T]he very components supplied from the United States, and not copies thereof, trigger §271(f) liability…. Here, as we have repeatedly noted…, the copies of Windows actually installed on the foreign computers were not themselves supplied from the United States.”

The majority opinion of the Federal Circuit stated: "Were we to hold that Microsoft’s supply by exportation of the master versions … avoids infringement, we would be subverting the remedial nature of §271(f), permitting a technical avoidance of the statute by ignoring the advances in a field of technology … that developed after the enactment of §271(f)…. Section 271(f), if it is to remain effective, must therefore be interpreted in a manner that is appropriate to the nature of the technology at issue."

The Supreme Court found “the majority’s concern … understandable,” but was “not persuaded that dynamic judicial interpretation of §271(f) is in order. The ‘loophole,’ in our judgment, is properly left for Congress to consider.”

The principal implication of *Microsoft* for US software manufacturers and patentees is clear: foreign patents are important. If AT&T had obtained a patent in the foreign country in which the computers were made, it could have sued (and likely prevailed) there. But without foreign patents, there may indeed be a “loophole.” If the purported infringement is a computer that is made abroad, or a computer-implemented process that is practiced abroad, that “infringement” will be beyond the reach of a US patent unless the software copies actually used are “supplied” from the United States.

One question not before or addressed by the Supreme Court is what if, instead of a patent covering a system loaded with Windows, AT&T had possessed a patent that was directed to and covered a “computer-readable medium” containing the Windows software. Such a US patent likely would have been directly infringed by the US production of the “golden master,” and rather than a dispute over the extraterritorial reach of section 271(f), the dispute would have been whether the damages flowing from the direct infringement in the United States included the foreign-made copies. The Supreme Court also mentioned—without deciding a result—the possible situation in which a copy made in the United States was loaded onto a hard drive in a foreign country, and the US-made copy

was removed.

WilmerHale represented AT&T before the Supreme Court in *Microsoft;* and Analog Devices in the *Pellegrini* litigation.

For more information on this or other intellectual property matters, contact the author listed above.

Authors

James B. Lampert

RETIRED PARTNER

james.lampert@comcast.net

+1 617 526 6000