

## *Microsoft Corp. v. AT&T Corp.* – The Supreme Court Limits the Extraterritorial Effect of 35 U.S.C. § 271(f)

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On April 30, the Supreme Court issued an important decision affecting liability for patent infringement for computer software developed in the United States and distributed abroad. In *Microsoft Corp. v. AT&T Corp.*, the Court held that Microsoft did not subject itself to liability for infringement under 35 U.S.C. section 271(f) by supplying master versions of its Windows software for copying and installation on computers abroad, where the computers with Windows software would have infringed if they had been made, used, sold or offered for sale in the United States. The decision limits the extraterritorial effect of section 271(f) with respect to software components of product inventions. The Supreme Court, however, explicitly reserved decision on the application of section 271(f) to software components of process or method patents.

AT&T holds a patent on an apparatus for digitally encoding and compressing recorded speech. Microsoft was found to infringe through installation of its Windows software on a computer, rendering it capable of performing as the apparatus covered by AT&T's patent. In addition to licensing Windows to computer manufacturers in the United States who install the software onto the computers they sell, Microsoft also sends computer manufacturers outside the United States a master version of Windows, either on disk or via electronic transmission. From the master version, the copies of Windows are made for installation on computers sold to users abroad. Microsoft denied any liability for copies of Windows installed on foreign-manufactured computers that were replicated from the master versions of Windows it sent outside the United States.

Although the general rule under United States patent law is that no infringement occurs when a patented product is made and sold in another country, section 271(f) is an exception. It can impose liability for patent infringement when a party supplies from the United States the components of a patented invention for combination abroad. AT&T argued that by providing manufacturers outside the United States with a master copy of Windows, Microsoft supplied "components" of AT&T's patented apparatus for combination into computers sold abroad. Microsoft

countered this contention by arguing that intangible, unincorporated software cannot be a "component" of a patented invention as required by section 271(f). Both the district court and the Federal Circuit rejected Microsoft's position and held Microsoft liable for the copies of the Windows software installed on computers abroad under section 271(f).

In reviewing the lower courts' decisions, the Supreme Court first addressed whether the Windows software qualifies as a "component" of a physical apparatus under section 271(f). The Supreme Court concluded that section 271(f) applies only to "components" that can be "combined" to form the patented invention. It reasoned that software in the abstract, without a physical embodiment, is not combinable and thus does not constitute a "component" of a patented apparatus. The Supreme Court, however, explicitly reserved the issue of whether its holding applies to method patents, noting that "if an intangible method or process ... qualifies as a 'patented invention' under § 271(f) ... the combinable components of that invention might be intangible as well." As AT&T's patent is directed to an apparatus, not an intangible method or process, the Supreme Court held that only physical copies of the Windows software, not Windows in the abstract, qualifies as a "component" for the purposes of section 271(f) liability.

The Court's holding under the circumstances of the *Microsoft* case turned on the fact that the actual software installed on the foreign-made computers to form the patented products was not the physical master version of Windows supplied by Microsoft, but copies made from the masters. Thus, the Supreme Court held that the foreign-made copies of the U.S.-developed software installed in the foreign computers did not constitute "components" of the patented invention supplied from the U.S. under section 271(f). In so holding, the Supreme Court rejected the Federal Circuit's reasoning that for software components, the act of copying is subsumed in the act of supplying because copies are easily, inexpensively, and swiftly generated. The Court noted that the text of section 271(f) gives no guidance for judicial determination as to when replication abroad is properly

considered “suppl[y] ... from the United States” and further relied on the presumption against extraterritoriality of U.S. laws in rejecting the Federal Circuit’s position. The Court emphasized that foreign law alone, not United States law, currently governs the manufacture and sale of components of patented inventions in foreign countries.

To the extent that its holding can be seen as a “loophole” for software makers to avoid infringement of a United States patent by making copies abroad, the Supreme Court explained that Congress, not the Court, is responsible for addressing any such loophole. The Supreme Court has expressed its reluctance to dynamically interpret section 271(f) to address advances in technology, particularly the software industry, and expand the extraterritorial effect of section 271(f). Unless Congress acts, software makers may continue to develop software in the United States and supply this software for use outside the United States without being subject to patent liability. Whether extraterritorial protection for the use of software to practice process or method patent claims will be similarly limited remains to be seen. The issues that arose in *Microsoft* with respect to the software industry may arise in other industries as well. The Supreme Court’s opinion may be instructive on how section 271(f) will be interpreted in the context of biotechnology, for example, where biological materials (*e.g.*, genes or cell lines) can be manufactured in the United States and sent abroad for replication and incorporation into organisms in an infringing manner.

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