

Microsoft v. AT&T: Limiting the Extraterritorial Reach of U.S. Patent Law

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On April 30, 2007, the Supreme Court continued its recent trend of reining in the patent law system when it decided *Microsoft Corp. v. AT&T Corp.*¹ In *Microsoft*, the Court held that to be liable under § 271(f), a U.S. infringer must manufacture and ship tangible components from the United States that are later incorporated into an infringing device. For software, the *Microsoft* decision means that each copy of software must be embodied in a physical medium manufactured and shipped from the United States. Ostensibly a narrow decision regarding an issue of first impression, the Supreme Court's decision in *Microsoft* can be seen in a broader context as a reaction to, and rejection of, recent Federal Circuit jurisprudence that attempts to expand the extraterritorial reach of United States patent law, particularly the Federal Circuit's decision in *NTP, Inc. v. Research in Motion, Ltd.* (the "BlackBerry case").²

This article first summarizes § 271(f) and its history. Next it looks at the Federal Circuit's decision, and the Supreme Court's sharp rebuke in *Microsoft*. Finally, it concludes that the Supreme Court's ruling is a relatively narrow one that primarily affects producers of software in the U.S. who export their products. The decision does, however, demonstrate the limitations on § 271(f)'s reach. The opinion may also be read as criticizing the recent trend to extend the reach of United States patent law to actions that take place in whole or in part outside the United States.

BACKGROUND OF § 271(f)

Section 271(f) imposes liability upon "[w]hoever without authority supplies or causes to be supplied . . . from the United States any component of a patented invention . . . 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[.]"³

¹ 127 S. Ct. 1746 (2007).

² 418 F.3d 1282 (Fed. Cir. 2005).

³ The full language of § 271(f) reads as follows:

(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

Congress enacted § 271(f) in 1984 in response to the Supreme Court's 1972 decision in *Deepsouth Packing Co. v. Laitram Corp.*⁴ In *Deepsouth*, the accused infringer exported non-infringing components of a patented shrimp deveining machine to be assembled into the infringing product abroad.⁵ The accused infringer was enjoined from selling the assembled infringing machines domestically, but argued that the Patent Act did not prohibit its exportation activities.⁶ Absent a "clear and certain signal from Congress" the Court in *Deepsouth* refused to extend the extraterritorial effect of U.S. patent law and expand a patentee's right to exclude by preventing the exportation of non-infringing components, even when the exporter intended for those components to be combined into an infringing device outside the United States.⁷ Thus, the statute was intended as a "housekeeping-oriented measure" to close a perceived loophole within the Patent Act that allowed an accused infringer to escape liability by exporting the unassembled components of an infringing product for assembly outside the United States.⁸

Since the statute's enactment, the Federal Circuit has considered the scope of §271(f) on several occasions. In *Pellegrini v. Analog Devices, Inc.*, the court found that "[s]upplying or causing to be supplied" for the purposes of § 271(f) "clearly refers to physical supply of components, not simply

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).

⁴ 406 U.S. 518 (1972); see *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1371 (Fed. Cir. 2005) (citing 130 Cong. Rec. 28069 (1984)) (discussing the history of § 271(f)).

⁵ *Deepsouth Packing Co.*, 406 U.S. at 519.

⁶ *Id.* at 519-20.

⁷ *Id.* at 530-32.

⁸ See *AT&T Corp.*, 414 F.3d at 1371 (quoting 130 Cong. Rec. 28069 (1984)).

the supply of instructions or corporate oversight.”⁹ Accordingly, the court held that a company who provides instructions to overseas manufactures on how to build components of an infringing devices (in this case, integrated circuit chips) is not liable under § 271(f).¹⁰

The Federal Circuit further refined the scope of § 271(f) in *Eolas Techs. Inc. v. Microsoft Corp.*, where it held that software code manufactured in the United States and exported abroad, can be a “component” of a patented invention under § 271(f).¹¹ The court denied Microsoft’s argument that a component must be physical in nature and held that, for purposes of § 271(f), a component can be intangible.¹² The court distinguished *Pellegrini*, which, in the court’s view “requires only that components are physically supplied from the United States.”¹³

THE MICROSOFT DECISION

Background of Microsoft

AT&T accused Microsoft of infringing claim 40 of U.S. Reissue Patent No. 32,580 (the “’580 Patent”), which claims an apparatus “capable of digitally encoding and compressing recorded speech.”¹⁴ Standing alone, neither Microsoft’s Windows operating system (“Windows”) nor a computer infringes the ’580 Patent. But, by taking the additional step of installing Windows on a computer, one creates an infringing machine capable of performing the patented invention.¹⁵ Indeed, Microsoft stipulated that it directly infringed the ’580 patent when it installed Windows on its own computers in the United States during the development process and that it induced infringement by licensing copies of Windows to manufactures of computers sold domestically.¹⁶

Microsoft also exported “golden master discs” and transmitted encrypted electronic copies of Windows to foreign computer manufactures and authorized foreign replicators.¹⁷ It was not these

⁹ 375 F.3d 1113, 1117-19 (Fed. Cir. 2004).

¹⁰ *Id.*

¹¹ 399 F.3d 1325 (Fed. Cir. 2005).

¹² *Id.* at 1340.

¹³ *Id.* at 1341.

¹⁴ *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746, 1753 (2007).

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *AT&T Corp. v. Microsoft Corp.*, 71 U.S.P.Q.2d (BNA) 1118, 1119-20 (S.D.N.Y. 2004).

versions, but rather copies of these versions that were installed on the computers sold to end-users.¹⁸ Microsoft argued first that software is intangible information that does not qualify as a “component” as § 271(f) intended, and second, even if software is a component, because the actual copies of Windows that it shipped overseas were not installed on computers, Microsoft could not be liable for supplying the component.¹⁹ AT&T argued that § 271(f) liability does attach as Microsoft supplied Windows overseas with the intention that it be combined into an infringing device; it should not matter if Microsoft, by shipping a copy to be replicated, chose a more economically efficient way to supply the component.²⁰

Agreeing with AT&T, the district court found Microsoft liable under § 271(f) holding that the intangible software embodied on the master discs and electronic transmissions originating from the United States was a component that Microsoft supplied even though the discs used to actually install Windows were foreign-made copies.²¹ Microsoft appealed that decision to the Federal Circuit, which affirmed the district court in a two-to-one decision.²²

The Federal Circuit held that Microsoft “supplied a component” by supplying the master copy for overseas reproduction: “[T]he act of copying is subsumed in the act of ‘supplying,’ such that sending a single copy abroad with the intent that it be replicated invokes § 271(f) liability for those foreign-made copies.”²³ The majority opinion held that, in the context of software distribution, to exclude software merely because it is later copied or replicated “would emasculate § 271(f) for software inventions.”²⁴

In Judge Rader’s dissent, he chides the majority for creating a new rule unique to software:

[T]his court creates a new rule that foreign copying of a component of a patented invention shipped from the U.S. gives rise to liability in the U.S. Apparently this rule applies only to software inventions. This application of “supplies” solely to software components ignores this court’s case law that refuses to discriminate based on

¹⁸ *Id.*

¹⁹ *Id.* at 1120.

²⁰ *Id.* at 1120, 1125.

²¹ *Id.* at 1122-25.

²² *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366 (Fed. Cir. 2005).

²³ *Id.* at 1370.

²⁴ *Id.* at n.2.

the field of technology. The language of § 271(f) does not discriminate based on field or form of technology, yet this court invents such a distinction.²⁵

To put it more bluntly, Judge Rader criticized the majority for imposing a rule that, in Judge Rader's opinion says, "section 271(f) liability attaches if this court perceives that the patented component is cheaper or more convenient to replicate abroad than to ship from the United States."²⁶ In Judge Rader's view, the majority's application of § 271(f) to the software industry subverted Congress' intent.²⁷

The Supreme Court Speaks

The Supreme Court reversed the Federal Circuit in a seven-to-one decision written by Justice Ginsburg.²⁸ In its opinion, the Court considered two separate but related issues. First, can software embodied on a compact disc ("disc" or "CD-ROM") or transmitted electronically be considered a "component" under § 271(f)?²⁹ Second, did Microsoft supply a "component" under the statute by transmitting a master copy of the software for reproduction overseas, where reproduced copies of the software, and not the master, were used to install the software on individual computers?³⁰

In answering the first question, the Court opined that software can be conceptualized in two ways.³¹ In the abstract, software is a collection of the "instructions themselves detached from any medium" — analogized as the notes of Beethoven's Ninth Symphony.³² But software can also be a tangible thing when "the instructions [are] encoded on a medium such as a CD-ROM" — analogized as the

²⁵ *Id.* at 1374 (Rader, J., dissenting) (citation omitted).

²⁶ *Id.*

²⁷ *Id.* ("Had Congress intended to give extraterritorial effect to U.S. patent laws, it would have expressly stated so. Instead, Title 35 expressly limits liability under § 271(f) to activities occurring in the United States that result in the literal shipment of components in or from the United States.") (internal quotation marks omitted).

²⁸ Chief Justice Roberts took no part of the decision. Justice Alito wrote a concurrence, joined by Justices Thomas and Breyer, agreeing with the opinion of the Court except for footnote 14.

²⁹ *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746, 1753 (2007).

³⁰ *Id.* at 1753-54.

³¹ *Id.* at 1754.

³² *Id.*

sheet music for Beethoven's Ninth.³³ The majority opinion held that, in its abstract form, software is merely an idea; it cannot be inserted into a computer, downloaded off the internet, installed or executed on a computer, and therefore, cannot be combined.³⁴ Detached from its physical, computer readable form, software is nothing but a mere set of directions or a blueprint, providing the computer with operating instructions, much like the instructions at issue in *Pellegrini*.³⁵ It is impossible to physically combine these instructions as § 271(f) contemplates.³⁶ Until software "is expressed as a computer-readable 'copy,' e.g., on a CD-ROM, Windows Software—indeed any software detached from an activating medium—remains uncombinable."³⁷ The Court thus held that a component must be physically embodied in some medium to qualify as a "component" amenable to "combination" for § 271(f) liability to attach.³⁸

With this question answered, the second question—whether "components of the foreign-made computer [were] supplied by Microsoft from the United States"—was straightforward.³⁹ The Court noted that "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."⁴⁰ Agreeing with Judge Rader's Federal Circuit dissent, the Supreme Court's majority opinion found that nothing within the statutory text addresses copying and that absence "weighs against a judicial determination that replication abroad of a master dispatched from the United States 'supplies' the foreign-made copies from the United States within the intentment of § 271(f)."⁴¹

Importantly, in arriving at its conclusion, the Court explicitly recognized the "presumption against extraterritoriality" which "applies with particular force in patent law."⁴² Returning to the first

³³ *Id.*

³⁴ *Id.*

³⁵ *Id.*

³⁶ *Id.*

³⁷ *Id.* at 1755.

³⁸ *Id.* at 1755-56.

³⁹ *Id.* at 1756.

⁴⁰ *Id.* at 1757.

⁴¹ *Id.*

⁴² *Id.* at 1758.

principles of *Deepsouth*, the Court explained that the presumption against extraterritoriality puts aside any doubt that “Microsoft’s conduct falls outside § 271(f)’s compass[.]”⁴³ The *Microsoft* Court, like the *Deepsouth* Court before it, refused to judicially expand the extraterritorial reach of the patent laws, holding that it is up to Congress to specifically legislate the particular circumstances in which the effect of U.S. patent laws will be extended to reach conduct occurring outside the United States.⁴⁴

Justice Alito’s concurring opinion in *Microsoft*, joined by Justices Thomas and Breyer, goes even farther, essentially articulating a rule whereby software can almost never be considered a “component” under § 271(f).⁴⁵ Under this rule, software can be considered a “component” under § 271(f) only if is embodied in a physical medium that is shipped from the United States and permanently incorporated into a computer.⁴⁶

Justice Stevens provides the lone voice championing the broader application of the statute adopted by the Federal Circuit.⁴⁷ Justice Stevens found it “difficult to understand why the most important ingredient of [a] component is not also a component.”⁴⁸ After all, as Justice Stevens notes, the majority holds that a disc can be a component under § 271(f).⁴⁹ He rejected the distinction that a component can only be something embodied in a physical medium and analogizes the master disc to a “warehouse of components—components that Microsoft fully expects to be incorporated into foreign-manufactured computers.”⁵⁰ Justice Stevens’ dissent argues that the majority reads § 271(f) too narrowly, attaching liability only when physical copies are sent to be incorporated individually into the foreign-manufactured computers.⁵¹

Justice Stevens’ analysis, however, ignores the majority opinion’s deference to Congress: “If the patent law is to be adjusted better to account for the realities of software distribution, the alteration

⁴³ *Id.*

⁴⁴ *Id.*; *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 530-32 (1972).

⁴⁵ *Microsoft*, 127 S. Ct. at 1761 (Alito, J., concurring).

⁴⁶ *Id.*

⁴⁷ *Id.* (Stevens, J., dissenting).

⁴⁸ *Id.* at 1763.

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ *Id.*

should be made after focused legislative consideration, and not by the Judiciary forecasting Congress' likely disposition."⁵²

BEHIND MICROSOFT

Though it appears to decide a relatively narrow question, the *Microsoft* decision can be seen in a broader context as a reaction to the Federal Circuit's recent jurisprudence regarding the extraterritorial reach of the U.S. patent laws, and specifically, the Federal Circuit's decision in the BlackBerry case.

To be sure, the Federal Circuit's jurisprudence regarding § 271(f) prior to the Supreme Court's *Microsoft* decision is murky. The Federal Circuit had four decisions regarding the territorial reaches of § 271(f) which appear to include inherent inconsistencies. As discussed above, the Federal Circuit held in *Pellegrini* that supplying instructions or oversight outside the United States to build an infringing product does not give rise to § 271(f) liability.⁵³ In *Eolas*, also discussed above, the Court held that "the language and history of section 271(f)(1) as well as this court's law protecting software inventions support this court's holding that section 271(f)(1)'s 'components' include software code on golden master disks."⁵⁴

In deciding the BlackBerry case, the Federal Circuit took a seemingly different approach. In that case, the Federal Circuit found infringement of the system claims at issue under § 271(a), holding that "infringement under section 271(a) is not necessarily precluded even though a component of a patented system is located outside the United States."⁵⁵ Thus, the court found that the BlackBerry system infringed the system claims of NTP's patents even though a component part of that system was located in Canada. Having already found the system claims infringed under § 271(a), the Federal Circuit did not analyze them under § 271(f). The Federal Circuit, however, refused to apply § 271(f) to the method claims at issue, finding it "difficult to conceive of how one might supply or cause to be supplied all or a substantial portion of the steps of a patented method in the sense contemplated by the phrase 'components of a patented invention' in section 271(f)."⁵⁶

Research in Motion's ("RIM") request for rehearing *en banc* and, ultimately, its petition for writ of certiorari in the BlackBerry case, takes the Federal Circuit to task for impermissibly expanding the extraterritorial reach of § 271(a) in absence of congressional action and in contravention of the

⁵² *Id.* at 1760 (majority opinion).

⁵³ *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113, 1117-19 (Fed. Cir. 2004).

⁵⁴ *Eolas Techs., Inc. v. Microsoft Corp.*, 399 F.3d 1325, 1341 (Fed. Cir. 2005).

⁵⁵ *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1322 (Fed. Cir. 2005).

⁵⁶ *Id.*

Supreme Court's decision in *Deepsouth*.⁵⁷ As RIM's petition for certiorari explains, "the lower court's *de facto* extraterritorial expansion of § 271(a) raises serious separation of powers concerns. The court's decision disregards the Supreme Court's clear instruction in *Deepsouth* that courts should leave to Congress the task of extending the patent grant."⁵⁸

The apparent inconsistency in the Federal Circuit's statement of the extraterritorial reach of § 271(a) in its decision in the BlackBerry case, prompted amicus briefs from Microsoft, Intel, and the Canadian government in support of RIM's request for rehearing *en banc* and petition for writ of certiorari. As Intel's amicus brief states: "[T]he Federal Circuit's holdings in this case cannot be reconciled and, more generally, that court's jurisprudence on transnational patent issues is hopelessly splintered."⁵⁹ Intel further argued: "While each of these cases purports to distinguish the next, the ultimate holdings are difficult to square, and they lack a common analytical approach. The Court has yet to take a consistent and holistic view of infringement liability in the transnational context."⁶⁰

While the Federal Circuit denied RIM's request for a rehearing,⁶¹ and the Supreme Court eventually denied certiorari,⁶² the Supreme Court's decision in *Microsoft* seems designed to signal its disapproval of the Federal Circuit's expansion of the extraterritorial effect of § 271(a) in the BlackBerry case.

MICROSOFT'S AFTERMATH

The *Microsoft* decision appears to provide clear guidance to lower courts: Do not read more into § 271(f) than what is on the face of the text. The Court rejected the Federal Circuit's attempt to read "copying" into the term "supply" in the limited context of software components. According to the

⁵⁷ Combined Petition for Panel Rehearing and Rehearing *en banc*, *NTP, Inc.* (No. 05-763); Petition for Writ of Certiorari, *NTP, Inc.*, 2005 WL 3438374 (No. 05-763).

⁵⁸ Petition for Writ of Certiorari, *NTP, Inc.*, 2005 WL 3438374, at *20 (No. 05-763) (internal quotation marks and citation omitted).

⁵⁹ Brief for Intel Corp. as Amici Curiae in Support of the Petition for Rehearing *en banc* of Appellant at 4, *NTP, Inc.*, (No. 05-763).

⁶⁰ *Id.* See also Brief for Intel as Amici Curiae in Support of the Petition for Writ of Certiorari 4, *NTP, Inc.*, 2006 WL 34606 (No. 05-763).

⁶¹ *NTP, Inc. v. Research in Motion, Ltd.*, No. 03-1615, 2005 U.S. App. LEXIS 23112 (Fed. Cir. Oct. 7, 2005).

⁶² *Research in Motion, Ltd. v. NTP, Inc.*, 546 U.S. 1157 (2006).

Court, one can only supply a component when it supplies an actual physical product that will be combined overseas into an infringing device.

If Congress intends software components to be treated differently, the Court invited Congress to amend the text of § 271(f) and fix what some may now consider to be a loophole similar to that exposed in *Deepsouth*.⁶³ This, however, is not likely. While Congress is currently considering comprehensive patent reform legislation, it has specifically dropped all provisions relating to § 271(f) from this year's proposed legislation.⁶⁴ Even if it were to consider addressing § 271(f) in light of the *Microsoft* decision, it is noteworthy that legislation introduced in the last session of Congress would have repealed § 271(f) entirely.⁶⁵ Indeed, one of the lead sponsors of currently pending patent reform legislation, Representative Howard Berman (D-CA), had indicated that he would only look to rewrite § 271(f) if the Supreme Court's decision in *Microsoft* came out the other way.⁶⁶

The looming question then is how will courts apply § 271(f) going forward. *Pellegrini* made clear that § 271(f) does not apply when a party simply provides instructions on how to make the components of an infringing device to overseas manufacturers. The BlackBerry case makes clear that § 271(f) does not apply to method claims. *Microsoft* extends this analysis to place master copies of software out of the reach of § 271(f). Thus, it is likely that in many situations software companies will face less litigation risk when marketing their products internationally.⁶⁷ Based on the current jurisprudence, § 271(f) only applies to the export of precise physical components that are combined into an infringing product outside the United States. If a company is willing to have these components produced overseas—even if it provides detailed instructions, molds, models, or master copies to facilitate that production—§ 271(f) likely does not reach that activity.

If *Microsoft* decreases litigation risk for software companies, it also means that patent holders must be more aggressive in protecting their inventions abroad. Plaintiffs may find it harder to win

⁶³ *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746, 1760 (2007).

⁶⁴ See, e.g., BNA Patent, Trademark & Copyright Journal: Daily Update, Leahy and Berman Introduce Bipartisan, Bicameral Bill to Reform Patent Law (Apr. 19, 2007).

⁶⁵ See Patent Reform Act of 2006, S. 3818, 109th Cong. § 5(f) (2006).

⁶⁶ See BNA Patent, Trademark & Copyright Journal: Supreme Court Patent Rulings Meet Mixed Reaction From Industry, Parties, Practitioners (May 1, 2007).

⁶⁷ See Jess Bravin, *Patent Holders' Grip Weakens*, Wall St. J., May 1, 2007, at A3 ("The same legal theory used by AT&T has been used by nearly all of the 45 patents suits pending against [Microsoft], said Brad Smith, Microsoft's general counsel. 'Simply by winning this decision today, we reduce the liability exposure in these various lawsuits by something close to 60%,' Mr. Smith estimated.").

damages and injunctions for foreign infringement. To protect their inventions internationally, patent holders will have to expend more resources obtaining and enforcing foreign patents.

Whether the Court's decision in *Microsoft* affects further jurisprudence on the extraterritorial applicability of § 271(a) remains to be seen.

For further information concerning *Microsoft Corp. v. AT&T Corp.*, 35 U.S.C § 271, *NTP v. RIM* or any of the topics discussed in this memorandum, please feel free to contact members of the Firm's Intellectual Property Department, including:

George M. Newcombe (650-251-5050 gnewcombe@stblaw.com)

Henry B. Gutman (212-455-3180 hgutman@stblaw.com)

Robert A. Bourque (212-455-3595 rbourque@stblaw.com)

Jeffrey E. Ostrow (650-251-5030 jostrow@stblaw.com)

Harrison J. Frahn IV (650-251-5065 hfrahn@stblaw.com)

Patrick E. King (650-251-5115 pking@stblaw.com)

Noah M. Leibowitz (212-455-3098 nleibowitz@stblaw.com)