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U.S. Supreme Court Continues to Take Charge of Patent Law

On April 30 the Supreme Court decided the *Microsoft* v. *AT&T* patent case regarding the extraterritorial reach of U.S. patent law. This decision continues a trend of cases in which the Supreme Court has reversed the Court of Appeals for the Federal Circuit, significantly altering the Federal Circuit's interpretation of U.S. patent law.[1]

In *Microsoft*, the Supreme Court clarified in part what foreign activities expose a company (Microsoft) to potential liability for infringing another company's U.S. patent (AT&T's patent). Microsoft distributed a master version of the Windows operating system (created in the U.S.) to foreign customers (e.g., foreign computer manufacturers installing Windows). The Supreme Court held that such distributions cannot infringe AT&T's U.S. patent.

AT&T holds a U.S. patent for computer-manipulation of recorded speech. Microsoft admitted that a computer with an installed copy of Windows within the territorial U.S. infringes this AT&T patent. However, before the installation of Windows on the computer, neither the computer nor Windows standing alone infringes AT&T's patent.

For installation on computers outside of the U.S., Microsoft distributed master versions of Windows from the U.S. to foreign customers. Microsoft sent the master either on a CD-ROM or electronically. A master version is meant to be copied and is not meant for direct installation. Microsoft's customers thus made copies of Windows from the master and installed those copies on foreign-made computers. There was no dispute that these computers would have infringed if located within the U.S., but AT&T claimed that even *supplying* the master version of Windows from the U.S. *to foreign countries* also constituted infringement of AT&T's U.S. patent.

Typically, under U.S. patent law, products manufactured, used or sold outside of the U.S. cannot infringe a U.S. patent. However, Congress enacted a statutory exception to this general rule (35 U.S.C. § 271(f)). The statutory exception allows for patent infringement claims against a company that "supplies" a "component" from the U.S. to other countries. Specifically,

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[1] The Supreme Court has reversed the Federal Circuit in the following important decisions since 2002: *KSR* v. *Teleflex* (making it easier to attack patents on ground of "obviousness"); *MedImmune* v. *Genentech* (licensee has standing to challenge patent validity); *eBay* v. *MercExchange* (no automatic permanent injunction against infringer); *Holmes Group* v. *Vornado Air Circulation Systems* (Federal Circuit jurisdiction over patent law counterclaims limited); *Festo* v. *Shoketsu Kinzoku Kogyo Kabushiki* (prosecution history estoppel creates presumptive bar, not absolute bar, to infringement by equivalents).

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infringement under this exception requires the company intend for the supplied component to be combined abroad with other components to form a combination product that would infringe the U.S. patent if the same combination were made within the U.S.

The key question in *Microsoft* was whether Windows software was a "component" that was "supplie[d]" for combination with a computer abroad within the meaning of the statute. If it was, Microsoft was liable for patent infringement for the foreign installations.

First, the Supreme Court found that only a copy of software coupled with a physical medium, such as a CD-ROM, can be a "component" within the meaning of the statute. "[A] copy of Windows, not Windows in the abstract, qualifies as a 'component' under § 271(f)." Opinion at 12.

Second, the Supreme Court found that for infringement to occur, a company must supply a "component" that directly forms part of an infringing device. Microsoft did not "suppl[y]" anything that was directly installed on a foreign-made computer. Rather, each master version of Windows was copied abroad, and only the copies of the master were installed on the foreign-made computers. Therefore, by supplying a master version of Windows, Microsoft did not supply the installed "component" -- the physical copy of software actually installed on each foreign-made computer -- within the meaning of the statute.

Finally, the Court noted that the ease of making identical copies of software did not change the statutory analysis, and expressly left to Congress the decision of whether to expand the extraterritorial reach of the U.S. patent infringement statute. Specifically, (1) whether the statute should extend more generally to foreign activities, such as those engaged in by Microsoft and its foreign customers; and (2) whether foreign copying of software is an unintended statutory "loophole."

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This advisory is not intended to provide legal advice with respect to any particular situation and no legal or business decision should be based solely on its content. Questions concerning issues addressed in this advisory should be directed to any member of the Paul, Weiss Patent Litigation Group, including:

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