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*Specializing in Intellectual Property Law*

## IP FLASH

### U.S. SUPREME COURT LIMITS SOFTWARE AS A "COMPONENT" UNDER 35 U.S.C. §271(f)

In a case that is expected to have significant impact on companies that develop and sell software around the world, the U.S. Supreme Court issued a decision on April 30, 2007 in *Microsoft Corp. v. AT&T Corp.*, 550 U.S. \_\_\_\_, 82 USPQ2d 1400 (2007). The case focuses on the application of 35 U.S.C. §271(f) which provides that it is an act of infringement to supply from the United States, for combination abroad, components of a patented invention. In its decision, the Court limits the characterization of software as a "component" by holding that software, uncoupled from a medium, is not a combinable component.

Microsoft sells the Windows® operating system outside the United States by supplying foreign manufacturers with a master version from which copies are made for installation on computers sold outside the United States. Although Microsoft provides a master version disk from its United States facility in Redmond, Washington, the remaining distribution activity, including copying the master version disk to make copies that are installed on computers, is performed entirely outside the United States. AT&T sued Microsoft under §271(f) for infringement of AT&T's U.S. patent directed to a computer used to digitally encode and compress recorded speech. Microsoft conceded that the Windows® operating system incorporates software code that, when installed, enables a computer to process speech in a manner claimed by the patent. The district court held Microsoft liable under §271(f) for infringement and the Court of Appeals for the Federal Circuit (Federal Circuit) affirmed. The Supreme Court, however, reversed the Federal Circuit, finding no infringement under §271(f) because, according to the Court, Microsoft did not supply from the United States any components of a patented invention.

In its opinion, the Court drew an explicit distinction between software in the abstract and software expressed in a computer-readable medium. The Court stated that abstracted from a usable copy, the Windows® operating system code is intangible, uncombinable information. The Court indicated that a copy of the Windows® operating system, but not the Windows® operating system in the abstract, qualifies as a "component" under §271(f). The Court concluded that because the copies of the Windows® operating system actually installed on the foreign computers were not themselves supplied from the United States, but instead were copies made from a supplied master version disk that was itself never installed on any computers, liability under §271(f) was not triggered.

Interestingly, the Court appears to recognize that its holding creates a "loophole" with respect to software under §271(f) due to the ease of copying software. However, the Court stated that "[t]he absence of anything addressing copying in the statutory text weighs against a judicial determining that replication abroad of a master dispatched from the United States 'supplies' the foreign-made copies from the United States within the intendment of §271(f)." Further stating that §271(f) was itself enacted by the U.S. Congress in response to the Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), the Court, at multiple instances, invites Congress to take legislative action, if warranted, to adjust the patent law to better "account for the realities of software distribution." Accordingly, absent any legislative action on this issue, it appears that, with relatively simple steps, infringement under §271(f) may be largely avoided with respect to supplying software abroad.

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