Refining In U.S. Patent Law For Software

- IP Law360, May 7, 2007

Author(s): Anthony F. Lo Cicero, Michael J. Kasdan

In the recently decided Microsoft Corp. v. AT&T Corp, the Supreme Court was confronted by difficult interpretative issues both as to the extraterritorial reach of the U.S. Patent Laws and their application in an increasingly digital world.

In a decision that should remove any cloud, insofar as infringement of U.S. Patents are concerned, from the typical manner in which computer software is exported, the Court interpreted the Patent Act in a restrictive manner so as to limit its extraterritorial reach as to foreign-made copies of computer software.

This article reviews the Supreme Court's April 30, 2007 Microsoft decision and considers its impact on the software industry.

Factual Background of the Microsoft Case

In general, the U.S. Patent law applies only to acts of infringement that occur in the United States.

The exception to this general rule is 35 U.S.C. § 271(f), which provides that an act of infringement does occur when one "supplies...from the United States," for "combination abroad" a patented invention's "components."

The dispute in the Microsoft case involved whether Microsoft could be liable for patent infringement under the § 271(f) for foreign-made copies of the Windows Operating System, where Microsoft provides a master disk from the United States from which the copies are made. (Slip op. at 1)

Microsoft Windows is developed in the United States. In order to export Windows to foreign manufacturers, Microsoft sends these manufacturers a master version of Windows. The master version can be sent either on a master disk or otherwise electronically transmitted.

The foreign manufacturers then use the master version to generate copies of Windows. The foreign manufacturers then install these copies onto the computers, which are sold abroad. (Id. at 5).

AT&T sued Microsoft for infringing a speech compression patent, charging Microsoft with liability both for domestic and foreign installations of Windows.

© Copyright Amster, Rothstein & Ebenstien LLP. All rights reserved.

Microsoft did not dispute that Windows contains software that, when installed, enables a computer to perform speech compression in the manner claimed by AT&T's patent, and that therefore when Microsoft installed Windows on their own computers (e.g., during development), there was a direct infringement of AT&T's patent.

Microsoft also did not dispute that by licensing copies of Windows to computer manufacturers selling computers in the United States, it induced infringement of AT&T's patent. (Id. at 5-6).

The sole disputed issue was whether Microsoft had any liability for patent infringement based on its providing the master copies of Windows to foreign manufacturers. (Id. at 6-7).

AT&T contended that Microsoft was liable under §271(f), since by sending Windows to foreign manufacturers, it was "suppl[ying] . . . from the United States," for "combination abroad," "components" of AT&T's patented speech processor.

Urging a narrow reading of §271(f), Microsoft argued that its conduct fell outside of the §271(f) exception to extraterritoriality for two reasons.

First, Microsoft argued that unincorporated software, because it is intangible information, was not a "component" as required by §271(f).

Second, Microsoft argued that the foreign-generated copies of Windows that were actually installed abroad where not "supplie[d]…from the United States." Rather, only the master disk itself was supplied. (Id. at 7).

Procedural History Leading To The Supreme Court

The District Court rejected both of Microsoft's arguments and held Microsoft liable under § 271(f). See 71 USPQ 2d 1118 (SDNY 2004).

On appeal, a divided panel of the Court of Appeals for the Federal Circuit affirmed. See 414 F.3d 1366 (2005). (Slip op. at 7).

The Federal Circuit majority reasoned that if exporting master versions of Windows designed specifically for the purpose of foreign replication and installation on a computer were not held to be an infringement, this would "subvert[] the remedial nature of §271(f), permitting a technical avoidance of the statute by ignoring the advances in a field of technology—and its associated industry practices—that developed after the enactment of §271(f)." See 414 F.3d at 1371.

Accordingly, the Federal Circuit found that it had to interpret §271(f) more broadly "in a manner that is appropriate to the nature of the technology at issue." Id. (Slip op. at 17)

The Supreme Court, in a 7 to 1 decision, reversed. The Court agreed with Microsoft on both of its arguments, holding that no liability for infringement under the U.S. Patent laws could attach

© Copyright Amster, Rothstein & Ebenstien LLP. All rights reserved.

under § 271(f) for Microsoft's supply of the master versions of Windows to foreign manufacturers. (Slip op. at 2, 5)

The Supreme Court's Interpretation Of Section 271(f)(1)

The Supreme Court began by reviewing the history of the enactment of § 271(f). Specifically, it was the Supreme Court's decision in Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518 (1972) that ultimately led Congress to enact §271(f) in 1984.

In Deepsouth, the accused infringer sold an infringing shrimp deveining machine, but in order to avoid the reach of the asserted U.S. patent, it manufactured and sold the parts of its deveining machine to foreign buyers for assembly and use abroad. (Slip op. at 2-3)

The Supreme Court held that this was "not an infringement to make or use a patented product outside of the United States." 406 U.S. at 527.

The enactment of §271(f) in the Patent Law Amendments of 1984, was a legislative response to this holding, which sought to close this apparent loophole by expanding the definition of infringement to supplying from the United States, for combination abroad, the various components of a patented invention. (Slip op. at 4-5)

As framed by the Supreme Court, the Microsoft case posed two questions: "First, when, or in what form, does software qualify as a 'component' under §271(f)? Second, were 'components' of the foreign-made computers involved in this case 'supplie[d]' by Microsoft 'from the United States.' (Slip op. at 7)

As to the first question, the Supreme Court turned to the text of §271(f)(1), which states that it is applicable to the supply abroad 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."

The Supreme Court reasoned that since this provision applies only to "such components" as are combined to form the "patented invention," here AT&T's speech processing computer, in order to fall within the definition of a "component" the article must be amenable to combination.

The Court found despite the fact that the Windows master (which the Court characterized as "Windows in the abstract") contains precise instructions for the construction and combination of the components of a patented device, akin to a blueprint, it is not a "component" within the meaning of §271(f) because it is not a combinable component of the patented device. (Slip op. at 9-10)

Making a musical analogy, the Court explained that "[a]bstracted from a usable copy, Windows code is intangible, uncombinable information, more like notes of music in the head of a composer than 'a roller that causes a player piano to produce sound.'" (Slip op. at 11 n.12)

© Copyright Amster, Rothstein & Ebenstien LLP. All rights reserved.

Applying this logic, the “component” in this case is the copy of Windows that is installed on each computer, not the Windows master. (Slip op. at 12)

In so finding, the Court rejected AT&T’s “intimation” that in the digital world the step of copying the Windows master onto a medium that can be read by a computer is so trivial, that this trivial extra step should not be outcome determinative in a §271(f) analysis: “easy or not, the copy-producing step is essential” because “that extra step is what renders the software a usable, combinable part of a computer.” (Slip op. at 11)

As to the second question, the Supreme Court found that under a plain reading of the text of §271(f) Microsoft had not “supplie[d]...from the United States” components of the computers here involved, because the copies of Windows actually installed on the computers (which is found to be the relevant “components”) were not themselves supplied from the United States.

That is to say, the Court found that the foreign-made copies of Windows were not “supplie[d]...from the United States,” and that therefore, they did not fall within the purview of §271(f).

In so finding, the Supreme Court rejected the reasoning of the Federal Circuit majority that the act of copying is subsumed within the act of supplying such that “sending a single [master] copy abroad with the intent that it be replicated invokes §271(f) liability for th[e] foreign-made copies.” (Slip op. at 12)

Instead, the Court (agreeing with the Federal Circuit dissent) reasoned that the act of “supplying” is ordinarily understood to be a separate and distinct activity from the act of copying, and that nothing in the text of §271(f) “renders ease of copying a relevant, no less decisive, factor in triggering liability for infringement.” (Slip op. at 13-14)

Further, the Court noted that “the absence of anything addressing copying in the statutory text 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 intendment of §271(f).” (Slip op. at 14)

Thus, despite the ease with which a U.S.-supplied master copy of Windows may be used abroad to replicate the actual copies of Windows that are installed on the computers, this act of copying does not fall within the §271(f) definition of “suppl[ying].”

As the Court itself noted, the statutory interpretation questions in this case could have gone either way: “Plausible arguments can be made for and against extending §271(f) to the conduct charged in this case as infringing AT&T’s patent.” (Slip op. at 2)

In the end, however, it seemed that the Court was uncomfortable with AT&T’s reading of §271(f), which, if followed, would “convert a single act of supply from the United States into a springboard for liability each time a copy of the software is subsequently made [abroad] and combined with computer hardware [abroad] for sale [abroad].” (Slip op. at 16 (citing Amicus

© Copyright Amster, Rothstein & Ebenstien LLP. All rights reserved.

Brief of United States))

In this regard, it is noteworthy that the Court's narrow statutory construction of §271(f) was made against the backdrop of "the presumption against extraterritoriality," i.e., the traditional understanding that United States patent law operates only domestically but does not extend to foreign activities. (Slip op. at 2, 15)

Moreover, in declining to creatively interpret the patent laws to account for advances in modern technology, the Court stressed the policy of exercising proper judicial restraint: the Court deemed the Federal Circuit's attempt to interpret §271(f) "in a manner that is appropriate to the nature of the technology at issue" as "understandable," but was "not persuaded that dynamic judicial interpretation of §271(f) is in order." (Slip op. at 2, 17)

Rather, to the extent, the patent laws need to be changed to comport with advances in the field of technology (here the use of a Windows master disc to simply and cheaply replicate great numbers of Windows copies), this task is left for the consideration of the legislature. (Slip op. at 17, 19)

Other unstated policy considerations driving the Court's extremely technical reading of §271(f) may well have included economic considerations as to the computer software industry; a decision that opened up the conduct at issue to U.S. patent liability may well have provided yet another incentive for U.S. companies to move their software development off-shore.

The Concurring and Dissenting Opinions

Justice Alito (joined by Justices Thomas and Breyer) authored a separate concurrence, agreeing with the Court's majority opinion, but based on slightly different reasoning.

Specifically, the Alito concurrence reasons that a "component" is properly read to mean a physical part of the device, and that therefore, the Windows master ("a set of instructions on how to build an infringing device, or even a template of the device") does not qualify as a component."

Therefore, "because no physical object originating in the United States was combined with the computers, there is no violation of §271(f)." (Slip op. at 2-4, Alito, J. concurring)

Justice Stevens authored the lone dissent, in which he recognized that "strong policy considerations...support Microsoft's position," but nonetheless concluded that AT&T's position was "more faithful to the intent of the Congress that enacted §271(f)." (slip op. at 1, Stevens, J. dissenting)

Specifically, he disagreed with the Court's finding that because software is analogous to an abstract set of instructions, it does not qualify as a "component" within the meaning of §271(f). (Id. at 3)

© Copyright Amster, Rothstein & Ebenstien LLP. All rights reserved.

Further, he agreed with the Federal Circuit that Microsoft's "indirect transmission" of the copies of Windows via transmission of the master should be covered by §271(f). (Id. at 2)

Conclusion

The Supreme Court's decision in Microsoft should give the computer software industry great comfort in that it clarifies that the common computer software foreign distribution practices (via transmission of a master which is replicated into copies of the subject software abroad) does not expose the software maker to liability for infringing a U.S. patent.

By Anthony F. LoCicero **and Michael J. Kasdan**
Amster, Rothstein & Ebenstein LLP

Anthony F. LoCicero is a partner and Michael J. Kasdan was an associate at Amster, Rothstein & Ebenstein LLP. Their practices specialize in intellectual property, including litigating and providing counseling in patent, trademark, and other intellectual property disputes. Anthony may be reached at alocicero@arelaw.com.
This article is not intended to express the views of the firm or its clients. All Content Copyright 2007, Portfolio Media, Inc.

© Copyright Amster, Rothstein & Ebenstien LLP. All rights reserved.