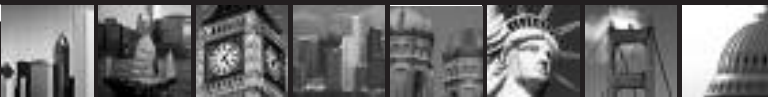


ALERT



May 2007

Microsoft Corp. v. AT&T Corp. — The Supreme Court Clarifies the Reach of 35 U.S.C. § 271(f)

United States patent law does not ordinarily reach acts undertaken in another country, with one important exception. Under § 271(f) of the Patent Act, infringement occurs when one “suppl[ies] from the United States” components, in whole or in part, that when combined abroad would infringe a patent if combined within the United States. In *Microsoft Corp. v. AT&T Corp.*, No. 05-1056, AT&T argued that Microsoft infringed AT&T’s patent when it shipped abroad a master copy of Windows software, which was then copied and installed onto computers abroad. On April 30, 2007, the Supreme Court issued its decision, holding that because foreign-made copies are neither “components” nor “supplied” from the United States, there is no liability under § 271(f) of the Patent Act.

1. State of the Law before *Microsoft*.

Prior to 1984, a product could infringe a U.S. patent under 35 U.S.C. § 271(a) only if the product was made entirely within the United States. The Supreme Court made clear this restriction on infringement in *Deep South Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), holding that Deep South could not be liable for patent infringement under U.S. law for exporting non-patented components overseas that were later assembled into an allegedly-infringing product overseas.

In response, Congress enacted 35 U.S.C. § 271(f) as part of the “Patent Law Amendments Act of 1984” to close this “loophole” in U.S. patent law. Section 271(f) barred companies from shipping components of a patented invention overseas for assembly into an infringing product. The intent of the provision was to prevent companies from circumventing United States patents by sending parts offshore to be assembled in a way that would infringe the patent in the United States. In recent cases, liability under § 271(f) has been extended to manufacturers of software.

2. The Supreme Court Holds That U.S. Patent Law Does Not Bar Foreign Copying of Software for Installation in Computers Made and Sold Abroad.

In the proceedings below, the Federal Circuit held that the code for Windows software includes a component, which when installed on a computer, infringed a patent held by AT&T. By sending a single master copy of Windows abroad, the Federal Circuit held, Microsoft intended it to be copied overseas, and thus the shipping and the subsequent copying and installation were within the reach of § 271(f).

On appeal, the Supreme Court considered two issues: first, whether digital software code may be considered “a component[] of a patented invention” within the meaning of § 271(f), and if so, whether copies of such a “component[]” made in a foreign country are “supplie[d]...from the United States.”

Because software is an abstraction until it is embedded in a physical medium such as a hard drive or CD-ROM, the Supreme Court held that the software code alone cannot be a component within the meaning of § 271(f). In its 7-1 decision, the Court found that because software is not a “component[]” standing alone, copying the Windows software overseas cannot create an illegal combination under § 271(f), even if the copy/combination contains AT&T’s patented invention. Further, if the Windows software is sent overseas only as code via disk or electronic transmission, the copy made abroad is not a component supplied from the U.S.

As the Court explained, the copying and installation of code in a foreign factory does not violate the Patent Act because the foreign-made copies are not shipped from the U.S. “The extra step is what renders the software a usable, combinable part of a computer; easy or not, the copy-producing step is essential....In sum, a copy of Windows, not Windows in the abstract, qualifies as a ‘component’” under § 271(f). As such, the Court held that the U.S.-supplied master software does

not satisfy the “component[]” provision of the 1984 law, and because the copies of that software are made and distributed from foreign factories, the foreign-made copies do not satisfy the “supplied from the U.S.” requirement.

Justice Stevens dissented from the majority opinion, arguing that affirming the Federal Circuit’s opinion would be more faithful to the intent of Congress when it enacted § 271(f). Responding to the majority’s holding that a disk with software inscribed on it is a “component,” whereas the software code itself is not a “component,” Justice Stevens wrote that “if a disk with software inscribed on it is a ‘component,’ I find it difficult to understand why the most important ingredient of that component is not also a component.” Justice Stevens would also have held that an indirect transmission of software via a master disk warehouse should be covered by 271(f).

3. Strategic Observations

The Court’s ruling effectively narrows the scope of § 271(f). The Court invites legislative changes, stating that if patent law is to be adjusted to account for “the realities of software distribution,” the adjustment must be made by Congress. This makes it likely that the reach of § 271(f) will join the other issues before Congress being discussed as part of a potential reform of the United States Patent Act.

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