Supreme Court limits reach of U.S. patent laws

In the closely followed case of *Microsoft v. AT&T*, the U.S. Supreme Court set forth significant limitations on the extraterritorial reach of the U.S. patent laws. These limitations are likely to affect companies that carry out activities that span the U.S. and other countries, especially in fields such as computer systems, telecommunications, and software development. In addition, the Court's April 30 decision highlights the importance to owners of U.S. patents of also having robust patent protection in other countries in which their competitors operate.

AT&T asserted a patent directed to an apparatus for digitally encoding and compressing recorded speech. Microsoft sent from the U.S. to foreign computer manufacturers master disks and files for Microsoft Windows. The foreign computer manufacturers used these master disks and files to make copies of Microsoft Windows that were installed on computers for sale outside the U.S. AT&T accused Microsoft of infringement under Section 271(f)(1) of the U.S. patent laws, which occurs when one "supplies" from the U.S. all or substantially all of the "components" of a patented invention made outside of the U.S. Microsoft conceded that the combination of the computers with Windows installed on them met all limitations of AT&T's patent claims. AT&T sought to hold Microsoft liable for infringement under Section 271(f)(1) for all copies of Microsoft Windows that were copied and sold outside the U.S. by the foreign computer manufacturers.

The Supreme Court considered two issues: (1) when software can be a "component" for purposes of Section 271(f), and (2) when a component is "supplied" under the statute. On the first issue, the Court held that software can be a "component" when it is embodied in a medium, but not in the abstract, without being coupled to a medium. On the facts before it, the Court concluded, "In sum, a copy of Windows, not Windows in the abstract, qualifies as a 'component' under § 271(f)." On the second issue, the Court distinguished the acts of supplying and copying, finding that what Microsoft had supplied from the U.S. -- master disks and files for Windows -- were not "components" of the computers in question because they were not installed in the computers in question. Instead, noted the Court, the copies of Windows that were installed on the computers were copied from the Windows master disks and files that had been supplied from the U.S.

The progressive globalization of commerce has increased the importance of understanding the territorial limits of patent laws. The Federal Circuit's 2005 decision in *NTP v. Research In Motion* extended the reach of U.S. patent law to capture some types of extraterritorial activities when viewed in light of system patent claims. Now, the Supreme Court has taken a step to limit the extraterritorial reach of U.S. patent laws in situations where items are supplied from the U.S. and then joined with other things in another country to create a combination. Owners of U.S. patents would be well-served to ensure that they have a sound, coordinated global patent strategy that provides sufficient protection in all relevant jurisdictions.

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