SUPREME COURT RULES “INTANGIBLE INFORMATION” OF SOFTWARE IS NOT A “COMPONENT” FOR 271(F) INFRINGEMENT PURPOSES

On April 30, 2007, in a 7-1 opinion, the United States Supreme Court held that “intangible information” embodied in software does not constitute a “component” within the meaning of 35 U.S.C. § 271(f), and thus does not create infringement liability when such information is exported and used to assemble an otherwise infringing product. In Microsoft Corp. v. AT&T Corp., the Supreme Court struck down the Court of Appeals for the Federal Circuit’s (CAFC’s) interpretation of Section 271(f) that “component” includes “intangible information” incorporated in software, such that the export and use of that information to assemble and sell an infringing product abroad constitutes infringement.

In other words, the Court held that a U.S.-based software designer is not liable for damages based on non-U.S. sales of its product where only a “master disk” or other single copy is transmitted outside the U.S. for subsequent manufacture and sale. Microsoft thereby made it easier to avoid exposure to damages for infringement of United States patents by exporting information used to assemble and sell otherwise infringing products abroad. Conversely, the Court made it more difficult to recover damages based on worldwide sales of products covered by a United States patent.

Background

Section 271(f) was enacted in 1984 to close a loophole in patent law that previously allowed an alleged infringer of a U.S. patent to avoid liability within the United States by exporting a component of a patented invention abroad, assembling the component abroad into an infringing product, and selling the infringing product abroad. The statute provides in pertinent part:

Whoever . . . supplies . . . in or from the United States all or a substantial portion 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 outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

Section 271(f) does not define “component.”

In the present case, AT&T owned a patent concerning a digital speech coder. AT&T accused Microsoft of infringing its patent by making, using, selling, or offering for sale products incorporating the patented speech technology, including speech codecs (software programs that convert and decode speech signals). Microsoft created a master version of such software (Windows) in Redmond, Washington. From this master version, it then made a limited number of “golden” master disks containing the code for the speech technology in the United States. The golden master disks were shipped to foreign computer manufacturers (one per manufacturer), which then replicated them abroad and installed the foreign-replicated copies of the software onto foreign-assembled computers, which were then sold to end-users abroad. The golden master disks themselves were never installed on any computers sold to consumers.

During litigation, Microsoft admitted that it shipped the golden master disks with the intent and knowledge that the software would be copied abroad and then installed abroad on foreign-manufactured computers that would be sold abroad. Moreover, the parties agreed that, other than the code contained on the golden master disks, Microsoft supplied no other alleged “component” from the United States for assembly abroad. Microsoft then moved for partial summary judgment seeking to exclude sales of its products containing the foreign-replicated copies of the golden master disks from any damages award pursuant to 35 U.S.C. § 271(f), asserting that the code on the golden master disks was merely “intangible information,” and thus not a “component” as contemplated by Section 271(f).

The district court denied Microsoft’s motion for partial summary judgment. While the district judge cited decisions of other district courts that held that “components” under Section 271(f) included software code in support of his denial, he also relied significantly on the legislative history of Section 271(f): “[T]here is no limitation of the term ‘components,’ either in the statutory text or in the legislative history, to machines or other structural combinations. Further, there is nothing in the legislative history or in any jurisprudence interpreting it to say that software cannot be a
component under Section 271(f). . . .
Moreover, because the district court deemed the software itself to constitute a "component," and the "object code that becomes an essential component of the finished computer product . . . is originally manufactured in the United States," the court held that the software component was "supplied" from the United States. Indeed, the court proclaimed that excluding protection for inventions using software "would not be responsive to the challenges of a changing world. . . ." The district court then issued an order ruling in favor of AT&T on all Section 271(f) issues.

The CAFC affirmed, basing its holding that such software code constitutes a "component" under Section 271(f) on its ruling in *Eolas Technologies Incorporated v. Microsoft Corporation*. In *Eolas*, the CAFC held that software code on a golden master disk constituted a 271(f) component because: (1) the "statutory language did not limit" Section 271(f) to "machines" or "physical structures," (2) "sound patent policy" accords the same treatment to all forms of invention, and (3) the legislative history contains no "tangibility" limitation. The CAFC further held that although the copies of the golden master disk were created abroad, they were nonetheless supplied from the United States because "for software components, the act of copying is subsumed by the act of ‘supplying’" because the copy is an "exact copy" of the master and because copies are "efficiently" generated from the master. Elaborating on Section 271(f) in *AT&T*, the CAFC explained that because the section was enacted to close a loophole, it was "remedial in nature" and therefore "should be construed broadly," and that "advances in technology . . . developed after the enactment" of Section 271(f) should not be allowed "to subvert" the remedial legislative intent.

**The Supreme Court’s Decision**

The Supreme Court reversed the CAFC’s decision. In an opinion authored by Justice Ruth Bader Ginsburg, the Court rejected the notion that “intangible information” embodied in software is a component within the meaning of Section 271(f). The Court reasoned that, under the section, a “component” must be “combinable” and that “any software detached from an activating medium . . . until it is expressed as a computer-readable ‘copy’ . . . remains uncombinable.” Abstract code cannot be combined, according to the Court, because “it cannot be installed” on a computer or “inserted into a CD-ROM drive.” Rather, “[a]bstract software code is an idea without physical embodiment.” Implicit in this analysis is the assumption that only tangible things may be combinable and thus components.

By way of analogy, the Court also likened the object code of software to a “blueprint” or “a detailed set of instructions” that is used to build a tangible object and is then “exhausted,” rather than contained in the final assemblage as a component, and is therefore “not itself a combinable component.”

The Supreme Court further held that the foreign-made copies of the golden master disks were not supplied from the United States because “[t]he absence of anything addressing copying in the statutory text weighs against a judicial determination” that copying is subsumed by supplying.

Furthermore, the Court explained that “the presumption against extraterritoriality” inveighs against application of Section 271(f) to the foreign acts. “Foreign conduct is [generally] the domain of foreign law,” especially where the foreign jurisprudence "may embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions," the Court articulated, noting that AT&T’s remedy for such foreign conduct instead “lies in obtaining and enforcing foreign patents.”

Finally, while the Supreme Court found the CAFC majority’s concern about a possible "loophole" for software makers "understandable," it was “not persuaded that dynamic judicial interpretation of § 271(f) is in order." Rather, the Court reasoned, such a loophole is "properly left for Congress to consider," especially given that Congress failed to include information or instructions, such as abstract software, within § 271(f)’s compass and that the judiciary has “no license to attribute to Congress an unstated intention.”

In a concurrence, Justice Samuel Alito wrote that a component must be something physical because, “when concerning a physical device . . . component . . . is most naturally read to mean a physical part of the device.” Moreover, noting that “no physical object originating in the United States was combined with” the foreign-made computers and no “physical incarnation of code” was supplied from the United States, he concluded that it “logically follows that a copy of such a CD-ROM also is not a component.”

In his dissent, Justice John Paul Stevens disagreed fundamentally with the premise that a component must be physical. First, employing Section 271(f)(2), which provides in part for infringement by a component that is “especially made or especially adapted for use in the invention,” Justice Stevens suggested that if the disk containing the abstract software is a component, then the “most important ingredient of that component” should also be a “component.”

Second, the dissent likened software not to a blueprint “that merely instructs a user how to do something,” but rather to a “roller that causes a player piano to produce sound,” as opposed to the “sheet music that tells a pianist what to do.”

**Implications of the Microsoft Decision**

By eliminating Section 271(f) infringement liability for exporting object code on software abroad and using that “intangible information” to assemble and sell an otherwise infringing product abroad, the
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Supreme Court has facilitated the sale abroad of products incorporating intellectual property developed in the United States (in the form of intangible information) without incurring liability for damages for such worldwide foreign sales. It now will be less likely for patentees to win damages for such foreign sales in an infringement suit involving the object code of software or similar intangible information.

By the same token, the decision may obviate the expressed concern that the CAFC’s approach would encourage “offshoring,” or exportation of United States employment involving development of object code and other intangible information for the purpose of avoiding 271(f) infringement. Furthermore, the opinion avoids the possible encroachment on the sovereignty of foreign nations’ own patent laws, as patentees still have the remedy of seeking damages for the foreign sales in each foreign country, based on foreign patents.

Finally, this decision raises the specter that Congress will modify Section 271(f) in accordance with its own views of its proper application in the advent of “advances in a field of technology.”

For more information on the Microsoft decision and its implications, please contact Julie Holloway, Michael Ladra, James Otteson, or another member of the firm’s IP Litigation practice, or Vern Norviel or another member of the Patents & Innovation Counseling practice.