Managing Intellectual Property

Supreme Court debates critical component

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By Shahnaz Mahmud, New York

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Microsoft, telecoms company AT&T, the Department of Justice and eight justices battled over what "component" means in a dispute over the infringement of an AT&T patent for a digital speech coder.

If the Court decides that the master disc that Microsoft supplies to computer manufacturers abroad to copy and install on their computers is a "component", the company could be held to be in breach of § 271(f) of the US Patent Act.

This says that anyone who supplies or "causes to be supplied" a component of a patented invention "intending that such component will be combined 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".

Microsoft has asked the Supreme Court to consider two questions: first, whether digital software code – a sequence of ones and zeros – may be considered a "component of a patented invention", under US law, and, if so, whether copies of such a component made in a foreign country fall under the definition of "supplie[d] ... from the United States".

At the hearing, the eight judges questioned how Microsoft distributes its software, and whether what it distributes amounts to a component. "One side is telling us it's the component that's supplied, whether it's the master disk or the object code," said Justice Ginsburg. "And the other side says this is just like a blueprint, like a mold, like a template. Can a blueprint be patented? Can a mold be patented?"

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Theodore Olson, a member of Microsoft's legal team at Gibson Dunn & Crutcher, said: "What is a component is a replication, a copy of a new hard drive or a new disk that's made a part of those computers." He added: "The information on the disk is of no use to the computer unless it's made into a physical machine readable document – object."

Erik Puknys, a partner in Finnegan Henderson's Palo Alto office, told *MIP Week* the arguments demonstrate how difficult it is to conceptualize software and how different this type of technology is from the kind of technology that the patent laws have traditionally had to deal with.

"I always felt that Microsoft had the better argument on the 'supplying' issue. In other words, the foreign computer manufacturers, not Microsoft, supply the 'components of a patented invention' by making copies of Microsoft's master disc and then installing the software copies on their computers," he explained.

Seth Waxman of Wilmer Cutler Pickering Hale and Dorr, on behalf of AT&T, argued that the master disc is a component: "If you say, well, what destroys you in this case is that the code has to be copied, replication, precise instantaneous replication is simply how software works. It's not just how it's supplied. It's not just how it's combined. It's how it interacts dynamically within the computer. And that's why we say it's a component."

Daryl Joseffer, a lawyer in the Department of Justice, urged the Court not to back AT&T in the dispute. "Under the statute you have to let the company send the design abroad to manufacture it abroad, both to protect the company's ability to compete abroad

and to protect the foreign government's prerogatives," he said. "Otherwise it's just a vastly different statute than the one that Congress enacted."

Justice Breyer acknowledged the impact that a ruling in favour of AT&T might have. He told the company's lawyer: "I then would be quite frightened of deciding for you and discovering that all over the world there are vast numbers of inventions that really can be thought of in the same way that you're thinking of this one, and suddenly all kinds of transmissions of information themselves and alone become components."

Marc Pensabene, a partner at Fitzpatrick, Cella, Harper & Scinto, told *MIP Week* Breyer seemed reluctant to affirm the CAFC's decision. "It's clear that he is leaning towards change," he said.

During the argument Breyer talked about the complexity of what is being supplied, given that it is an abstract set of numbers. He also discussed how the patent application does not itself contain that set of numbers, but instead an instruction as to how to generate them.

"To [Justice Breyer's] credit, he is saying that you can't look at this case with blinders on because the ruling will affect a much broader scope than the software industry. These are serious consequences that all of the justices are considering," added Pensabene.

The hearing also considered the issue of applying existing IP statutes to new technologies. The Department of Justice's Joseffer said that the statute was enacted in 1984 and it was unlikely that Congress had software in mind.

Fitzpatrick Cella's Pensabene said if the Supreme Court does back the CAFC's decision, it could have a dramatic, damaging effect on the US software industry. "A US patent would be equivalent to a global patent, but only for US software companies. This would put US software companies at a disadvantage because foreign companies wouldn't be subject to the same global reach of US patents."

If the Supreme Court's decision goes the other way, said Pensabene, this would put US software companies on equal footing with the rest of the world in terms of competition. "This is the way it works for every other technology," he said.

Kent Cheng, a partner at Cohen Pontani Lieberman & Pavane, said: "Our firm's guess is, while we don't have a crystal ball, that the Supreme Court will not find that software is a component and so there would be no infringement by Microsoft. The Supreme Court would then leave it up to Congress to enact revisions to explicitly include software if they wish to. This is purely speculation, but this may be a means to force Congress to address the language in the statute as it stands today. It's up to Congress to decide if it is a good policy or not."

The dispute dates back to 2000, when AT&T sued Microsoft after accusing the software company of infringing its '580 patent for a digital speech coder in its Windows software. AT&T sought damages not only for each computer loaded with Microsoft's Windows operating system that was made or sold in the US, but also for those made or sold overseas.

The dispute has been resolved, apart from the question of whether Microsoft is liable for the unauthorized distribution of the patented technology abroad.

In 2005 the Court of Appeals for the Federal Circuit upheld a lower court decision ruling that when Microsoft shipped master versions of its Windows software to foreign computer manufacturers, it infringed AT&T's patent. The Court ruled that subsequent sales or licensing of the shipped code would make the software maker liable for damages.

The software industry is worried that if Microsoft loses the case, US software companies could become more vulnerable to infringement claims if they ship their code abroad. As a result, they may consider relocating R&D centres overseas.

An *amicus curiae* brief filed by the Software and Information Industry Association (SIIA) in support of Microsoft's petition last year said: "This case squarely presents the best opportunity for this Court to review the Federal Circuit's rapidly expanding construction and application of § 271(f), which now exposes American business of all kinds – not merely software companies – to potentially unlimited worldwide liability based on a single export ... In doing so, the Court will prevent vast economic harm to the high-tech industries that are and hope to remain vital to the health of the United states economy."