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Intellectual Property Advisory:

Microsoft Corp. v. AT&T Corp.

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The Supreme Court's decision in *Microsoft Corp. v. AT&T Corp.*, Case No. 05-1056, limits the reach of § 271 (f) of the U.S. patent laws, requiring U.S. patent owners under the circumstances of that case to rely on their foreign patent protection to combat competition even from other U.S. companies. The Court's ruling has particular significance for technology and software businesses.

The dispute between AT&T and Microsoft stems from software programs that were copied overseas and incorporated into computers manufactured and sold abroad. Microsoft's Windows operating system potentially infringes AT&T's patent which enables a computer to process speech. In connection with its sale of Windows to foreign manufacturers, Microsoft sent a master version of Windows either on a master disk or via electronic transmission, to each manufacturer which they then used to make copies. The foreign manufacturers installed those copies of Windows in computers sold abroad.

AT&T filed suit charging Microsoft with liability for the sales of the foreign made computers. By sending Windows to foreign manufacturers, AT&T contended that Microsoft supplied components of AT&T's invention for combination abroad in violation of § 271 (f) of the patent laws.

The lower courts ruled in favor of AT&T finding that Microsoft infringed AT&T's patent by supplying master disks containing the Windows operating system that were copied

outside the U.S. and installed on a computers that became a combination covered by AT&T's patent.

In reversing the lower courts, the Supreme Court held that in light of the intangible nature of software code, it does not qualify as a "component" under ¶ 271 (f), and that the foreign-made copies of Windows were not "supplied" from the U.S.

Noting U.S. law does not govern the manufacture and sale of components of patented inventions in foreign countries, the Court found that AT&T must rely on its foreign patents for protection. However, the Court's recognition that its ruling may create a "loophole" in favor of software developers, which is properly left for Congress, seems to guarantee future debate and developments on this issue.

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