

---

# LEGAL UPDATE

## *AT&T CORP. V. MICROSOFT CORP. IN THE SUPREME COURT*

*Hasan Rashid\**

### I. INTRODUCTION

Section 271(f) of the Patent Act was enacted to prevent patent infringers from escaping liability by exporting the components of patented inventions for assembly into a final product overseas.<sup>1</sup> Before the enactment of § 271(f), the Patent Act had contained a kind of loophole explicitly recognized by the Supreme Court in *Deepsouth Packing Co. v. Laitram Corp.* under which such component manufacture and export could not constitute infringement.<sup>2</sup> Today, § 271(f) specifically identifies supply of a component of a patented invention

---

\* J.D. candidate 2008, Boston University School of Law; B.S. Electrical Engineering, University of Florida; M.S., Electrical Engineering, University of Florida.

<sup>1</sup> *AT&T Corp. v. Microsoft Corp.*, No. 01-CV-4872-WHP, 2004 WL 406640, at \*2 (S.D.N.Y. March 5, 2004), *aff'd* 414 F.3d 1366 (Fed. Cir. 2005), *rev'd*, 127 S. Ct. 1746 (2007). Section 271(f) states:

(1) Whoever without authority supplies or causes to be supplied 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.

(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and 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.

35 U.S.C. § 271(f) (2000). *See also* Melissa Feeney Wasserman, *Divided Infringement: Expanding the Extraterritorial Scope of Patent Law*, 82 N.Y.U. L. REV. 281, 286 (April 2007).

<sup>2</sup> *See Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972).

for overseas production as a form of patent infringement.<sup>3</sup> In 2005, the Federal Circuit had the opportunity to decide the interplay between 35 U.S.C. § 271(f) and software written in the United States and installed overseas.<sup>4</sup> Specifically, the Federal Circuit decided that 1) software is a component under § 271(f), and 2) exporting a master version of software for foreign replication and later installation on computers manufactured and sold overseas is “supplying” under § 271(f).<sup>5</sup>

The Federal Circuit’s decision and the underlying issues addressed sparked controversy for a number of reasons. For example, because software is an intangible set of instructions, some commentators questioned whether § 271(f) should be read broadly to contemplate software to be a “component.”<sup>6</sup> Moreover, should software copied overseas from an exported master version trigger § 271(f) given that Congress enacted § 271(f) in order to prevent a patent infringer from escaping liability by “supplying” components of a patented invention overseas for assembly and sale abroad that would otherwise be infringing?<sup>7</sup> Would so holding create a perverse incentive for software companies to write software overseas merely because e-mailing the software overseas may violate § 271(f)?<sup>8</sup> Should the patent law remedies for software patent owners against copying of exported software be limited to those remedies guaranteed by the foreign countries to which the software is exported?<sup>9</sup> Amidst these burning questions in academia, the Supreme Court granted *certiorari* to review the Federal Circuit’s holdings and clarify how § 271(f) relates to software.<sup>10</sup>

## II. BACKGROUND OF AT&T CORP. V. MICROSOFT CORP.

In the course of its foreign software distribution, Microsoft creates master versions of its software in the United States that are then distributed overseas for foreign replication and distribution.<sup>11</sup> These master versions begin as source code, the language humans use to write software.<sup>12</sup> The source code is then compiled into object code, making the product ready to be lasered onto a

---

<sup>3</sup> *AT&T Corp.*, 2004 WL 406640, at \*3.

<sup>4</sup> *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366 (Fed. Cir. 2005).

<sup>5</sup> *Id.*

<sup>6</sup> Ari Rafilson, *Microsoft Liable for Patent Infringement of Software Installed Overseas*, 10 COMP. L. REV. & TECH. J. 219, 225 (2006)

<sup>7</sup> *Id.*

<sup>8</sup> *See id.*

<sup>9</sup> *Id.* at 226.

<sup>10</sup> *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 467 (2006).

<sup>11</sup> *AT&T Corp. v. Microsoft Corp.*, No. 01-CV-4872-WHP, 2004 WL 406640, at \*1 (S.D.N.Y. March 5, 2004), *aff’d* 414 F.3d 1366 (Fed. Cir. 2005), *rev’d*, 127 S. Ct. 1746 (2007).

<sup>12</sup> *Id.* at \*1 n.5.

“golden master” disk or to be transmitted electronically.<sup>13</sup> Microsoft sends these golden master disks and the object code contained therein to foreign computer manufacturers.<sup>14</sup> These foreign manufacturers then replicate the object code contained on the master disks.<sup>15</sup> The foreign-replicated copies are then used to install the software on computers for sale overseas.<sup>16</sup> Thus, foreign manufacturers do not use the single disk Microsoft exports overseas to install Microsoft’s software on computers overseas; instead, the manufacturers use the foreign-replicated copies of this disk to install the software.<sup>17</sup> Microsoft’s only exports in this process are its master disks and electronically transmitted copies of its software.<sup>18</sup>

Microsoft acknowledges that it intends for the master disks and electronically transmitted copies of its software to be used to install software on computers manufactured and sold overseas.<sup>19</sup> Microsoft also concedes that the exportation of the object code in question is an essential step in the process of foreign manufacture of computers running the Windows operating system.<sup>20</sup>

In 2001, AT&T filed a patent infringement action against Microsoft in the Southern district of New York alleging that Microsoft’s Windows operating system employs AT&T’s patented speech codecs.<sup>21</sup> AT&T’s claims included an allegation that the foreign installation of Microsoft’s Windows software triggered § 271(f) liability because Microsoft “supplied” the patented speech component to foreign computer manufacturers when it provided the Windows master disks and electronically transmitted copies of Windows to the manufacturers.<sup>22</sup> Microsoft moved for partial summary judgment on AT&T’s § 271(f) claim arguing that 1) the exported object code is not a “component” as used in § 271(f), and 2) the copies of the exported object code are not “supplied from” the United States.<sup>23</sup>

### III. AT&T CORP. V. MICROSOFT CORP. IN THE DISTRICT COURT

The district court first decided the issue of whether object code can be a “component” for the purposes of § 271(f).<sup>24</sup> The district court held that object code can be a “component” because nothing in the statutory text or legislative

---

<sup>13</sup> *Id.*

<sup>14</sup> *Id.* at \*1.

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> *Id.* A speech codec is software that encodes and compresses, then decodes and decompresses, speech. *Id.* at \*1 n.1.

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> *Id.* at \*4.

history narrows the word component to exclude software from the statutory meaning.<sup>25</sup> Microsoft had argued for a narrower reading of the term component, citing cases involving design and process patents where the inventions were found to lack any “components, or instructions for assembly of products abroad,” thus making § 271(f) inapplicable.<sup>26</sup> The district court distinguished the instant case from such precedent by finding that software should be treated differently than situations involving patented process that produce data as a final product, as dealt with in prior cases.<sup>27</sup> Despite Microsoft’s best efforts to argue that software is intangible information that does not constitute a “component” as contemplated by § 271(f), the district court disagreed and found no reason why software could not fit the definition of a “component.”<sup>28</sup>

Next, the district court decided the issue of whether the replication of the exported object code is “supplying” for the purposes of § 271(f).<sup>29</sup> Microsoft argued that because the software installed on the foreign computers was installed using copies of the exported software, not from the exported media itself, the software was not “supplied” from the United States, but rather from the foreign-replicated copies of the original object code.<sup>30</sup> Microsoft conceded that if it had sent one software disk for each installation overseas, then such activity could be potentially infringing under § 271(f).<sup>31</sup> The company maintained that because it merely supplied one disk to foreign manufacturers that was not used to install the software on computers overseas, it did not supply the software as required under § 271(f).<sup>32</sup> The district court rejected this argument, finding that the fact that Microsoft exported only one disk for future replication instead of exporting one disk for each installation on a foreign computer was merely an attempt to circumvent the spirit of § 271(f).<sup>33</sup>

#### IV. *AT&T V. MICROSOFT CORP.* IN THE COURT OF APPEALS

On appeal before the Court of Appeals for the Federal Circuit, Microsoft argued that the district court had erred in finding that software exported for foreign-replication is a “component” within the meaning of § 271(f).<sup>34</sup> Microsoft further argued that exporting a master disk that is replicated on

---

<sup>25</sup> *Id.* at \*5.

<sup>26</sup> *Id.*

<sup>27</sup> *Id.* at \*7. Although the precedent referred to dealt with a § 271(g) claim, the Court still distinguished the software at hand from the data obtained and imported through foreign use of a patented process. *Id.*

<sup>28</sup> *Id.* at \*7.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> *Id.*

<sup>34</sup> *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1368 (Fed. Cir. 2005).

foreign soil for installation on foreign computers does not fall within the meaning of “supply” in § 271(f).<sup>35</sup>

The Court of Appeals dismissed Microsoft’s first argument, noting first that, as established in *Eolas Techs., Inc. v. Microsoft Corp.*, software code is an invention worthy of patent and § 271(f) does not explicitly exclude code from its purview.<sup>36</sup> The court then focused its discussion on the second issue raised: “whether software replicated abroad from a master version exported from the United States – with the intent that it be replicated – may be deemed ‘supplied’ from the United States for the purposes of section 271(f)?”<sup>37</sup>

Microsoft argued that because the foreign-replicated copies were actually manufactured abroad through copying of the master disk, the foreign-replicated copies used to install the software on foreign computers were not “supplied from” the United States.<sup>38</sup> The court, however, disagreed based on the unique nature of software and software distribution.<sup>39</sup> The nature of software and its ease of replication necessarily demand a common business practice of replication instead of the costly distribution of many copies.<sup>40</sup> Microsoft took advantage of this unique feature of software distribution, and therefore could not escape § 271(f) because of it.<sup>41</sup> The court further commented that if it were to hold that Microsoft’s activities were not encompassed by “supply” in § 271(f), then the policy behind the enactment of § 271(f), preventing circumvention of the patent laws through foreign manufacture, would be violated.<sup>42</sup> Thus, the court reasoned that § 271(f) is to be interpreted “in a manner that is appropriate to the nature of the technology at issue.”<sup>43</sup>

In support of its argument, Microsoft focused on *Pellegrini*, a case where the Federal Circuit narrowly construed § 271(f) to exclude exportation of instructions on how to make a component and corporate oversight of foreign infringing activities from the definition of “supply.”<sup>44</sup> The court rejected this analogy because in this case, the software is the actual component being installed, and not merely instructions on how to make the component.<sup>45</sup> More specifically, the court found *Pellegrini* does not control because here, the Windows software itself is being supplied abroad, ready for installation;

---

<sup>35</sup> *Id.* at 1368-69.

<sup>36</sup> *Id.* at 1369 (citing *Eolas Techs. Inc. v. Microsoft Corp.*, 399 F.3d 1325, 1339 (Fed. Cir. 2005)).

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

<sup>39</sup> *See id.* at 1370.

<sup>40</sup> *Id.*

<sup>41</sup> *Id.*

<sup>42</sup> *Id.* at 1371.

<sup>43</sup> *Id.*

<sup>44</sup> *Id.* at 1370 (citing *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113 (Fed. Cir. 2004)).

<sup>45</sup> *Id.* at 1370.

Microsoft was not just providing instructions to foreign software programmers as to how to code and design the Windows software.<sup>46</sup> The court also rejected Microsoft's parade of horribles argument, which predicted that a ruling favorable to AT&T would force software manufacturers to relocate abroad, thus causing a loss of jobs in the United States.<sup>47</sup> The court held that this policy argument was an inadequate justification for misinterpreting the statute to allow patent infringement in the presence of clearly contrary legislative intent.<sup>48</sup>

Although Judge Rader agreed with the majority's construction of the word "component" to include software, he dissented from the majority's conclusion that "the foreign manufacture of a mere component of a patented product creates liability in the United States under section 271(f)."<sup>49</sup> According to Judge Rader, the majority too liberally construed the term "supply" in § 271(f).<sup>50</sup> He differentiated "supply" in § 271(f) from activities such as "copying," "replicating," or "reproducing."<sup>51</sup> If copying occurs overseas, then that country's laws should protect a patent holder.<sup>52</sup> The majority's holding granted extraterritorial expansion to the effect of the United States' patent laws to copying on foreign soil, in violation of the Supreme Court's express confinement of patent rights to the United States and its territories.<sup>53</sup>

Judge Rader cited *Pellegrini v. Analog Devices, Inc.* to support his strict construction of the statute.<sup>54</sup> The *Pellegrini* Court held that § 271(f) should be strictly construed "to 'appl[y] only where components of a patented invention are physically present in the United States and then either sold or exported . . .'"<sup>55</sup> Similarly, Judge Rader insisted that § 271(f) should be strictly construed to exclude "copying" and other activities outside the scope of "supplying."<sup>56</sup> Consequently, the "realities of software distribution" theory on which the majority premised its opinion should have been discarded for lack of statutory or precedential support.<sup>57</sup>

Judge Rader also argued that the majority's holding was contrary to public policy.<sup>58</sup> Section 271(f), he argued, is intended to attach liability to

---

<sup>46</sup> *Id.*

<sup>47</sup> *Id.* at 1372.

<sup>48</sup> *Id.*

<sup>49</sup> *Id.* (Rader, J., dissenting).

<sup>50</sup> *Id.* at 1373 (Rader, J., dissenting).

<sup>51</sup> *Id.* at 1372-73 (Rader, J., dissenting).

<sup>52</sup> *Id.* at 1373 (Rader, J., dissenting).

<sup>53</sup> *Id.* (Rader, J., dissenting).

<sup>54</sup> *Id.* at 1374 (Rader, J., dissenting).

<sup>55</sup> *Id.* (Rader, J., dissenting) (quoting *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113, 1117 (Fed. Cir. 2004)).

<sup>56</sup> *Id.* (Rader, J., dissenting).

<sup>57</sup> *Id.* (Rader, J., dissenting).

<sup>58</sup> *Id.* at 1375 (Rader, J., dissenting).

manufacturers in the United States who make and export components of a patented product overseas.<sup>59</sup> In this case, the Court was applying § 271(f) to attach liability to manufacturing activities performed abroad.<sup>60</sup> Judge Rader warned that the court was “hold[ing] Microsoft liable for the activities of *foreign manufacturers making copies* of the patented component abroad.”<sup>61</sup>

## V. BRIEFS BEFORE THE SUPREME COURT

### A. *Petitioner’s Brief*

On appeal, Microsoft first argued that the exportation of a “golden master” disk for foreign replication is not encompassed by “supply” within the meaning of section 271(f).<sup>62</sup> Generally, Microsoft reasoned that the components of the patented invention that are used in the infringing foreign activity must be the same components that were exported from the United States, and thus the use of foreign-replicated copies of the “golden master” disks does not create liability under § 271(f).<sup>63</sup> Because these “golden master” disks are never used to install software on the foreign-manufactured computers, Microsoft does not “supply” the component of the patented invention.

Microsoft started its analysis by looking at the statutory text.<sup>64</sup> Referring to the dictionary meaning of “supply,” “to furnish or provide,” Microsoft argued that § 271(f) is violated only if it supplies the copies that are installed on the foreign computers.<sup>65</sup> Supplying a product that can be copied and supplying the copies themselves are two different activities, regardless of the ease of copying.<sup>66</sup> Therefore, Microsoft argued, the relevant question is where the copying takes place, and not the source of the copied software as emphasized by the Federal Circuit.<sup>67</sup> Microsoft provided the following hypothetical to illustrate its argument:

Suppose that a domestic manufacturer sends a single shrimp deveining machine to its counterpart in a foreign city. The foreign manufacturer then disassembles the machine, creates a series of dies or molds, and copies each of the components of the machine. The foreign manufacturer then assembles 100 machines entirely from the foreign-made copies, and

---

<sup>59</sup> *Id.* (Rader, J., dissenting).

<sup>60</sup> *Id.* (Rader, J., dissenting).

<sup>61</sup> *Id.* (Rader, J., dissenting).

<sup>62</sup> Brief of Petitioner-Appellant at 13, *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007) (No. 05-1056).

<sup>63</sup> *Id.* at 14.

<sup>64</sup> *See id.*

<sup>65</sup> *Id.* at 15.

<sup>66</sup> *Id.* (citing *Sony Corp. of Am. V. Universal City Studios, Inc.*, 464 U.S. 417, 436 (1984)).

<sup>67</sup> *See id.*

sells them to foreign buyers. Would the domestic manufacturer have “supplie[d] . . . from the United States” the components of 100 shrimp deveining machines?<sup>68</sup>

Applying this analogy to software, the object code on the master disk is copied onto multiple new mediums, and those new copies are used to install the infringing software on the foreign computers.<sup>69</sup> Thus the supplier of the original master disk is not liable because the foreign manufacturer, in effect, created the copies used for infringing installation from the original, instead of using the original itself.<sup>70</sup>

Microsoft went on to discuss principles of statutory construction and proper deference to Congress.<sup>71</sup> Congress could have included foreign produced components in the statute, but refrained from doing so.<sup>72</sup> Microsoft argued that because the nature of § 271(f) implicates foreign activities and Congress legislation, unless clearly intending otherwise, the section is meant to apply within the United States and its Territories and the Supreme Court should defer to Congress in this instance rather than expanding the textual meaning of § 271(f).<sup>73</sup>

Microsoft then addressed the problem of what constitutes a “component,” arguing that the golden master disks (and encrypted electronic transmissions) are not “components” of the computers manufactured overseas that were alleged to infringe AT&T’s patent.<sup>74</sup> Analogizing the source of the copies to a mold or die, Microsoft asserted that molds or dies used to make components are not components themselves.<sup>75</sup> Microsoft further maintained that the object code, which is a series of 0’s and 1’s, lacks physical existence and therefore cannot be a component.<sup>76</sup> According to Microsoft, the object code exported overseas was merely a set of directions for guiding a computer to perform specific functions and therefore could not trigger § 271(f) liability.<sup>77</sup> Thus, the only shared characteristic between the master disk and the foreign-replicated copies was the object code, which exists in a sort of “ether,” lacking physical presence, and therefore cannot be supplied.<sup>78</sup>

---

<sup>68</sup> *Id.* at 19.

<sup>69</sup> *Id.* at 25.

<sup>70</sup> *See Id.*

<sup>71</sup> *Id.* at 26-27.

<sup>72</sup> *Id.* at 27.

<sup>73</sup> *Id.* at 30.

<sup>74</sup> *Id.* at 35.

<sup>75</sup> *Id.* at 36.

<sup>76</sup> *Id.* at 37.

<sup>77</sup> *Id.* at 39. Microsoft cites *Pellegrini*, which held that exporting design specifications does not establish liability. *Id.* at 39 (citing *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113, 1118 (Fed. Cir. 2004)).

<sup>78</sup> *Id.* at 38.

*B. Respondent's Brief*

AT&T posited that intangible object code is a “component” within § 271(f) and that Microsoft “supplied” this object code for overseas manufacture, and further noted Microsoft’s failure to specify a policy basis for its statutory interpretation.<sup>79</sup> With respect to its first argument, AT&T made the preliminary assertion that Microsoft was incorrectly framing the issue: Microsoft presumed that the alleged components are the “golden master” disks whereas the correct issue was whether the object code or software “*contained on each golden master disk*” is a component.<sup>80</sup> AT&T asserted that the court should withdraw *certiorari* or consider Microsoft’s failure to raise the question below as a waiver.<sup>81</sup>

AT&T next argued that “components” should be interpreted broadly to include intangibles such as object code.<sup>82</sup> In describing the common usage of the word “component,” AT&T cited a dictionary, Microsoft’s own amici, and even Microsoft’s own publications to support this broad construction of “component” to include both physical and non-physical elements.<sup>83</sup> Further, the statutory text, AT&T argued, supports this reading because Congress, presumably appreciating that patentable inventions include the non-physical, such as software, could have included a tangibility requirement for “components” in § 271(f).<sup>84</sup> According to AT&T, if § 271(f) did not apply to intangible object code, then the software industry would be immune from that provision.<sup>85</sup>

AT&T also responded to Microsoft’s argument that its object code lacks physical existence, and therefore cannot be combined with physical objects.<sup>86</sup> AT&T referred to this argument as “nonsense,” because application of the word “combine” is not limited to physical existence, and “[i]t is perfectly natural to speak of combining intangible object code with physical components such as a hard drive.”<sup>87</sup> Like the independence retained by words that create a literary work, even when in an “ether” without medium, software is similarly independent and cognizable as its own legal entity.<sup>88</sup> Further, Microsoft’s software is not merely “design instructions.”<sup>89</sup> Unlike design instructions, which are not a part of the final manufactured product, the software in this case

---

<sup>79</sup> Brief of Respondent-Appellee at iii-iv, *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007) (No. 05-1056).

<sup>80</sup> *Id.* at 16 (emphasis added).

<sup>81</sup> *Id.* at 16-17.

<sup>82</sup> *Id.* at 19.

<sup>83</sup> *Id.* at 20-21.

<sup>84</sup> *See id.* at 22.

<sup>85</sup> *Id.*

<sup>86</sup> *Id.* at 24.

<sup>87</sup> *Id.*

<sup>88</sup> *See id.* at 26.

<sup>89</sup> *Id.* at 27.

is a part of the final product.<sup>90</sup>

AT&T next argued that Microsoft's exportation of the object code for combination with foreign-manufactured computers is "supplying" within the ambit of § 271(f).<sup>91</sup> AT&T first noted that Microsoft incorrectly presumed that the golden master disk was the supplied component, instead of the software *on* the golden master disk.<sup>92</sup> The correct analysis, AT&T argued, is whether the component, in this case the object code, is supplied overseas, not the medium from which the object code is copied.<sup>93</sup> Thus, when a customer recognizes that a computer has the Windows software installed, he recognizes that the software is a component of the computer and that the component was "created in and *supplied* from the United States."<sup>94</sup>

AT&T went on to discuss the negative impact Microsoft's position could have on patent policies, including the elimination of the technological neutrality of § 271(f) through creation of a software exception.<sup>95</sup> If Microsoft's reading were accepted, then even if Microsoft sent out individual disks for installation on each computer, the software would be copied onto a hard drive when installed, and therefore the hard drive copy would likewise not be "supplied" from the United States.<sup>96</sup> In sum, Microsoft's interpretation of § 271(f) would create a software exception to that provision that Congress did not intend.<sup>97</sup>

With regard to the desire to keep United States patent laws within the United States, AT&T maintained that the "extraterritorial" nature of section 271(f) is not implicated because the activities creating liability were performed domestically.<sup>98</sup> The presumption against extraterritorial statutory interpretation is only implicated when the statute is ambiguous as to its geographic scope, and section 271(f) is unambiguous.<sup>99</sup> Indeed, Congress, in enacting section 271(f), intended to overcome any such presumption.<sup>100</sup> AT&T also faulted Microsoft for failing to show any possible international impositions that would arise from the application of section 271(f) to these circumstances.<sup>101</sup>

---

<sup>90</sup> *Id.*

<sup>91</sup> *Id.* at 29.

<sup>92</sup> *Id.*

<sup>93</sup> *Id.* at 30.

<sup>94</sup> *Id.*

<sup>95</sup> *Id.* at 36. AT&T states that Microsoft is lobbying to eliminate § 271(f) outright. *Id.*

<sup>96</sup> *Id.* at 38.

<sup>97</sup> *Id.* at 41.

<sup>98</sup> *Id.*

<sup>99</sup> *Id.*

<sup>100</sup> *Id.* Congress enacted § 271(f) in response to a loophole exposed in the *Deepsouth* decision. *Id.* (citing *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972)).

<sup>101</sup> Brief of Respondent-Appellee at 44, *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007) (No. 05-1056).

## VI. SUPREME COURT DECISION

A. *The Majority Opinion*

The Supreme Court rendered its verdict in the case on April 30, 2007.<sup>102</sup> The Court framed the question to be decided as follows: “Does Microsoft’s liability extend to computers made in another country when loaded with Windows software copied abroad from a master disk or electronic transmission dispatched from the United States?”<sup>103</sup> Because § 271(f) is an exception to the general rule against extraterritoriality, the Supreme Court resisted broadly reading the terms of the provision and answered the question in the negative.<sup>104</sup>

The Supreme Court first addressed the connection between the bifurcated issues to be considered.<sup>105</sup> The Court first notes that, in the first instance, the question is not whether software can be a component, but rather at what stage software becomes a component: when it is software in the abstract or when it is software in a specific medium.<sup>106</sup> If a software “component” is contained on a medium, then AT&T cannot successfully allege that Microsoft “supplies” the “component.”<sup>107</sup> If, however, the software “component” is the software in the abstract, then Microsoft clearly supplied a component overseas.<sup>108</sup>

The Court focused on the language of § 271(f) that states that a party is liable for supplying components overseas that are combined to form a patented invention.<sup>109</sup> The Court reasoned that because software in the abstract cannot be “combined” without being contained on a specific medium, the use of the word “component” within § 271(f) cannot include software in the abstract.<sup>110</sup> The seemingly “easy” step of placing the software on a medium is thus necessary for infringement under § 271(f).<sup>111</sup>

Further, the Supreme Court interpreted “supplying” as Judge Rader interpreted the term in his dissent below.<sup>112</sup> Section 271(f)’s phraseology prohibits supplying of components and the combination of such components to form a patented invention overseas.<sup>113</sup> Supplying, therefore, is not copying, because copying is not contemplated in the idea of combining the supplied

---

<sup>102</sup> Microsoft Corp. v. AT&T Corp., 127 S. Ct. 1746 (2007).

<sup>103</sup> *Id.* at 1750-51.

<sup>104</sup> *Id.* at 1751.

<sup>105</sup> *Id.* at 1754.

<sup>106</sup> *Id.*

<sup>107</sup> *Id.*

<sup>108</sup> *Id.*

<sup>109</sup> *Id.* at 1755.

<sup>110</sup> *Id.*

<sup>111</sup> *Id.* at 1756.

<sup>112</sup> *Id.* at 1757.

<sup>113</sup> *Id.*

components to form the patented invention.<sup>114</sup> Because the actual components combined overseas were not those that were supplied abroad, but instead were copies of those supplied, § 271(f) is not implicated.<sup>115</sup>

Finally, the Court noted that the presumption against extraterritoriality should govern absent clear legislative intent.<sup>116</sup> Thus the new “loophole” for software makers that is allegedly created by the reversal of the Federal Circuit’s decision should not be changed through a distorted reading of § 271(f).<sup>117</sup> If a loophole is indeed present, the court reasoned, then such a loophole should be addressed and corrected by Congress.<sup>118</sup>

### B. *Concurring Opinion*

In a concurring opinion, Justice Alito, joined by Justices Thomas and Breyer, reached the same conclusion through different means.<sup>119</sup> Justice Alito agreed that software, in the abstract, cannot be a “component” under § 271(f).<sup>120</sup> Alito reached this conclusion based on the reasoning that the infringing software component is not formed until the software copies are installed on the computers overseas.<sup>121</sup> No evidence proved that a physical part of the master disk was combined with the foreign computers.<sup>122</sup> Consequently, Microsoft did not “supply” the installed software that physically exists on the overseas computers.<sup>123</sup>

### C. *Dissent*

Justice Stevens dissented from the majority opinion in an opinion focusing more on the Congressional intent behind § 271(f).<sup>124</sup> Justice Stevens found it difficult to accept the idea that software must be fixed in a medium in order to be a “component” under § 271(f) despite the fact that it is the software code itself that is potentially infringing, not the medium on which the software appears.<sup>125</sup> Accordingly, because Microsoft created the software and supplied it overseas, Justice Stevens would affirm the Federal Circuit’s decision.<sup>126</sup>

---

<sup>114</sup> *Id.*

<sup>115</sup> *See id.*

<sup>116</sup> *Id.* at 1758.

<sup>117</sup> *See id.* at 1759.

<sup>118</sup> *See id.*

<sup>119</sup> *Id.* at 1760 (Alito, J., concurring).

<sup>120</sup> *Id.* at 1761 (Alito, J., concurring).

<sup>121</sup> *Id.* at 1762 (Alito, J., concurring).

<sup>122</sup> *Id.* (Alito, J., concurring).

<sup>123</sup> *Id.* (Alito, J., concurring).

<sup>124</sup> *Id.* (Stevens, J. dissenting).

<sup>125</sup> *Id.* at 1763 (Stevens, J. dissenting).

<sup>126</sup> *Id.* (Stevens, J. dissenting).

## VII. CONCLUSION

The Supreme Court's decision will have broad ramifications on the software industry because software has become a kind of exception to § 271(f). The Court's reasoning is sound, however, because the legislature could not have intended, at the time of enactment, for § 271(f) to cover the activities at issue in this case given that software patents were not as common at that time as they are today.<sup>127</sup> However, just as in *Deepsouth*, a new loophole has been created that potentially gives software developers added freedom to write code that infringes on patented inventions when installed on foreign computers using copies made overseas.<sup>128</sup> Therefore, if Congress wishes to hold software developers liable for conduct similar to Microsoft's, then Congress must specifically demonstrate an intent to act counter to the general principle against extraterritoriality that prevents U.S. patent law from extending to conduct in foreign jurisdictions, just as it did in enacting § 271(f).<sup>129</sup>

---

<sup>127</sup> Virginia Zaunbrecher, *Eolas, AT&T, & Union Carbide: The New Extraterritoriality of U.S. Patent Law*, 21 BERKELEY TECH. L. J. 33, 46-47 (2006) (noting that software was not as prevalent at the time of the enactment of section 271(f) as it is today).

<sup>128</sup> See *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972).

<sup>129</sup> See *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746, 1746 (2007).