

**Keywords:** 35 U.S.C. §271(f); extraterritorial effect; extraterritorial jurisdiction; software

**General:** Copies of software made from a master disk or from an electronically exported version were not themselves components of computers on which the copies were made, in such a way that would give rise to liability under 35 U.S.C. §271(f).

*Microsoft Corp. v. AT&T Corp.*

550 U.S. \_\_\_\_ (2007)

Decided April 30, 2007

## I. Facts

AT&T holds a patent to a computer programmed to perform speech encoding and compression. Microsoft markets its Windows operating system that is capable of performing such functions. When the Windows software is loaded on a computer (the parties agree), the computer infringes AT&T's patent. For computers assembled and programmed outside the U.S., however, Microsoft either sends master disks or transmits a master version of the software abroad. Copies of the software are made from these, then, and the software is loaded onto computers outside the U.S. (In some cases, the software may apparently be loaded onto the computers directly from disks supplied to by Microsoft from the U.S., although this is not clear from the Opinion). The disk (or electronic copy) supplied by Microsoft from the U.S. is not, however, sold with the computer assembled and programmed abroad.

AT&T sued Microsoft for infringement of its patent in the Southern District of New York, including claims to infringement under 35 U.S.C. §271(f)<sup>1</sup> by providing Microsoft's software for installation on computers abroad. The district court considered the supply of the master disk by Microsoft from the U.S. the supply of a component within the meaning of 35 U.S.C. §271(f), and found in favor of AT&T.<sup>2</sup> The CAFC then considered an appeal by Microsoft, and ultimately affirmed the decision of the district court. Microsoft appealed to the Supreme Court on writ of certiorari.

## II. Issue

Does Microsoft's liability (for infringement under 35 U.S.C. §271(f)) extend to computers made in another country when loaded with Windows software copied abroad from a master disk or electronic transmission dispatched by Microsoft from the United States?

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<sup>1</sup> 35 U.S.C. §271(f) includes two subsections that provide:

(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.

<sup>2</sup> It was apparently unclear whether the district or appeals court based its liability finding on 35 U.S.C. §271(f)(1) or (2). However, the CAFC indicated that this would not be dispositive of the case. The Supreme Court performed its analysis under 35 U.S.C. §271(f)(1), but the majority concluded also that the outcome would have been the same under 35 U.S.C. §271(f)(2).

### III. Discussion

No. The majority considered that software itself is essentially information, unable to become a “component” within the meaning of §271(f) until it is loaded onto a computer or other physical, tangible component that itself is part of the computer. Because the disk (or electronically transmitted copy) supplied by Microsoft from the U.S. was not itself part of the computers ultimately sold, copying the software abroad effectively avoided the scope of §271(f).

The Court reviewed the background of §271(f) in the *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), decision and its aftermath. In *Deepsouth*, shrimp deveining machines were made in several parts or subassemblies in the U.S., and these were then shipped abroad for assembly of machines that, if made in the U.S. would have infringed Laitram’s patent. Laitram sued Deepsouth and, ultimately, the Court held that, because there was no actual infringement within the U.S., Deepsouth’s activity did not infringe §271(a). Congress then responded by enacting §271(f), making it an infringement to supply all or a substantial portion (§271(f)(1)) or a specially made component (§271(f)(2)) of a patented invention in such a way as to induce infringement by assembly of the components outside the U.S., where such assembly would be an infringement if carried out in the U.S. New §271(f) was unusual inasmuch as it imposed U.S. liability for extraterritorial acts, based upon the nature of the supply of components from the U.S.

The case of software was not considered by the Congress when §271(f) was enacted. The Court spent considerable energy in differentiating software from tangible components of the type supplied by Deepsouth. The Court considered that software is essentially information, and that it might be considered either (1) the physical copy of code that embodied the information, or (2) the information itself. The former would be similar to a blueprint or a music score, while the latter would be more akin to the instructions provided by a blueprint or the notes of a symphony encoded on a score. The former could be considered a component within the congressional intent of §271(f) if supplied and combined with other components abroad. The pure information, however, the Court determined could not be a “component” combinable to give rise to liability under §271(f).

The Court specifically rejected AT&T’s arguments that software is different from other “information” because it is modular and does, *itself*, direct functions and operations of a computer. The dissent also analogized the master disks to an inventory of knives (e.g., for a deveining machine) that were ready to be supplied when needed. Here again, the Court held firm to the concept of software as only constituting a combinable “component” once fixed in a tangible medium. Because *that* medium, the one that eventually became part of the computer, was not supplied by Microsoft, the Court found no basis for liability under §271(f).

Three justices joined in a concurrence that was interesting inasmuch as it implied that, even if the disks supplied by Microsoft were, themselves, used directly to program the computers abroad, this would also not give rise to liability under §271(f). That would happen only if the disks themselves actually became part of the computers (i.e., were themselves “components”).<sup>3</sup>

The Court repeatedly refused to extend the scope of §271(f) to software, but clearly indicated that Congress may close this “loophole” by appropriate legislation.

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<sup>3</sup> This point is interesting inasmuch as it begs the question: what exactly would a software provider have to supply to give rise to infringement under §271(f) in this situation. It would seem that, under the current state of the law, nothing short of a programmed hard drive or other circuit component actually incorporated into the computer would do.