No. 05-1056

IN THE

Supreme Court of the United States

MICROSOFT CORPORATION
Petitioner,

v.

AT&T CORP.
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* YAHOO! INC. IN SUPPORT OF PETITIONER

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QUESTION PRESENTED

Whether, when thousands of copies of software are created abroad and installed abroad on thousands of computers, a "component" of a patented invention was "supplied … from the United States" within the meaning of 35 U.S.C. § 271(f) for each computer merely because they are based on a single master copy of the software that was sent from the United States.

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INTEREST OF AMICUS CURIAE[1]

Yahoo! Inc. ("Yahoo!") and its subsidiaries provide services to more than 418 million individuals each month worldwide, and the company operates the world's most popular Internet destination. The company is a leading innovator in the computer and Internet sector, holds a wide array of patents relating to Internet communication, and also licenses technology patents both to and from third parties. From time to time, Yahoo! finds it necessary to enforce its own patent rights as well as to defend itself against allegations that it infringed a third party's patent. Accordingly, Yahoo!'s interest is in an efficient patent system that fairly rewards innovation.

The Federal Circuit's decision in this case will not advance innovation or efficiency. The statutory provision at issue, 35 U.S.C. § 271(f), bars the circumvention of United States patent law by shipping unassembled parts of a patented device abroad for assembly. But Section 271(f) does not extend to the export of models or instructions if components are created abroad based on those models or instructions. Nor should Section 271(f) be construed to generally export United States patent law, lest other countries attempt similarly to export their patent laws to the United States. A properly limited construction of Section 271(f), under which Microsoft is not an infringer for computers sold abroad under the facts of this case, avoids the inefficiency

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[1] Counsel for both parties have consented to the filing of this brief, and their consents have been filed with the Clerk of this Court. No counsel for any party authored this brief in whole or in part, and no person or entity, other than the named *amicus curiae* and its counsel, contributed monetarily to the preparation or submission of this brief.

that will result if multiple countries attempt to extend the reach of their patent laws beyond their respective borders.

PRELIMINARY STATEMENT

This case will be the first in which this Court addresses 35 U.S.C. § 271(f). Section 271(f)(1) provides that a person who "supplies … from the United States … the components of a patented invention… shall be liable as an infringer." The briefs of the parties and the government will contain detailed statements of the case, but two preliminary points bear emphasis.

First, while the "golden master disks" that Microsoft sometimes uses to convey its software to foreign manufacturers received the lion's share of attention in the briefs filed at the petition stage, the Federal Circuit's decision expressly applies to electronic transmission as well. The Federal Circuit specifically addressed Internet downloads, stating that "when a user downloads software from a server on the Internet, the server 'supplies' the software to the user's computer by transmitting an exact copy." Pet. App. 6a. The court went on to conclude that "whether software is sent abroad via electronic transmission or shipped abroad on a 'golden master' disk is a distinction without a difference for purposes of § 271(f) liability." *Id.* at 8a. This Court should be aware that the rule announced in this case could therefore extend United States patent liability to every corner of the globe where a copy of software originally developed in the United States is installed on end-user devices, regardless of how the copy is created.

We agree with the Federal Circuit that it should not matter whether software installed abroad on computers is obtained from a master disk or a download from the Internet. In either case, as explained in this brief, the relevant "component" for purposes of Section 271(f) is the software

together with the medium on which it was installed. It is only in this form that a specific component of an infringing device exists. In many cases today, that will be the computer's hard drive or a read-only-memory chip. When the hard drive or chip originates and remains overseas, it is not a "component" that was "supplied … from the United States." And disembodied software originating from the United States is not a component either. Only when the software is encoded on a specific device does it become a component for the purposes of Section 271(f).

Our second preliminary observation – that Section 271(f) was enacted in response to a decision of this Court involving very different technology – supports that conclusion. The components of the shrimp deveining machines at issue in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 524 (1972), were all present in the United States prior to export. If they had been assembled in the United States, this would have been an act of patent infringement. In contrast, the software at issue in this case is intangible and unusable by any device until it is encoded on a machine-readable medium such as a specific hard drive or a chip, at which point it might become a single component of a single device. Unlike a machine part, disembodied software cannot be simply "snapped into place." This difference between the facts guiding Congress when it enacted Section 271(f) and the facts of this case makes it important to pay careful attention to the nature of the technology at issue.

"Software" is synonymous with "computer program," and a computer program is "a set of instructions . . . that directs a computer to perform specified functions or operations." *Fantasy Sports Props., Inc. v. Sportslines.com, Inc.*, 287 F.3d 1108, 1118 (Fed. Cir. 2002). A simple program instructing a computer to display "Hello!" on its

screen is provided in the margin.[2] But, of course, simply waving the footnote including those instructions at a computer would not cause it to display "Hello!" on its screen. Rather, before a computer can execute these instructions, they must be provided to the computer on a medium that it can "read." And for multiple computers to be able to execute the instructions simultaneously, each separate computer must have its own copy of the instructions installed onto it.

Over the years, a wide variety of media have been used to interact with computers. In the early days of computer

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[2] In the computer language "C," the source code reads:

```
#include <stdio.h>

int main()
{
   printf("Hello!\n");
   return 0;
}
```

The first line indicates where the output is to be displayed, while the rest of the code indicates what is to be displayed. The object code that the computer would "run," after the "source code" just listed were compiled or translated, might read (in part):

```
10110101001011010
10100100100100010
10101001010101110
01010010010110101
11101010100111001
10101001010111110
10101101101001001
10101000111101011.
```

programming, punch cards were employed as both storage media and input devices. In the 1980s and into the 1990s, floppy drives frequently performed storage and input functions. Today, programs are often electromagnetically encoded on a hard drive inside the computer. Alternatively, computer programming instructions may be encoded in more permanent fashion on read-only-memory chips, as in modern cell phones. Regardless of the medium employed, however, the point is the same – the instructions set forth in the software must be provided to each computer on an appropriate machine-readable medium in order for the computer to act on those instructions. The most straightforward reading of "component," in these circumstances, is the medium on which software is encoded together with the software – but not the unencoded software.

It is clear that shipping the parts of a shrimp deveining machine constitutes the "supply" of "components" within the meaning of Section 271(f). The components are the parts of the machine that were present in the United States and shipped abroad for assembly. Because additional copies of software code can be created so easily on a variety of media, it may seem a more difficult question whether a "component" was "supplied" from the United States when software is installed abroad on a computer. But the most straightforward application of the statute to the facts of this case supports the conclusion that no component that was ever in the United States became a part of an allegedly infringing computer.

SUMMARY OF ARGUMENT

Under Section 271(f), software sent abroad should not be considered a "component" until it is *encoded* in a machine-readable medium and *installed* on an allegedly infringing device. Under this reading of the statute, the software that Microsoft supplied from the United States in this case was not a "component" within the meaning of Section 271(f) – whether it was supplied by means of a master disk or an electronic transmission. Relatedly, because the processes required to encode and install the software on allegedly infringing devices took place overseas, the components were "supplied" abroad and not "from the United States" within the meaning of the statute.

A "component" is a "constituent part" of a machine. *See, e.g.*, Webster's Third New International Dictionary of the English Language 466 (1976). Instructions are not usually thought of as parts of machines. It would not make sense to say, for example, that instructions keyed into a microwave oven are a "component" of the oven. Likewise, in a cell phone that requires voice commands, it would make sense to call the earpiece a component; the display screen a component; the programmed chip inside the phone a component; but not the voice commands that activate the phone. Instructions, such as software, tell machine parts what to do; they are not themselves machine parts. Once software has been encoded on a medium and installed in a computer, it makes sense to talk about that particular physical embodiment of the program, encoded on a specific medium, as a "component" of that particular computer.

Accordingly, the initial question presented by this case is not whether software can *ever* be a "component" of an allegedly infringing device – it is *when* a particular program should be considered a "component" of that device. Imagine,

for example, a hard-copy print-out of a computer program or an optical disk containing software sitting beside a computer. It would be absurd to consider either a "component" of the device. A machine-readable copy of the software installed on a computer's hard drive or placed on a read-only-memory chip, however, *would* be a "component" as the term is commonly used. When the instructions are embedded in the machine parts whose actions they control, that particular copy of the instructions can be said to be part of a component. But not before they are embedded.

The software that Microsoft sends overseas, whether via electronic transmission or on a master disk, is not a "component" of any finished product. It is, rather, a single, uninstalled model. It is at some later point, when a copy of that software contained on some machine-readable medium has been created and installed on a computer, that a "component" of the device within the meaning of Section 271(f) has been created. At that point, the software is functional, and the computer can actually practice the claims of the patented invention. But before the software is in a form that it may be used by the computer, it is not reasonable to call it a "component" of the computer.

It follows that Microsoft did not "supply" any component from the United States within the meaning of Section 271(f) either. Rather, as the Solicitor General argued at the petition stage, the process of encoding and installing "components" took place abroad, so no components were "supplied … from the United States."

The presumption against the extraterritorial application of United States law supports this reading of the patent statute. As this Court has stated, the presumption, which has long been applied in patent cases, serves to protect against unintended clashes between our laws and those of other

nations that could result in international discord. Here, the potential for international discord is very real: excessively expanding the reach of United States patent law may well offend foreign governments, interfere with the negotiation of international agreements, or motivate other countries to expand the reach of their patent laws into the United States. To the extent there is ambiguity, the presumption against exterritorial application of domestic law supports a construction of Section 271(f) that results in fewer applications of domestic patent law to devices sold and used in foreign countries.

ARGUMENT

I. THE MASTER COPY OF SOFTWARE MICROSOFT SENT ABROAD IS NOT REASONABLY CONSIDERED TO BE A "COMPONENT" OF THE ALLEGEDLY INFRINGING COMPUTERS.

The initial issue presented by this case is whether the software Microsoft sent abroad is a "component" within the meaning of Section 271(f). The Federal Circuit did not really engage with Microsoft's argument on that point. The court accorded only two sentences to its finding – based on *Eolas Techs., Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005) – that "software could very well be a 'component' of a patented invention for the purposes of § 271(f)." Pet. App. 4a. More specifically, the court in *Eolas* held that software "could" be a "component" under § 271(f) because the language of the statute is not limited to "machines" or "physical structures." 399 F.3d at 1339.

But that analysis misses the point in this case. The program that Microsoft sent abroad was simply a set of instructions, and instructions alone are not reasonably considered to be components. Instructions may be

represented in many different formats, including on paper. Plainly, however, a program written on paper is not a "component" of a computer – such a program would not be encoded in any format a machine could read, and certainly would not be a "part" of any device.

A program written on a master disk presumably *would* be readable by a computer under some circumstances. But placing the disk on top of a computer would not make it a "component" of the computer, any more than placing a cup of coffee on the computer would make *it* a "component." Being machine-readable in the abstract, in other words, is not enough. A component of a computer – a constituent part of the machine – must be capable of being used by the computer. The master disk *would* be a single component of the single computer if it were permanently installed on that computer. But that is not what happens with a master disk. Instead, the information on the master disk is copied onto some other medium installed on computers. Only such an embodied copy of software is appropriately viewed as a component of a computer.

That is illustrated by contrasting a master disk to the components of the deveining machines at issue in *Deepsouth*. The parts of a deveining machine shipped from the United States plainly became components of the deveining machines used in foreign countries. Indeed, once assembled, the parts shipped from the United States *are* the machines, and the parts for one machine make only one machine. To create 100 machines, 100 sets of parts must be sent from the United States. But a master disk is different. It does not become a part of an infringing device. After the software on a master disk is copied, the master disk may be sent to other locations, possibly in other countries, and copied again. It would not make sense to consider a master disk to be a component of each of those computers. The parts of a deveining machine,

in contrast, cannot be separated from the machine of which they become a part.

It does make sense, however, to consider the *individual copy* made from the master disk that is installed on a computer to be a component of the computer on which the copy is installed – but that shows that the copy, rather than the master disk, is the relevant "component" within the meaning of Section 271(f). If a model or mold of a part of a deveining machine were sent abroad and duplicated, the components of the resulting machines would plainly have been made abroad rather than supplied from the Untied States. The model or mold itself would not be considered a component of the resulting machines.

In other words, taking a master disk and copying the instructions on the disk onto the hard drive of a computer – *installing* the software – changes the nature of the relationship between the software and the computer. Installation makes the software a part of the computer, at least until the software is uninstalled. The software together with the medium on which it has been installed is appropriately viewed as the relevant component of the computer.

The same is true for electronic downloads, although the elegance of today's technologies superficially obscures lines that would have been clearer at the time of Section 271's enactment. At that time, programmers frequently wrote out their programs on special forms called coding sheets. Clearly, however, coding sheets sent abroad from the United States in those days would not have been "components" of computers manufactured abroad within the ordinary English meaning of that term. But that is essentially what Microsoft did here when it distributed software electronically rather than on a master disk – it sent the underlying software, not any constituent part of a computer, abroad. The software was

encoded on a machine-readable medium abroad, just as the information on the coding sheets would have been transferred to components abroad. The software was not usable until it was encoded on a machine-readable medium and installed on the computer, and it does not make sense to think of instructions as components until they are put into a form that a computer can use.

Other illustrations involving today's technology make the same point. A hard-copy printout of a computer program for the fuel-injection control of an automobile mailed from the United States would not be a considered a "component" of a car manufactured abroad. The print-out simply could not be considered a "constituent part" of the car. Nor would a disk containing that software sent from the United States and placed on the front seat of the car be a "component." But if a foreign manufacturer were to embed the software in a chip and incorporate the chip into the automobile, that chip would be a "component" of the car. It would not make sense, however, to think of the fuel-injection control software as a component until it was embedded in a chip.

In short, the software Microsoft sent abroad should not be considered a "component" of the foreign-built computers, whether the software was sent by means of master disks or electronic transmission. The software was copied and encoded abroad on machine-readable devices which were then installed in the computers. Those parts – the hard drive with the software installed on it or the read-only-memory chip with the software copied onto it – are the "components" of the computers. But the software sent abroad by Microsoft is not.

The Federal Circuit's contrary rule makes software a component when it is not a part of a computer or even in a form that it can be used by a computer. Its rule also leads to

the counter-intuitive result that a single copy of software – which is all that Microsoft sends abroad on a master disk or encrypted electronic transmission – is said to be a component of each of the thousands of computers on which copies of its instructions are ultimately encoded. But Section 271(f) was not enacted to lead to such a result. It is most sensibly construed to mean that one component must be exported from the United States for every allegedly infringing device created abroad.

Accordingly, if a software company encodes software on a machine-readable medium in the United States and sends multiple copies of the resulting disks or chips abroad where each is to be made a constituent part of a computer, it will have violated Section 271(f) if the software infringes a patent. But if the company merely sends software – design information comparable to a blueprint or a mask that is not in a form in which it can be used by a computer – it has not. That interpretation squares with Congress's goal in enacting Section 271(f), since it is clear that Congress intended to prohibit the export of the parts of a machine that could be assembled abroad but did not intend to prohibit the export of design information.

Like the decision below, the Solicitor General's brief at the petition stage missed the key point with respect to the "component" issue. Neither we nor Microsoft argue that software cannot, in any form, be a "component" of a device within the meaning of Section 271(f). In our view, the software Microsoft sends from the United States to foreign countries – where a copy is then installed on computers destined for foreign markets – is not a "component" of the finished device. Rather, it is the software together with the

medium on which it is encoded that is appropriately considered to be a "component" of those computers.[3]

[3] Many Internet companies distribute their software in a manner that is different than the distribution system Microsoft uses for its Windows software. Rather than using a master disk or master electronic transmission, users may obtain products individually. For example, consider a person in Germany who downloads instant messaging software. Although the download may take only a matter of minutes to install if the user has a high-speed connection, the instructions obtained from the company's server, perhaps located in the United States or perhaps another country, are transformed in multiple steps and finally encoded onto the user's hard drive in Germany. The German user then launches the copy of the installation program he has made. The execution of that installation program, which actually creates the executable copy of the messaging application residing on the user's computer hard drive, will vary depending on the individual computer on which the software will be installed. For example, the installation program will take a different course if prior versions of the software have been downloaded to the computer and also will vary depending on whether the user wants the messaging software application to be set as his default messaging program. Similarly, if the computer generally uses German rather than English, the installation may be in German rather than in English. The software is not usable until those transformations have been completed and the appropriate instructions for the particular computer have been installed on the hard drive of the user's computer. As those different steps illustrate, the resulting component – the instant messaging instructions installed on a computer in Germany –

II. THE COMPONENT INSTALLED ON THE ALLEGEDLY INFRINGING COMPUTERS WAS NOT "SUPPLIED" FROM THE UNITED STATES.

The second question presented by this case is whether the components installed on the allegedly infringing computers were "supplied" from the United States. At the petition stage, the Solicitor General – like Judge Rader, dissenting below – concluded that Microsoft did not "supply" a component from the United States, but agreed with AT&T's position on the "component" issue.

In its response to the government's brief at the petition stage, AT&T argued that the Solicitor General's position on the "supply" issue is inconsistent with its rejection of Microsoft's "component" argument. Distilled to its essence, AT&T's argument appears to be that Microsoft necessarily supplied components from the United States because the software Microsoft sent abroad and the copies installed on the allegedly infringing computers are really the same thing. That argument is wrong, in our view, because the relevant "constituent part" or "component" of the infringing computers is the particular functional copy of the software together with the machine-readable medium in the computer on which it was encoded. That component was created abroad, and hence supplied abroad, because each copy of Microsoft's software was installed on a medium in the allegedly infringing computers abroad.

As the government suggested, U.S. Cert. Br. at 13, its view of the "supply" issue accords with the Federal Circuit's recent ruling in *Pellegrini v. Analog Devices, Inc.*, 375 F.3d

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is created abroad, using instructions developed in the United States or another country.

1113 (Fed. Cir. 2004). There, the court reasonably concluded that components manufactured outside of the United States do not trigger liability under Section 271(f). *See, e.g., id.* at 1118 (accepting Analog's "defense [to the Section 271(f) claim] based on ... extraterritorial manufacture"). Here, as the Solicitor General pointed out, U.S. Cert. Br. at 13, the "fast and inexpensive" nature of the process by which its software is encoded and installed should not obscure the fact that it takes place abroad.

Indeed, today the process of encoding software on a machine-readable medium and installing it on a computer may take only seconds. But at the time that Section 271(f) was adopted, that same process often involved laboriously creating a deck of punch cards based on written coding sheets, transferring the data on that deck to magnetic tape, and then installing that tape on a computer's magnetic tape reader. At that time, it would have been obvious that the relevant "component" was manufactured abroad and was not "supplied" from the United States.

We acknowledge that the encoding and installation process on which the Solicitor General based his conclusion that components of the infringing computers were not "supplied" from the United States in this case is also the basis for our position that the master software supplied by Microsoft is not appropriately viewed as a "component" of the infringing computers. Accordingly, we agree with AT&T that the Court should reach the same result whether it focuses on the "component" issue or the "supply" issue. But in our view, the Court should hold that Microsoft is not liable under Section 271(f) when it sends a master copy of its software abroad, where the software is encoded onto a machine-

readable medium and installed on allegedly infringing computers.[4]

III. THE PRESUMPTION AGAINST THE EXTRATERRITORIAL APPLICATION OF UNITED STATES LAW SUPPORTS REVERSAL OF THE FEDERAL CIRCUIT'S DECISION.

As the government wrote in its brief at the petition stage, "[i]f there were any doubt about the proper interpretation of Section 271(f), the presumption against extraterritoriality would resolve it." U.S. Cert. Br. at 16. This Court has, of course, long held "that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States." *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991) ("*Aramco*") (quoting *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285 (1949)). This Court has long held that this canon of construction applies to patent law, which "makes no claim to extraterritorial effect." *Deepsouth*, 406 U.S. at 531; *see Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1857) (The patent laws "do not, and were not intended to, operate

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[4] Such a holding would not call into question the Federal Circuit's decision in *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005). The issue in that case was whether a patented invention was "used" in the United States under 35 U.S.C. § 271(a) when customers using BlackBerry devices were located in the United States but the control point of the BlackBerry Relay system was located in Canada. In our view, the Federal Circuit sensibly concluded in this particular patent case that the infringing use occurred where the infringing device was used, even if a part of the system employed by the infringing device was located in Canada.

beyond the limits of the United States.") Extraterritorial application of patent law "is strongly disfavored and risks interfering with the sovereignty of the other country into whose territory the rights holder is reaching." Timothy R. Holbrook, Extraterritoriality in U.S. Patent Law (November 10, 2006) at 2, available at http://ssrn.com/abstract=944157.

Moreover, the principles underlying the presumption apply even when the issue is not simply whether Congress intended a statutory provision to apply beyond our nation's borders. In *F. Hoffmann-LaRoche Ltd. v. Empagran S.A.*, 542 U.S. 155 (2004), the statute at issue expressly applied to anticompetitive conduct occurring abroad. But because "this Court ordinarily construes ambiguous statutes to avoid unreasonable interference with the sovereign authority of other nations," *id.* at 164, it construed the statute to apply only when the foreign acts caused significant domestic injury and not when the foreign acts caused foreign harm only. In this case, a construction of Section 271(f) that limits the interference caused abroad by U.S. patent law is supported by these principles. Accordingly, to the extent the Court believes that the provision could be read to provide for liability when a company sends software abroad, it should reject that construction in favor of a narrower interpretation that imposes liability only when multiple copies of software are exported, each on a machine-readable medium that is then installed abroad on a computer.

AT&T argued in its Supplemental Brief at the petition stage that, as a policy matter, requiring plaintiffs to pursue patent recovery under foreign law imposes "needless transaction costs on holders of U.S. patents" without serving any policy goal. AT&T Supp. Br. at 6. Not so. This Court has repeatedly recognized a fundamental policy basis for the presumption against extraterritoriality that goes well beyond concern for the location of the conduct involved.

Specifically, the presumption reflects an aspect of the doctrine of international comity, which Justice Scalia has described as the "the respect sovereign nations afford each other by limiting the reach of their laws." *Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 817 (1993). Consistent with that doctrine, this Court has stated that the presumption against extraterritoriality "serves to protect against unintended clashes between our laws and those of other nations which could result in international discord." *Aramco*, 499 U.S. at 248.

Here, the potential for "international discord" is very real: excessively expanding the reach of United States patent law may well offend foreign governments and thus interfere with the negotiation of international agreements. For example, the extent to which software is patentable varies from nation to nation, and there are differences even between countries in the European Union. *See* Additional Development: *European Union Software Patent Proposal*, 21 Berkeley Tech. L.J. 183 (2006) (noting failure of legislation that would make software patentability uniform across the European Union). These nations are actively engaged in deciding how and under which circumstances software should be patentable. Interference with their carefully made decisions is unlikely to be eagerly welcomed.[5]

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[5] A broad reading of Section 271(f) would present complications even when other nations provide strong patent protection for software. Providing another forum where the patent holder can seek recovery encourages forum shopping and can create litigation complications if the patent holder brings multiple suits against different entities. For example, many foreign systems use "first-to-file" rules, while the United States uses "first-to-invent" rules. Thus, it is possible that the holder of the foreign patent may be different than the

Extraterritorial applications of United States patent law may also motivate other countries to reciprocate in kind. As a result, American companies could end up facing liability for infringement under foreign patent laws for acts performed wholly in the United States. This Court should be careful to avoid any ruling that could launch such a process of escalation.

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holder of the United States patent for the same invention. A narrower reading of Section 271(f) would limit the circumstances in which issues would be raised concerning how to reconcile liability to different patent holders if, for example, Microsoft's software infringed a patent held in the United States by AT&T and a patent held in Germany by a German telecommunications company with respect to computers sold in Germany. Moreover, it could be the case that Microsoft held the patent in Germany, and it would seem odd for it to be liable to AT&T for computers sold there, where it held the relevant patent. *See* Holbrook, Extraterritoriality in U.S. Patent Law, at 49-50.

CONCLUSION

The judgment of the Federal Circuit should be reversed.

Respectfully submitted,

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