IN THE SUPREME COURT OF THE UNITED STATES

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MICROSOFT CORPORATION, :

Petitioner :

v. : No. 05-1056

AT&T CORP. :

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Washington, D.C.

Wednesday, February 21, 2007

The above-entitled matter came on for oral argument before the Supreme Court of the United States at 10:14 a.m.

APPEARANCES:

THEODORE B. OLSON, ESQ., Washington, D.C.; on behalf of Petitioner.

DARYL JOSEFFER, ESQ., Assistant to the Solicitor General, Department of Justice, Washington, D.C.; On behalf of the United States, as amicus curiae, supporting Petitioner.

SETH P. WAXMAN, ESQ., Washington, D.C.; on behalf of Respondent.

C O N T E N T S

P R O C E E D I N G S

[10:14 a.m.]

JUSTICE STEVENS: We'll hear argument now in No. 05-1056, Microsoft against AT&T.

Mr. Olson.

ORAL ARGUMENT OF THEODORE B. OLSON

ON BEHALF OF THE PETITIONER

MR. OLSON: Thank you, Justice Stevens. May it please the Court:

The limited monopoly granted by U.S. patent laws protects against the making, using or selling a patented invention within the United States. Section 271(f) also makes it an infringement to make components of a patented invention within the United States and then simply ship them abroad for reassembly.

JUSTICE SCALIA: Mr. Olson, before you get into the merits I have a question, a preliminary question. I understand from AT&T's brief that there has been a stipulation entered into between the parties after the judgment below which preserved Microsoft's right to appeal and prescribed different dollar amounts that Microsoft must pay AT&T depending on the outcome of the appeal. Does that raise any, any muteness problem? Can you sort of wager on the outcome of an appeal that way?

MR. OLSON: No, I don't believe so, Justice Scalia.

JUSTICE SCALIA: Well, suppose two parties just, you know, parties that otherwise do not have a case or controversy, bet each other that the district court will come out one way or the other way in, in a trumped-up suit. Does that create a standing --

MR. OLSON: This is by no means a trumped-up suit. It's a very serious suit. The outcome, the judgment, the amount of damages that must be paid is not a matter of wager. It depends upon the decision of a matter of law of an interpretation of a statute of the United States.

JUSTICE SCALIA: Well, you could say the same thing in the hypothetical I gave. It is a matter of wager, which way the Court will come out.

MR. OLSON: This is an entirely legitimate, I submit, means by which parties may preserve a legal issue depending upon how a legal question is decided. The only thing that's been resolved is the amount that will be paid as damages depending upon the outcome of the appeal.

JUSTICE SCALIA: Do you know of any, any precedent for that?

MR. OLSON: It seems to me, Justice Scalia,

that it happens frequently, especially in criminal cases where there is -- someone pleads guilty in and preserving a right to appeal a certain issue. I don't have a case to cite to you but it strikes me as quite understandable that the parties might agree if the outcome of the legal question that the judge might decide is going to be X, then the consequence will be a liability for Y. If it's -- if it's of the opposite outcome, the outcome will be different. That's --

JUSTICE KENNEDY: Suppose the amount were trivial and you just wanted to get a resolution of this question?

MR. OLSON: Well, I think that if the amount --

JUSTICE KENNEDY: Then there would be a case with a controversy problem, I should think.

MR. OLSON: I don't know what the Court might mean by the word trivial, Justice Kennedy, but this is a very significant major amount involved in this case. There is no question that the parties are very serious. It's a very significant legal question with respect to the interpretation.

JUSTICE SCALIA: That's so, but is there a lot of money involved depending on whether you win or lose?

MR. OLSON: Yes.

JUSTICE SCALIA: Okay.

MR. OLSON: In this case, notwithstanding the limitation of in Section 271(f) that the components, there's -- liability of the components are created here, and reassemble the broad. The Federal Circuit held that foreign made tangible reproductions of computer operating code installed in foreign-made computers may be components which are deemed or essentially supplied from the United States, because copying is part and parcel of software distribution, and thus subsumed in the act of supplying. Under this ruling, U.S. companies may be held liable for patent infringement whenever their products are copied or replicated abroad. This -- the court of appeals decision and the position of Respondents requires reworking several words in the statute.

The statute says supplied from the United States. The court of appeals said, well, it might be deemed supplied from the United States after it's copied abroad. The Respondent takes the words "such components" in the statute and reads them as not the same components.

JUSTICE STEVENS: Mr. Olson, isn't one of the questions whether the software is really being

copied when it's transferred from the golden disk to the new manufacturer, or whether it's actually being supplied?

MR. OLSON: It is being copied. There isn't any question that it's being copied, Justice Stevens. The stipulation which is in pages 44-A through 47-A of the petition appendix contains the words -- this is words to which respondent stipulated -- foreign-made copies replicated object code, foreign manufactured copies, foreign replicated object code. What happens, Justice Stevens, is that the golden master of the disk which contains the physical manifestation of the object code is read by a machine somewhere outside the United States, looked at and then copied onto another physical medium, either a hard drive or a disk. Many hard drives, many disks. Those foreign replicated physical tangible copies are then installed in computers and they become components of those computers.

JUSTICE KENNEDY: Is the master disk a component?

MR. OLSON: The master -- well, AT&T has taken two positions on that. We --

JUSTICE KENNEDY: What's your position?

MR. OLSON: Our position is that it's not a component of the final product computers that are made

abroad. 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 which, without which --

JUSTICE KENNEDY: Just the disk but not the information on the disk is the component.

MR. OLSON: The information on the disk is of no use to the computer unless it's made into a physical machine readable document -- object.

JUSTICE GINSBURG: That -- Mr. Olson, that is the position of AT&T as I understand it, that what you call the object code appears in the -- in the computer that it's -- that is what is sent, along with the master disk, and the object code is the critical component, according to AT&T. In fact, wasn't that the first question that you raised, whether digital software code, an intangible sequence of 1's and 0's may be considered a component of a patent, patented invention?

MR. OLSON: If I understand your question, Justice Ginsburg, let me answer it this way. AT&T has taken two positions. The most recent position is that it's the intangible object code, the series of 1's and 0's, or instructions to a computer switch to be on or off, that is a component. They also took a position earlier in the case and which is referred to in the stipulation that it was the golden master, the physical

manifestation on the -- on a master disk that went abroad that was the component.

JUSTICE KENNEDY: But I still would like to know your position. The golden disk is or is not a component?

MR. OLSON: It is not a component --

JUSTICE KENNEDY: But copies of the golden disk are or are not components?

MR. OLSON: The copies, the physical manifestation on a hard drive --

JUSTICE KENNEDY: Physical manifestation?

MR. OLSON: Our components of the foreign manufactured computers. Those components are not supplied from --

JUSTICE KENNEDY: I suppose if you could, if you made 99 copies, those would be 99 components. Then if you used -- if you're going to make 100 machines. If you used for your disk the master disk for the last copy, then that would have been -- that would -- then the master disk would be a copy, a component of the last machine.

MR. OLSON: If -- well, I think, if I understand your question, if you make -- and it depends upon where you make it, where you transfer --

JUSTICE KENNEDY: You make them abroad.

MR. OLSON: If you make it abroad, that -- and it's -- that is where the component is supplied from. Copies are made abroad. There's no question about that and --

JUSTICE KENNEDY: But if the disk, if the golden disk itself after they finish the copies, were used --

MR. OLSON: If the physical --

JUSTICE KENNEDY: -- in a hardware, then that would be a component.

MR. OLSON: If that physical golden disk were actually put into a computer and used without more.

JUSTICE STEVENS: Well, I'm a little confused, because I thought the golden disk was just one method of getting the software into the new computers. And I thought it was the software which was arguably the component, not any physical manifestation.

MR. OLSON: Well, that's why I said AT&T has taken two positions. Here's the position that they took in their brief before the court of appeals. Three decades of patent jurisprudence have authoritatively recognized software to be a physical and structural component of patented machines. The problem, Justice Stevens --

JUSTICE STEVENS: But do you -- what is your

view on whether or not software is a component?

MR. OLSON: The -- if I may answer that by saying that people use the word "software" in two different ways. One of which, they use it as the intangible series of 1's and 0's. We submit that the correct way to understand the word "software" is the physical manifestation of that what is called source code, which is made into object code, which is made into machine readable code.

JUSTICE SCALIA: Or at least the correct way to understand component.

MR. OLSON: It is the correct way to understand the --

JUSTICE SOUTER: And the component then would be either a disk which is put into a computer or the portion of the hard drive to which the code is transferred.

MR. OLSON: Yes. As I understand it, Justice Souter, and I think the stipulations make this clear, there's a reference in the stipulations to encoded transmissions but there's a -- but the parties also agree that's the same process as the golden disk. The golden disk is sent abroad. That is read by a machine and then the machine understands -- it's almost as if you were to read physically any other type of

document, read it to a machine. The machine understands what is said, puts it into a physical manifestation on a disk or on a hard drive. Many copies are made in that fashion. They are installed in computers made abroad, sold to foreign purchasers.

JUSTICE KENNEDY: So are you saying that neither the source code nor the compilation are a component?

MR. OLSON: Of the foreign? The language of the statute is the foreign manufactured product. Those are the computers that are sold abroad. It is our position that the only components that are in issue in this case are the physical manifestations of the object code on a hard drive or on a disk.

JUSTICE KENNEDY: So that neither the source code nor the compilation are a component, save as, the compilation is put on a disk?

MR. OLSON: That's correct. And the -- the thing that's on the disk in the foreign --

JUSTICE KENNEDY: That seems odd. I mean, Microsoft doesn't say please buy our disk because it's the prettiest disk in the business.

MR. OLSON: Justice Kennedy --

JUSTICE KENNEDY: It says buy our program because the program means something.

MR. OLSON: But the program is nothing until made into a physical manifestation that can be made by the computer.

JUSTICE STEVENS: What is patented? Is the physical object patented or is the software patented?

MR. OLSON: The AT&T patent --

JUSTICE STEVENS: Right.

MR. OLSON: The '580 patent is a program, as I understand it, that's married to a computer, has to be married to a computer in order to be patented.

JUSTICE SCALIA: You can't patent, you know, on-off, on-off code in the abstract, can you?

MR. OLSON: That's correct, Justice Scalia.

JUSTICE SCALIA: There needs to be a device.

MR. OLSON: An idea or a principle, two plus two equals four can't be patented. It has to be put together with a machine and made into a usable device. The bind that AT&T is in here is that the components that make the machines run that are produced abroad are not supplied from the United States. They are made in Belgium or Frankfurt or something.

JUSTICE GINSBURG: That depends on what you consider the component. They define component as including the, what you've been calling the abstract.

MR. OLSON: They have attempted, Justice

Ginsburg, with respect, to have it both ways. They've said that it is a physical and structural thing, something that's on the golden master disk. And then they say it's just the binary code in the abstract, but that in the abstract never becomes a part of the computer.

JUSTICE GINSBURG: What did the Federal Circuit say? And I read the opinion a couple of times and it was, it seemed to me ambiguous whether the Federal Circuit was identifying the component as the object code itself or the master disk.

MR. OLSON: Yes. I agree with you. The Federal Circuit was ambiguous, in part because there were two separate decisions. The court considered the component issue in the Eolas case and then when this case came along, said we've already decided the component portion of the statute; now we must decide the supplied from. So the language which the Federal Circuit used is a bit confusing. Basically what it said, though, is that the act of supplying embraces the act of copying. That means that any, any company sending a machine or a patented product abroad, that that machine must be copied in order to be mass produced abroad. It might be a pill. It might be a mousetrap. It might be a Buick. That exact identical copy if

replicated abroad does not violate the statutes, the patent laws, it doesn't constitute an infringement.

JUSTICE KENNEDY: Suppose you had a patent on a biological organism and it was contained in a little vial, and you shipped it abroad. Just by doing nothing at all, it grew, and it had -- it grew into 100 different parts.

MR. OLSON: If it reproduces itself, Justice Kennedy, somewhere outside the United States --

JUSTICE KENNEDY: Right.

MR. OLSON: What you're suggesting is that there is a pattern or a recipe or a template or a mold. It could be the same thing. If it's reproduced outside the United States by some laboratory outside the United States, then the components are not being sent from the United States for reassembly abroad.

JUSTICE ALITO: Isn't this an artificial distinction in -- when you're talking about the making of a tangible part, there's at least some cost involved in doing it here or doing it abroad, and some time involved. But with, with software, the Federal Circuit's point was that it is so easy and inexpensive and fast to copy it that simply sending the information abroad, sending the object code abroad in the form of the golden disk, is tantamount to manufacturing copies

overseas.

MR. OLSON: I think there are three answers to that. Surely the patent laws cannot be determined according to whether it's easy or fast or efficient to replicate something. There has to be a line that makes some sense. Number two, it may be fast and efficient but there are certainly costs involved in taking the machines to do it. Number three, where would that take us? A design -- every product contains its own manifestation of its design. That would take us everywhere, because any product can be copied abroad. However -- and maybe there are going to be fast ways to produce other things. These are replicas, reproductions, copies. These are not such components that are supplied from the United States. If I may reserve the balance of my time? Thank you.

JUSTICE STEVENS: Mr. Joseffer.

ORAL ARGUMENT OF DARYL JOSEFFER

ON BEHALF OF THE UNITED STATES AS AMICUS CURIAE SUPPORTING THE PETITIONER

MR. JOSEFFER: Justice Stevens, and may it please the Court:

It might help if I could start by putting this case into its context in both the United States and international patent law. Section 271(f) is a limited

extension of normal territoriality principles that is designed to shore up the prohibition against actually making a patented invention in the United States, but it does not take the further and extraordinary step of applying United States law to the conduct of copying parts abroad for assembly and sale abroad conduct is properly the subject of foreign law.

As a result, in the context of traditional manufacturing, for example, it has always been understood pursuant to the statute's text, that while companies cannot make parts in the United States for final assembly abroad -- that's too close to making it here -- they may make copies in a foreign country by, for example, sending the design to the foreign country or sending a specific part to the foreign country that can be copied there.

That distinction between copying in the United States and copying in the foreign country has two critical dimensions. The first is that it protects the foreign government's sovereign prerogative to establish the rules of competition that will govern companies that wish to compete in that foreign country's markets by copying their products abroad, assembling them there and selling them there.

The second, which is the flip side of

that point, is that it enables United States companies to compete on an even playing field abroad against their foreign competitors by manufacturing, assembling, and selling parts abroad, subject --

JUSTICE GINSBURG: Mr. Joseffer, to the, to the extent that you are claiming that there are foreign nations that would have an interest in this, usually when that is so, hear from them and in this case there is a strange silence in that regard.

MR. JOSEFFER: I think that -- I can say -- a couple points I can make. One is, this case has, has been viewed because of the Federal Circuit's attempt to tie this to software on the grounds that software can easily be copied abroad, I think this case has been somewhat narrowly viewed as a software case. But in truth, there's no basis for distinguishing software from anything else, and if the Federal Circuit's decision was actually taken to its logical conclusion I have no doubt that other nations would be quite concerned, like in -- in two ways.

One is we have looked, not exhaustively but we have looked, and we have not been able to find a single other country that would apply its law in the circumstances if they were reversed. In other words if a German condition wanted to compete in the United

States subject to German law by making copies here, assembling them here, selling them here, Germany would stay out of that because it's the United States' prerogative. Also there are significant differences between the nations' patent laws. For software in particular, the United States is much more bullish on the patentability of software-related inventions than many other countries. But even for more mundane reasons, if we were talking about anything -- it could be that the foreign government doesn't think that an invention is particularly novel, it just disagrees with us about that, or it doesn't think there is sufficient advance in the prior art sufficiently inventive to warrant patent protection. And if the foreign country is going to make that determination regarding competition policy in its own borders, it's entitled to make that determination.

JUSTICE GINSBURG: Let me ask you about a domestic law question. One side is telling us it's the component that's supplied, whether it's the master disk or the object code. 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?

MR. JOSEFFER: Not ordinarily. I mean -- I'm sorry.

JUSTICE BREYER: Copyright. Copyright. You normally copyright.

MR. JOSEFFER: You can certainly copyright something like that.

JUSTICE GINSBURG: Yeah, but patent --

MR. JOSEFFER: Well the -- no, but the -- I think the most important point here is that the components of patented inventions do not have to be patentable. Many patented inventions are comprised of a bunch of parts where the parts themselves would not be patentable because say they were standard off the shelf parts.

JUSTICE KENNEDY: Well, there can be a process patent.

MR. JOSEFFER: Yes, and we don't -- I mean, process patents, a process patent is a series of steps or acts for performing a certain function, such as turning rubber into a tire. We don't think process patents are relevant -- are, are covered by this statute for a couple of reasons. And it's not --

JUSTICE STEVENS: What, what is your view of what the component is in this case.

MR. JOSEFFER: The component is the, is the actual machine readable copy of software that is inserted in --

JUSTICE STEVENS: The software is the component?

MR. JOSEFFER: Well, but the, the -- but like with anything, you could say a computer is also the component, but it's the actual computer, not you know, any copy of the same computer.

JUSTICE SOUTER: But in this case, you're -- but Mr. Olson said the component is either the disk or the portion of the hard drive to which the, the coded instructions are transferred.

MR. JOSEFFER: Right.

JUSTICE SOUTER: Do you accept that?

MR. JOSEFFER: The United States view -- I'm not sure exactly how much we disagree on this -- but the United States view is that, for example, a blank disk is not a component of this invention because you don't need a blank disk to practice this invention. The -- the actual component is the physical substantiation, the physical copy of the software that's inserted into a computer and if you get a disk --

JUSTICE SOUTER: In other words, the disk plus the -- plus the coded instructions.

MR. JOSEFFER: Yes. And again the coded -- the software could be on a disk or it could be on some other technology. It doesn't matter how it --

JUSTICE SOUTER: It could be on the hard drive.

MR. JOSEFFER: And once it's copied on to the hard drive, then the copy on the hard drive is itself a component.

JUSTICE BREYER: I take it that we are operating under the assumption that software is patentable? We have never held that in this Court, have we?

MR. JOSEFFER: No, but as I was saying before --

JUSTICE BREYER: So what should we do here? Should, if we are writing this, since it's never been held that it's patentable in this Court --

MR. JOSEFFER: I think if --

JUSTICE BREYER: If I were writing something, should I say on the assumption that it's patentable? Since the issue isn't raised?

MR. JOSEFFER: No. I think, I think the reason that's not relevant here is that the patented invention in this case is not software. It's computer that has software loaded into it. And the components of a patented invention do not themselves have to be patented.

JUSTICE KENNEDY: Can have you have a

copyright on a program?

MR. JOSEFFER: Ah, if you wrote it out, yes. If I wrote out a string of 1's and 0's I could copyright the strings of 1's and 0's that was -- that was written out on a piece of paper. But the -- in terms of what the component is here, the other things --

JUSTICE SCALIA: Can I ask you, the point I don't understand when you say the -- the component is the disk that contains material, I understand that because here is a separate piece; it's a disk. You plug it in; it has the information on it. But then you say, if you put it on the hard drive it becomes the component. But the hard drive is not a separate thing like a disk. And when you say you put it on the hard drive you have nothing there but -- but -- but ons and offs. You have nothing there but the -- but the thought.

MR. JOSEFFER: Well --

JUSTICE SCALIA: How can you call, you know, what? Is it a separate section of the hard drive? No.

MR. JOSEFFER: Well, you could go later in and delete that software off the hard drive which confirms that the software does have a separate physical existence in there. But the main point is that the -- the component is the, is the physical substantiation of

the software. The actual copy of the software. It doesn't matter if it's on a hard disk; doesn't mean it's on a disk; it doesn't matter if it's in the air in wireless transmission. It's just the physical copy of the software. And you could have a situation where there are multiple copies of that same component in a computer. One --

JUSTICE ALITO: If these -- if these computers are built abroad and are sold with Windows installed, the component is the electrons on the hard drive? Is that what, that's your position?

MR. JOSEFFER: It's the physical embodiment of the software which in some instances is manifested by -- by those electrons. Now AT&T's contrary view is that the abstract code in the abstract is the component. The reason that can't be is that object code in the abstract is just a series of 1's and 0's. In theory I could memorize in my head or write down on a piece of paper. But that's not going to combine with other, with other parts to make a patented invention.

And if I could illustrate that with a simple lock and key example, a key has a series of ridges on it that enable it to open a lock. And that series of ridges can be denoted by a sequence of numbers, bigger numbers for deeper ridges. But the component is the key

that actually turns the lock, not the abstract sequence of ridges on the key. And you can then say that about anything; you can always say that any physical product, any physical part, is a physical manifestation of its abstract design.

JUSTICE KENNEDY: Is that analogous to the source and the compilation, the source being the design, the compilation being the key?

MR. JOSEFFER: No. The source code and object code are just different computer languages for expressing the same thing. There is no -- there's no difference between them. One is words and one is numbers, but they mean the same thing. There is no reason to treat them differently.

The point is just that if you treat the -- either the source code or the object code as the component, that's just the design of the actual physical software that goes into the computer. If you did that you'd have a vastly different statute because any physical part has a design, but the whole point of the statute is to prohibit copying of parts in the United States while permitting copying of parts abroad for sale abroad.

But if the design itself was a component then you could never copy parts abroad when something

was designed in the United States, because something designed abroad would always infringe because the something designed abroad would itself be the component, and that would be a vastly different statute there's no reason to think Congress intended here, especially because of the extraterritorial consequences.

JUSTICE GINSBURG: Windows wasn't around when this statute was passed.

MR. JOSEFFER: Well, the statute was enacted in 1984 when software was certainly present. It's fair to say that Congress was not thinking of software, but that's further caution for not expanding the statute beyond traditional territorial reaches. Because first, this Court has cautioned, has said that it should be cautious in applying existing electrical property statutes to new technologies. And in addition it's emphasized in Deepsouth that the caution against extraterritoriality applies in this very context. So Congress is writing against the backdrop of normal territorial principles, which are the making, using or selling inventions of foreign countries subject only to foreign law, and against the backdrop of Deepsouth, which has specifically held that Congress has to speak clearly to enact of statute like this.

JUSTICE GINSBURG: I thought it was the

position of the Federal Circuit that Deepsouth has to be brought into an electronic era, and so the -- the Federal Circuit was taking a statute that had a shrimp deveiner in mind and saying well, this is how that notion should apply to an electronic world.

MR. JOSEFFER: Right. And the reason that doesn't work in the statutory text and policies is that the component that we are talking about here is the specific part that goes in the machine. And if -- and if -- and 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. Otherwise it's just a vastly different statute than the one that Congress enacted. That's really our terms of the politics.

JUSTICE STEVENS: Your time is up, but I want to ask you one yes or no question. In your view is software patentable?

MR. JOSEFFER: Standing alone in and of itself, no.

JUSTICE STEVENS: Thank you.

Mr. Waxman.

ORAL ARGUMENT OF SETH P. WAXMAN,

ON BEHALF OF RESPONDENT

MR. WAXMAN: Mr. Justice Stevens, and may it please the Court.

There is no question that Microsoft supplies the Windows object code, that is the precise, machine readable sequence of commands that instructs a computer's processor. From the United States, that is paragraph 7 of the stipulation.

There is likewise no question that it does so with the intent that precisely the same sequence, which runs to millions of lines of binary digits, will be installed and stored -- those are Microsoft's words -- in foreign computers precisely so that they may practice AT&T's invention.

Those facts resolve this case because it is thus entirely consistent with the ordinary meaning of the words of the statute to say that Microsoft has quote, "supplied" a quote, "component" that when quote, "combined with hardware" enables the practice of AT&T's invention. Now let's look at --

JUSTICE BREYER: Suppose I send someone to the Patent Office --

MR. WAXMAN: Excuse me?

JUSTICE BREYER: Suppose I send someone to the Patent Office, goes there, picks up the patent, and this patent is written very, very, very concretely and

specifically. Gets on the phone, phones somebody in Germany and reads it to him. And that person, having an excellent memory, takes everything in and now he has the precise instruction necessary to change the machine around or put various things into it. So now it is a precise copy of the machine in the United States.

MR. WAXMAN: That's not the --

JUSTICE BREYER: Is that -- how is that different from this? How is it different?

MR. WAXMAN: That is very different than this case because what -- first of all, we all agree that software code in and of itself, removed from a physical structure, cannot be patentable and when software -- when some -- when an invention that is practiced with software is patented, at the most what you will see is preferred embodiments of the source code which is language that humans understand and which computers do not.

A lot of work has to be done in items of debugging and testing and compiling to create what is, by stipulation, at issue in this case, which is the precise, machine readable sequence that commands a computer's CPU millions of times a second. Source code would do nothing. Source code has to be worked on overseas.

JUSTICE BREYER: No, no. We have a genius -- we have, as they used to have to get all the stuff that we stole from England, with the -- with the -- remember the weaving machines and the cotton spinners and so forth? This genius comes over here; he looks at a really complex machine; it is now stored in his head, the precise details that nobody else could do. He runs back to Germany, and he builds it. Well, he has absolutely stolen the precise, incredibly complex details of this machine.

MR. WAXMAN: Well --

JUSTICE BREYER: Now, does it matter, if instead of sending the individual, we send the machine to Germany. This genius looks at it in Germany and there he makes the copy. Are they any different?

MR. WAXMAN: When you're talking -- when you're talking about sending designs over or blueprints or management instructions or a high level version of, gee let's have a code that will perform the following functions, and you have people design and make and compile and test and debug that code overseas, of course that component, the component is the object code, the precise commands that reside in the computer and continually interact with the hardware of the computer in a way I'm going to describe and is not disputed,

millions of times a second.

Let's take this case. Okay. Is it -- the question is, is it a component and whether what was supplied was in fact combined. That's, that's -- that's what this case boils down to. As to the component.

We have something, software program, the NetMeeting and sound recorded program that can in its object, its machine readable command form, is developed, bought and sold entirely separately from any hardware that it commands.

JUSTICE SOUTER: And that is what is on master disk.

MR. WAXMAN: And that is what is either on the master disk or, although either side obscures this, that is what is represented in the electric -- electronic transmission, that is another means by which the code is supplied.

And in paragraph 7 of the stipulation Microsoft acknowledges that it supplies the Windows object code by transmitting it to manufacturers overseas. And the way that happens is the code, the machine language, is resident in Redmond, either in the pits and lands of a CD or on the varying magnetic orientations of a hard drive, and a, some engineer from Microsoft presses a button and it is essentially, it is

taken and converted into photons which stream whatever it is, 7,000 miles, under the land and under the Atlantic Ocean and emerges into a machine, a computer, a bit of otherwise inanimate parts that are sitting there in Dusseldorf, where it is loaded onto the hard drive, it's converted from photons to a series of electrical pulses.

JUSTICE STEVENS: Is that really what happens? As I understand it there is an intermediate step. They don't send it directly from the United States to each of the individual computers in Germany. They send it to a central point which then redistributes it. Is that not right.

MR. WAXMAN: Well, I think that paragraph 7 of the stipulation, it doesn't specify one way or the other, but their case, Justice Stevens, depends upon the following. Because if I --

JUSTICE STEVENS: If you're correct that they're just sending from New York direct to the 500 different machines all on one transmission from New York, there's no lawsuit here.

MR. WAXMAN: Let me give you two examples --

JUSTICE STEVENS: Is that what you're trying to tell us, that they do send it directly from New York to 500 different recipients in Germany?

MR. WAXMAN: No, no, no. And it wouldn't -- what I'm saying is there is at least one violation of 271(f) here. 271(f) looks exclusively at what is done in the United States. It is entirely irrelevant to 271(f) what, if anything, is done overseas. The Federal Circuit has made this clear in the Waymark case and it's consistent with the language.

JUSTICE STEVENS: Would it be a violation if they sent, if they sent the golden disk abroad and nobody ever copied anything off the golden disk?

MR. WAXMAN: If they sent the golden disk abroad or if the Microsoft engineer --

JUSTICE STEVENS: Would you answer my question?

MR. WAXMAN: I think I am. The answer is --

JUSTICE STEVENS: If they send the golden disk abroad and never use it, would that be a violation?

MR. WAXMAN: If they had the necessary intent and purpose. They had to have had the specific intent and purpose that it be combined in order to create a device that wouldn't --

JUSTICE STEVENS: Suppose it is never, it is never combined?

MR. WAXMAN: It wouldn't matter.

JUSTICE SOUTER: So you -- and the reason it

wouldn't matter on your view is that the component is the object code on the disk, not the disk itself?

MR. WAXMAN: That's right.

JUSTICE SOUTER: All right. Then why doesn't that get you --

MR. WAXMAN: It could be --

JUSTICE SOUTER: Why doesn't that get you right back to the point that Justice Breyer was making? You are saying, I think, in essence if you send a blueprint -- this is like a blueprint. It tells, it tells a machine which may be in Europe how to put the object code on other disks or on hard drives. The machine in Europe is following instructions just the way an artisan would follow a blueprint.

MR. WAXMAN: Here's the difference.

JUSTICE SOUTER: What is the difference?

MR. WAXMAN: And it's nicely embodied in Microsoft's reply's use, repeated use of the word "antecedent." A blueprint or a design is a precursor to the actual device. It is the instructions about how to make something. It's not the thing itself. And here what we have is the object code that is the precise commands that, unlike design information, interact continuously with the hard drive and with the processor in order to make physical changes on an ongoing basis.

JUSTICE SOUTER: Yes, but the "continuously" does not describe the process of going from the master disk to what you claim to be the infringing computer sold in Europe. There is no continuous process there. As I understand it, what happens is -- let's just take the master disk and forget the photon for the moment. The master disk functions like a blueprint. They send, from the United States they send the blueprint to Europe. The blueprint is put in some kind of a machine in Europe. And by the use of the blueprint the machine puts electrical charges on a disk or on a hard drive, and that it seems to me does bear out the blueprint analogy. And if it does, then any export of a blueprint or indeed the simple export, the simple sending of the '820, if that's the right number, patent in this case would be a violation.

MR. WAXMAN: I have to disagree, Justice Souter, because the blueprint -- the patent is not the actual series of commands that runs the machine and neither is the blueprint. The blueprint is instructions, to be sure, and it can be reflected in intangible code, but it's instructions about how to make something and once it's made it's done. You can say, as Mr. Olson did, that the design is embodied in the thing that is made. The blueprint for a semiconductor chip in

some sense is always reflected in that chip. But if you don't like the chip you have to get rid of it. Software can be -- if you don't like Microsoft Word, you can download it and you can delete it and download WordPerfect and use that. And what happens in the computer -- and I think this does bear on what the nature of the component is and why in the ordinary sense of the word "component" and the ordinary sense of the words "supply" and "combine," they apply naturally to what Microsoft does.

I mean, is a disk, is a typewriter, is a screen, is a hard drive, is a CPU a component? Are they components when they have the code embedded in it? Of course. But that doesn't -- a tire doesn't become not a component of a car just because a tire with a wheel attached to it is also a component. The question is --

JUSTICE KENNEDY: But suppose, suppose you had a machine that makes another machine, and if you ship that machine to Europe -- and there's a patent for the machine that makes it. If you ship it to Europe and it starts making another machine, the statute is not violated; and isn't that just what's happening here?

MR. WAXMAN: No, no, no. This is not a machine tool. The thing that was violated, the machine readable object code, is precisely what is installed on

the computer and precisely what is moved from one part of the computer to another in different forms as the computer operates and it continually instructs. This is dynamic. It's not --

JUSTICE BREYER: How would you, how would you -- go back for a second, please, because, if you're finished with that, because I don't see how to decide for you without at the same time permitting a person to walk over to the Patent Office, to read that application and the description, which after all at least can be a very highly detailed set of instructions of how to make a machine, getting on the phone, explaining that just like the blueprint which it is just like to somebody in Europe. They then make it. And that on your reading would violate the statute. It can't be right that that would and you don't even think it would.

MR. WAXMAN: I don't because --

JUSTICE SOUTER: And so what's the difference between that and this case for you?

MR. WAXMAN: Justice Breyer, there is a long, long spectrum with respect to software that goes, goes from high level system architecture to all the way down through component architecture, pseudo code, source code, which is, which is a description that humans understand, and the actual machine language that a

computer will understand. Invention -- patents do not specify machine language. The machine code is totally dependent on what type of processor it's relating to and somebody who takes source code -- I could make an argument that if you take, steal the Microsoft source code, which is the crown jewel, it is the greatest trade secret of this country, it will not be sent overseas, but if somebody took it with a bunch of smart engineers and said, you know, convert this into, convert this into something a computer will understand that will combine with a computer, that involves a question of whether what's going on overseas is manufacture as opposed to assembly.

Look at it from the perspective -- maybe this helps. Let's look at the question from the perspective of Microsoft, the OEM, and the user overseas. Object code is the end of Microsoft's manufacturing process. That is what they make. They don't make hard drives, they don't make disks, they don't make computers. They fully finish their product, the Windows operating code, and then send it overseas. The OEM is --

JUSTICE SCALIA: That, that code is not patentable, you've said.

MR. WAXMAN: The code is not patentable.

The expression is copyrightable. AT&T has not sought to get a patent on the code. AT&T has a patent on a system that can be practiced, among other ways, through the use of software.

JUSTICE SOUTER: But what is it that they export and send overseas?

MR. WAXMAN: They export in a variety of different physical forms --

JUSTICE SOUTER: Right, it's a thing. It's an object of some sort, isn't it?

MR. WAXMAN: It is an intangible sequence of commands that is carrying --

JUSTICE SOUTER: It is an object that has coded onto it, transferred to it in a readable way, those commands. But it's an object, isn't it?

MR. WAXMAN: Well, it's not necessarily an object. I don't know whether you would call a stream of photons that is constantly repeated under the Atlantic Ocean an object.

JUSTICE GINSBURG: Mr. Waxman, this may, this may help focus that question. Suppose the master disks were made abroad. You would be taking the same position, would you not?

MR. WAXMAN: If -- that depends how it were made. If it were --

JUSTICE SCALIA: I hope we can continue calling it the golden disk. It has a certain Scheherazade quality that really adds a lot of interest to this case.

(Laughter.)

MR. WAXMAN: Justice Ginsburg, the question is what is made. If making it means somehow creating, reconfiguring the precise sequence of commands --

JUSTICE GINSBURG: No. That's given by Microsoft to one of its offices in Europe. But the golden disk itself is made abroad.

MR. WAXMAN: If the, if the object code itself, the very precise sequence that can't be changed, is supplied from the United States --

JUSTICE GINSBURG: Yes.

MR. WAXMAN: -- the act is implicated.

JUSTICE GINSBURG: So the only thing --

MR. WAXMAN: Regardless of --

JUSTICE GINSBURG: The only thing supplied is this, one side calls it abstract, one side calls it something else. But anyway, it is the series of 0's and 1's; that's the only thing that's supplied from the United States?

MR. WAXMAN: That's right.

JUSTICE GINSBURG: Any physical

manifestation of it is done abroad. You would still be taking the position that you're taking, is that not so?

MR. WAXMAN: Well, yes, except that the intangible sequence of commands can only be carried in the form of, by attaching it to a physical platform or a bucket.

JUSTICE STEVENS: Yes, but it doesn't have to be --

MR. WAXMAN: Even a radio wave. Microsoft has patent claims for software.

JUSTICE STEVENS: The physical object does not have to originate in the United States. Can they not transmit the commands to a physical object in Germany and have that be the substitute for the golden disk?

MR. WAXMAN: Well, of course, and they do that.

JUSTICE STEVENS: Yes.

MR. WAXMAN: They press a button and they have an electronic transmission that sends a stream of protons under the Atlantic Ocean and are changed into electrical impulses that are used to inscribe the precise code onto a hard drive in the form of electromagnetic pulses.

JUSTICE STEVENS: But that they now send to

some central point which redistributes them. They send one copy to, say, the wholesaler, who then makes 500 copies that are sent to the retail customers, isn't that correct?

MR. WAXMAN: That may be. We don't --

JUSTICE STEVENS: Which is exactly what happens in this case?

MR. WAXMAN: It's one of the things that happens in this case. We have a stipulated record that is not very detailed, but in that instance there is only one violation.

JUSTICE STEVENS: My question is if that is what happens, when the retransmission takes place when one copy is converted into 500 how can those 500 all be components rather than copies of the single component?

MR. WAXMAN: Well, the only -- I have two answers to that question, both of them I think directly answering your question. First of all, the statute is violated only when the precise object code is expatriated from the United States, when it is supplied from the United States. That's the violation. The other issues are damages, what damages are you entitled to. What is combined with the computer is the precise thing that is supplied because it is the precise sequence of commands.

JUSTICE BREYER: But is there any precedent for that sort of thing? That is, I understand your point now, I think, but however you put it, it has to come down to the fact that this very, very complex and detailed thing that is being supplied is an abstract set of numbers. And I can understand how the patent application does not itself contain that set of numbers, but rather contains an instruction as to how to generate that set of numbers.

But 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. So I'm asking you, is there any outside the computer field analogous instance where the transmission of information has itself been viewed as the transmission of a component?

MR. WAXMAN: I'm not aware of any. In the lower courts, Microsoft was arguing that the biotech industry was an analogy, but there is some very obvious differences between what is supplied in terms of object code that instructs a machine and a, you know, a sequence of nucleotides, the abstract sequence of

nucleotides. But I think we need to be quite precise here. We are not complaining that the component is an idea. We're not complaining -- we're not arguing that a component is some form of information. What we're saying here is -- I mean, nobody is paying billions of dollars from an idea. When the commands are loaded onto the hard drive of a computer in the form of electromagnetic orientations and when you press a button saying give me NetMeeting, and the processor says -- and this is what electrical engineers say -- fetch the instructions, fetch the commands to the random access memory where it's -- where it is there reflected in a -- in a form of patterns of electrical charges. And when the code then moves back and forth, the instructions move back and forth from the CPU and RAM, they -- they -- millions of times a second they are replicating themselves.

JUSTICE KENNEDY: Well, is it an answer to Justice Breyer, or maybe it isn't, that we have no conceptual problem saying there would be liability if this happened within the territorial limits of the United States?

MR. WAXMAN: Absolutely not.

JUSTICE KENNEDY: And so there shouldn't be a greater conceptual problem if you prevail, in applying

it abroad.

MR. WAXMAN: That's --

JUSTICE BREYER: Well, sure, there is. It's a bigger --

MR. WAXMAN: If I can, I just want to make sure I answer your question.

JUSTICE BREYER: But it's totally different in that of course it violates the patent in the United States. The whole question here is whether or not the person has to go get a patent in Germany, which he can do or not do. And the -- the concern that I'm worried about is in the future it might be outside your field, it might be in biology, but if you suddenly say that the transmission purely of information is the transmission of a component, no matter how detailed, I can easily see in biology or medicine where a patent has an instruction and indeed, that instruction is an instruction to create other detailed procedures, processes, dishes, Petri dishes, I don't know what it is, and we transmit that detailed information abroad. Then suddenly it's our patent law and not the foreign patent law that would govern. That's why I asked for precedent.

MR. WAXMAN: Okay. First of all, this statute does not reach anything that is done overseas. It doesn't reach what the German OEM does. It doesn't

reach what anybody does overseas. It -- it makes liable as an infringer somebody who supplies -- who is in the United States who supplies from the United States a component with the intent, with the express intent that that component be combined in a way to create a device that would practice a U.S. patent. Now I don't believe -- I firmly am confident that if you look at what's at issue in this case, there may be all sorts of questions about what is or isn't a component. I might think that a design is a component or it isn't a component, but think of these three features: One, this is something that is totally modular. It is developed, bought and sold entirely independent of any of the hardware to which it is, with which it is combined, and between which it moves continuously as it operates. Number two, it can be removed or updated entirely independently of the other components. And it is dynamic, unlike designs, unlike molds, unlike instructions about how to make something, all of which are exhausted. They have done their work when the thing is made. That's why those things are called hardware.

JUSTICE SOUTER: All right. But --

MR. WAXMAN: These are instructions not about how to make something. They are instructions about what the other things that are made should do and

how they do it.

JUSTICE SOUTER: You can perfectly well say that in this case. You can say that the instruction is exhausted once the golden disk has sent its information through an intermediary machine onto the new disk that is made.

MR. WAXMAN: You could not say that because if you take the information from a golden master or a stream of photons and put it on a hard drive, unless that continues to move and change in form, the computer will not work. The computer operates by having you press a button saying do this function. The central processing unit then says where are my instructions on how to do it. It says find them and put them in random access memory, where it is then replicated in the form of patterns of electrical charges, quite a different physical form than it exists on the hard drive. And the program counter --

JUSTICE SOUTER: That simply means that after the -- the -- the -- the idea as you put it, has been placed on the hard drive, certain other processes must take place too before we get the result that people are buying computers to -- to obtain. But it's still the case that the -- that the code on the golden disk is exhausted once that has been transferred from the disk

through an intermediary machine on its way ultimately to a working computer just -- and my only point is -- just the way you can say that the blueprint in effect is exhausted once the house has been built.

MR. WAXMAN: It's not because the blueprint has no further work to do. It was something that --

JUSTICE SOUTER: Sure. You can use it again.

MR. WAXMAN: Something you teach, has no further work to do with respect to the infringing device, but the object code works continuously and gives continuous instructions to the various hardware components completely unlike. But let me go to --

JUSTICE SOUTER: The object code has several jobs. One job when embodied on the golden disk is tell a -- is to tell a machine how to make disks or how to put a message on a hard drive. Another job that the object code has is when the object code gets on the resulting disk or the hard drive. But in fact, the manifestation of the object code on the golden disk and the manifestation of the object code on the resulting disk are separable, just as the blueprint is separable from what is constructed.

MR. WAXMAN: Justice Souter, just taking your -- taking that as -- that as the case, the United

States in footnote 2 of its brief repeats what Microsoft argued in the court of appeals and the district court, which is that if it took instead of one golden master, but 100,000 CDs, which is what a golden master is, one for each computer, that would be a 271(f) infringement. But that also requires copying and transforming the code that is on the CD-ROM which is in the form of physical pits and lands and indentations, and downloading it into the hard drive where the same exact sequence is manifested as varying orientations of electronic, electromagnetic fields, and that is no different whatsoever than this case.

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.

Let me just be clear about what the statutory interpretation question here is. It's not as whether our conception of the component as the code -- as the -- as the command is better than their conception of the component as a CD or a light wave or a telephone wire that contains that.

The question is, there may very -- it may very well be both things. The question is whether the word component naturally applies to what we do. And our -- we have given dozens of references to the use of intangible software, program software as components. We have given you the dictionary definition with an example from Webster's. They have not responded with one counter-example. The only dictionary example they provide you relates to the word "such", and it's in their reply brief on page 5. But they have given you not the first definition of such under Black, in Black's Eighth, they have given you the second one. The first one is, of this or that kind, she collects a variety of things. And that definition, under that definition it wouldn't matter whether you said, well, the component has to be physical or, you know, it could be either. Because even if it has to be physical --

JUSTICE ALITO: Can you think of any machine -- can you think of any machine other than a computer that has a component that is not a physical thing?

MR. WAXMAN: I can't. And that's why it seems to me, I mean -- and there are -- there are machines that have nonphysical things in them but not that operate in the sort of same dynamic way. We gave

the example of the intangible text of Moby Dick in a book. And they give the example of, you know, an incredibly complicated series of circuits on a -- on a chip. But those don't continue to operate and interact in the way that this paradigmatic component does. Thank you.

JUSTICE STEVENS: Thank you, Mr. Waxman. Mr. Olson, you have, let's see, four minutes.

REBUTTAL ARGUMENT OF THEODORE B. OLSON

ON BEHALF OF THE PETITIONER

MR. OLSON: Thank you, Justice Scalia. I mean Justice Stevens.

(Laughter.)

I was about to address Justice Scalia and recite the case -- cite the case Nixon versus Fitzgerald, which is directly responsive to the question Justice Scalia raised at the very beginning of the audience, that a stipulation with respect to damages does not make a case moot. And also with respect to a question raised by Justice Scalia, or a comment made by him, it doesn't have to be gold. It's a master disk.

JUSTICE SCALIA: I'm sorry.

MR. OLSON: What this essentially comes down to is something that Mr. Waxman repeatedly said. It is the commands that are a component. The commands to the

individual foreign made computers. Those are -- those commands cannot be understood and cannot be used by that computer unless they are in a physical medium that is created as a copy of the master disk that sends abroad -- that's sent abroad.

As I said at the beginning, the stipulation is full of the word "copies", foreign replicated copies. That's what we're talking about here, something that is recreated. And Justice Breyer, your question about someone who's got a really good memory and can go abroad and recite the 1's and 0's, pictures can be taken, copies can be made in lots of different ways.

And in response to Justice --

JUSTICE BREYER: His answer to me is that -- that -- it's sort of misleading to think of this as if it's just information, because it's really a method that switches things at a level of detail that is impossible to put in a patent application. It's taking the information in a patent application, it's transforming it into what we think of as 1's and 0's, but they're not really even 1's and 0's. What they are is things that happen with electricity.

MR. OLSON: That's right.

JUSTICE BREYER: And it's putting that on the disk and then it makes other things happen.

MR. OLSON: I agree.

JUSTICE BREYER: It's putting something physical on a disk, pits and lands, instructions that are copied from the master disk and then put into either a hard drive or a disk, it's the same thing. It's something that is into the computer that will make the computer operate.

You're right, Justice Ginsburg, that the court of appeals for the Federal Circuit thought it was bringing this statute up to date and it even said so. We are making an extension of the statute to keep up to date with the technology. That is not for courts to do. This Court is --

JUSTICE KENNEDY: Are you saying that the infringement act that happened in the United States involved no components?

MR. OLSON: The infringement that happened in the United States which was under Section B, which provides Section B inducement liability for making copies domestically of -- the same thing that happened here. Copies of the object code were put on physical mediums and sent to domestic manufacturers. Domestic reproduction constitutes infringement under Section 271(b) but foreign reproduction is not a violation of Section 271(a) or 271(b). Hence, we're talking about

the two sections where --

JUSTICE BREYER: So they had a license to do that, because if they didn't have a license to make the master disk here in the United States, the making of it would have violated the patent; is that right?

MR. OLSON: The making of the master disk if actually used in a computer with a microphone and a speaker, and that's the liability that existed in the stipulation under 271(a). Making copies is liability domestically under 271(b). If it's going to be liable for foreign made replications, then it must be under 271(f). The language of the statute, we submit is clear. Physical things must be components under 271(f) because they must be supplied from somewhere. Ideas have no physical from. They're in the air. The words used, "supplied from" tells us that it must be a physical thing combined with. Ideas don't combine with physical things to make a patented invention. Physical things do. Thank you, Your Honor.

JUSTICE STEVENS: Thank you, Mr. Olson. The case is submitted.

[Whereupon, at 11:15 a.m., the case in the above-entitled matter was submitted.]