No. 05-1056

IN THE

Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

AT&T CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF AMICI CURIAE OF INTELLECTUAL PROPERTY PROFESSORS IN SUPPORT OF REVERSAL

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QUESTIONS PRESENTED

(1) Whether digital software code—an intangible sequence of "1's" and "0's"—may be considered a component[] of a patented invention" within the meaning of Section 271(f)(1); and, if so,

(2) Whether copies of such a "component[]" made in a foreign country are "supplie[d] . . . from the United States."

TABLE OF CONTENTS

TABLE OF CITED AUTHORITIES

INTEREST OF THE AMICI CURIAE

As professors who teach and write about patent law and policy, we are interested in maintaining and developing a sensible patent system that accomplishes the constitutional goal of "promot[ing] the Progress of Science and useful Arts." We have no personal interest or stake in the outcome of this case.[1] A full list of amici is appended to the signature page.[2]

INTRODUCTION AND SUMMARY OF ARGUMENT

The questions presented to this Court are: (1) Whether digital software code — an intangible sequence of "1's" and "0's" — may be considered a "component[] of a patented invention" within the meaning of Section 271(f)(1); and, if so, (2) Whether copies of such a "component[]" made in a foreign country are "supplie[d] . . . from the United States." We do not believe the Federal Circuit erred in holding that software code, like any other product, can be a component of a patented invention. Any attempt to draw an artificial line between software and other types of inventions finds no support in the statute, which merely speaks of components of a patented invention, and would inevitably enmesh the

[1] Pursuant to Sup. Ct. R. 37.6, the amici represent that they have authored this brief in whole, and that no person or entity other than the amici and two of their respective educational institutions (the George Washington University and Stanford University) have made a monetary contribution to the preparation or submission of the brief. The parties to this case have filed blanket consents to the filing of amicus briefs in this case.

[2] The names of the educational institutions of the amici are provided for identification purposes only.

courts in futile efforts to distinguish software from non-software inventions.

In our opinion, this Court should reverse the Court of Appeals on the second question presented. The Federal Circuit's decision has incorrectly interpreted the relevant statute in the case, 35 U.S.C. § 271(f)(1), to extend the application of United States patents extraterritorially in a manner that is inconsistent with the traditional limits of patent law and that unfairly disadvantages software companies having research and development facilities located within the United States. The lower court's ruling has the potential to increase dramatically the patent liability of U.S.-based firms and thereby to encourage firms to relocate their research and development facilities outside of the United States. Such a result is not consistent with either the language of section 271(f)(1) or the congressional purpose in adopting it.

ARGUMENT

I. The Federal Circuit's Holding Is Inconsistent With the Statute.

Section 271(f)(1) must be interpreted in a manner (i) that is consistent with the text of that provision and (ii) that is logically consistent with the general body of law in which the provision resides. *See West Virginia Univ. Hosp. v. Casey*, 499 U.S. 83, 100 (1991) (explaining that judicial role is "to make sense rather than nonsense out of the corpus juris," and thus "[w]here a statutory term presented to us for the first time is ambiguous, we construe it to contain that permissible meaning which fits most logically and comfortably into the body of both previously and subsequently enacted law."); *Branch v. Smith*, 538 U.S. 254, 281 (2003) (plurality opinion) (noting "the most rudimentary rule of statutory construction .. . that courts do not interpret statutes in isolation, but in the context of the corpus juris of which they are a part). We will begin our analysis with the text of the statute and will thereafter discuss the context.

1. The text of section 271(f)(1) makes it an act of infringement to

> "*suppl[y] or cause[] to be supplied* in or from the United States all or a substantial portion of the components of a patented invention . . . in a manner as to actively induce *the combination of such components* outside of the United States in a manner that would infringe the patent if such combination occurred within the United States"

(Emphasis added). We believe it is clear as a matter of grammar that the phrase "such components" refers back to the components that have been "supplied" from United States. Thus, the plain language of the statute requires that inducing an extraterritorial combination constitutes an act of infringement if and only if the combined components are in fact the *same components* that were "supplied in or from" the United States. Inducing the combination of *copies* of components supplied from the United States — even *exact copies* of components supplied from the United States — does not constitute an act of infringement. (A similar analysis applies with respect to the text of section 271(f)(2).)

In our view, the language of the statute is dispositive of question 2 presented in this case. Microsoft has supplied software on Golden Master disks or through electronic transmissions to manufacturers overseas. Those manufacturers then place exact copies of the software onto computers sold in the foreign countries. It is those computer systems containing only foreign-made copies of the software that the Federal Circuit held infringe the AT&T patent. Even assuming that Microsoft's software code is a "component" of a patented invention within the meaning of section 271(f), it is quite clear that the specific component exported by Microsoft remains always within the control of the foreign manufacturer and is not combined with the other components necessary to make AT&T's patented invention.

In this case, the foreign-made computers allegedly infringing AT&T's patent have been supplied with copies of Microsoft's software which, as the Court of Appeals noted, are "foreign-made copies." Pet. App. 6a. The result is that the Federal Circuit found liability for conduct that occurred entirely abroad, despite this Court's long-standing rule that "the right conferred by a patent under our law is confined to the United States and its Territories and infringement of this right cannot be predicated [on] acts wholly done in a foreign country."*Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915).

The Federal Circuit erred in extending section 271(f)(1) back through the supply chain so as to impose liability for the export from the United States of a template used to create something overseas. It is true, as the Federal Circuit noted, that "[g]iven the nature of the technology, the 'supplying' of software commonly involves generating a copy," Pet App. 6a. But that fact does not eliminate the statutory requirement that the components being combined must have been supplied from the United States. Nor does the statute permit an industry-specific rule. As Judge Rader reasoned in the dissent below:

> Apparently [the majority's] rule applies only to software inventions. This application of "supplies" solely to software components ignores this court's case law that refuses to discriminate based on the field of technology. The language of § 271(f) does not discriminate based on field or form of technology, yet this court invents such a distinction.

Pet. App. 14a.

Indeed, we note that the reasoning of the Court of Appeals below will create great uncertainty in the application of section 271(f) because, once that section is interpreted to allow some of the acts constituting "supplying" to occur overseas, then courts and parties must address whether the materials leaving the borders of the United States have sufficient connection to, or sufficient similarity with, the ultimate components supplied in the foreign country. For example, software could be supplied to computers in foreign countries by sending overseas a compressed or encrypted version of the software. In such a case, the version that leaves the borders of the United States could not itself be used as component because the compressed or encrypted version would be useless gibberish unless and until it is de-compressed or de-encrypted. Once the compressed or encrypted file reaches its destination, another program (e.g., WinZip®, a popular compression program) could take the supplied file and, from that file, be able to manufacture one or more copies of the original file. In such a case, what is “supplied in or from the United States” — i.e., what leaves the shores of this country — bears no resemblance to the copies of software ultimately combined with other computer components overseas. Yet, the reasoning from the Federal Circuit opinion below would still seem to generate liability under section 271(f) because compression and encryption are common practices in transmitting software (and data generally) from one location to another and “[t]o decide otherwise would emasculate § 271(f) for software inventions.” Pet App. 6a.

In many industries, once a foreign manufacturer has a single copy of or a template for a particular component, identical copies of the component can be quickly and inexpensively manufactured overseas at low cost. Congress was surely aware of such situations when it enacted section 271(f), and yet the plain text of the statute gives every indication that Congress wanted to limit liability under the subsection to cases where the components combined overseas are actually the components supplied from the United States. Software is merely an extreme example where a foreign manufacturer can produce copies at a very small cost. But the relatively low cost of generating foreign copies provides no reason to deviate from the clear rule set forth in the text of the statute.

The lower court’s extension of 271(f) liability to copies of components supplied from the United States also creates an anomaly in determining the extent of infringement liability. If section 271(f) is interpreted to generate liability only for components supplied from the United States, then a court can, by observing only the acts done in the United States, determine the number of combinations for which the defendant will be liable: Each component or set of components shipped from the shores of the United States, coupled with the requisite intent to induce a combination, corresponds to the production of one infringing combination. By contrast, under the Federal Circuit's decision, a court must look overseas to determine how many combinations were actually made in the foreign country (1, 10, 100, etc.). The basic scope of the defendant's liability cannot be gauged unless foreign manufacturing conduct is observed and measured. Thus, the Federal Circuit's rule requires evidence about extraterritorial conduct; under the proper interpretation of the statute, such evidence is unnecessary.

2. The overall structure of the Patent Act confirms our interpretation of the statute. Patent rights in the United States are primarily territorial. 35 U.S.C. § 271(a) (defining acts of infringement as making, using, selling, or offering the patented invention for sale "within the United States"); *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). Territoriality is consistent with long tradition and international practice in the patent system. *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915), *Brown v. Duchesne*, 60 U.S. (19 How.) 183 (1857).

Indeed, even deviations from a theoretically strict view of territoriality have been designed to accommodate the more general principle of affording each nation jurisdiction over the practicing of technology that occurs primarily within its borders. Thus, for example, in *Brown v. Duchesne*, 60 U.S. 183, 194 (1857), the Court held that even where a defendant uses an invention covered by a U.S. patent on a vessel physically located within the United States, the defendant would *not* be liable for patent infringement if the vessel was in the United States "temporarily" and "for the purposes of commerce." The Court thereby qualified the strict view of territoriality in view of the interests of foreign governments in regulating their own ships. *See id*. at 195 (concluding that Congress has no interest in regulating "the vehicles of commerce, which belong to a foreign nation, and occasionally visit our ports in their commercial pursuits"); *id*. at 199 (permitting temporary presence of the patented invention within the United States if the use of invention was "authorized by the laws of the country to which she belongs"). The Court's holding in *Brown* is now codified in the section 272 of the Patent Act, which extends the *Brown* rule to "any vessel, aircraft or vehicle of any country which affords similar privileges to vessels, aircraft or vehicles of the United States." 35 U.S.C. § 272. The statutory codification recognizes the interest in yielding territorial jurisdiction where foreign governments have a strong interest in applying their patent laws.

Similarly, section 271(f) extends the reach of United States patent infringement *only* where the United States has a significant interest in regulating the supplying of components in or from this country. In the present case — where the making and use of the invention occurs wholly outside of the United States — the foreign country is the appropriate body for regulating the intellectual property used in the making and using of the invention. The patentee may not have sought or received protection in that country, and it would be anomalous to punish wholly foreign conduct engaged in by a U.S.-based company but not by a company based in any other jurisdiction. To do so would also tread on the rights of sovereign nations to regulate commerce that occurs entirely within their boundaries, in violation of established principles of comity.

Furthermore, territoriality is not merely a rule followed by the United States; it is a fundamental principle of the general international system of intellectual property rights. *See* GRAEME B. DINWOODIE, *ET AL.* INTERNATIONAL INTELLECTUAL PROPERTY LAW AND POLICY 28 (2001) (noting that a "starting point for any study of international intellectual property law" is that "intellectual property laws operate territorially" and that this principle is followed "with very few exceptions"). Countries have relied upon the territoriality principle in negotiating major international agreements — most notably, the "TRIPs Agreement" (*see* Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments — Results of the Uruguay Round, 33 I.L.M. 1197).[3] Deviations from the principle of territoriality should be made by the political branches because such changes may be destabilizing to the system of international treaties formulated under assumptions of fairly strict territoriality.

3. Our reading of the statute is especially sensible in light of the substantive differences that exist between the patent laws of different countries. Those substantive differences take several forms. First, there remain significant geographic restrictions on prior art in the United States Patent

[3] *See* Hanns Ullrich, *Technology Protection According to TRIPs: Principles and Problems*, IN FROM GATT TO TRIPS: THE AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS 357, 362-63 (FRIEDRICH-KARL BEIER & GERHARD SCHRICKER EDS., 1996) (describing the principle of territoriality as a "mandatory conflict of law rule" in the international intellectual property system under which "exploitations or infringements cannot extend beyond the territory of a country"); *see also id.* at 383 (noting that "the continued application of the principle of territoriality is necessary for the operation of the TRIPs system of international intellectual property protection").

Act. Because section 102 of the U.S. Patent Act does *not* consider certain classes of previously known or used technology unless the technology is known or used "in this country" (*see, e.g.*, 35 U.S.C. § 102(a)), the United States Patent and Trademark Office is permitted to issue U.S. patents on technology that is already known in foreign countries and therefore would be unpatentable in those countries. The infringement provisions of the Patent Act should not be interpreted with a capacious extraterritorial reach, lest a patentee be given rights covering the exploitation of technology in a foreign country where that technology could not even have been patented.

Second, the United States grants patents to the first person to invent a technology, while every other country in the world grants patents to the first to file a patent application. This means that it is quite possible that the owner of a patent on an invention in the United States might not be the same as the owner in the rest of the world. In such a case, the Federal Circuit's decision would have the anomalous effect of preventing a company from making and selling an invention even in countries where that company itself owns the rights to that invention. It could also subject a third party to overlapping, inconsistent liability to two different owners of patents on the same technology in different countries.

II. The Federal Circuit's Holding Encourages Research and Development Companies To Move Offshore, Contrary To the Intent of Congress in Passing Section 271(f).

The rule contained in section 271(f) is a jurisdictional rule, extending U.S. law to cover extraterritorial conduct only in the limited situation where significant activities occur in the United States to induce or facilitate the claimed combination abroad. By limiting its reach to components actually manufactured in the United States, section 271(f) ensures that foreign copies of domestically developed inventions are to be regulated solely by the legal systems of the various countries in which those copies are made and used, rather than by both the United States patent system and the foreign legal system.

The significance of the Federal Circuit's ruling on software developers located within the United States is both large and easy to calculate: In all lawsuits alleging infringement of a U.S. software patent, the Federal Circuit's ruling will expand the potential liability of U.S.-based software developers from domestic sales to worldwide sales. If United States market accounts for 50% of the worldwide consumption of the software product, then the Federal Circuit's ruling will double the U.S.-based software developer's liability for infringement of the United States patent. If the United States market accounts for a smaller percentage of the worldwide market, the effect of ruling below will be correspondingly greater. Indeed, if the ruling below is allowed to stand, U.S.-based software developers will view all United States software patents as having worldwide reach because any software code written in the United States cannot be transported overseas by any method without giving rise to U.S. patent liability under section 271(f). In fact, the problem for domestic software developers is worse than that: Under the Federal Circuit's ruling, if software code is written in the United States, then worldwide sales of copies of the code will be governed by U.S. software patents *as well as by any patents issued in the foreign country.*

The same is not true of foreign software developers. Because section 271(f) applies only to components originally supplied in or from the United States, a software developer who designs and ships a product from outside the United States will face U.S. patent liability only for those copies of a program actually made in or imported into the United States. That result will inevitably create strong incentives for software firms to locate their development operations in other countries, which generally do not attempt to assert jurisdiction over foreign sales of software. Professor Samuelson refers to this as "intellectual property arbitrage." Pamela Samuelson, *Intellectual Property Arbitrage: How Foreign Rules Can Affect Domestic Protections*, 71 U. Chi. L. Rev. 223 (2004). It is implausible to think that, in enacting section 271(f), Congress intended to encourage rather than discourage the offshoring of research and development work. Quite the contrary: Congress was concerned in passing the 1984 amendments to *prevent* offshoring of the assembly of patented inventions. 130 Cong. Rec. 28069 (1984) (remarks of Rep. Kastenmeier), reprinted in 1984 U.S.C.C.A.N. 5827, 5828 (setting forth a section-by-section analysis of the Patent Law Amendments Act of 1984 and explaining that section 271(f) is intended "to close a loophole in patent law" under which copiers can avoid U.S. patents by having the assembly stage of manufacturing "completed abroad"). The Federal Circuit's interpretation of section 271(f) not only cannot be squared with the language or purpose of that statute, but it is also bad policy.

CONCLUSION

For the reasons set forth above, this Court should reverse the judgment of the Federal Circuit.

Respectfully submitted,

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