No. 05-

IN THE

Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

EOLAS TECHNOLOGIES INCORPORATED AND
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Respondents.

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

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether 35 U.S.C. § 271(f)—which imposes infringement liability on one who "supplies" "components" of a patented invention from the United States for "combination" abroad—is satisfied if no physical parts are supplied from the U.S. and all that is supplied is software code that foreign computer manufacturers use to program computers that are made and sold entirely outside the U.S.?

PARTIES TO THE PROCEEDING

There are no parties to the proceeding other than those listed in the caption.

Petitioner Microsoft Corporation has no parent company, and no publicly held company owns 10 percent or more of the petitioner's corporate stock.

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Petitioner Microsoft Corporation respectfully requests that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Federal Circuit was entered on March 2, 2005, and is included in the Appendix ("App.") at 1a-26a. It has been officially reported and can be found at *Eolas Technologies, Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005). The opinion of the district court ruling on the issue presented for review in this petition was entered on July 31, 2003, and is included in the Appendix at 27a-30a. That opinion has also been reported and can be found at *Eolas Technologies, Inc. v. Microsoft Corp.*, 274 F. Supp. 2d 972 (N.D. Ill. 2003).

JURISDICTION

The district court had jurisdiction of this patent infringement action under 28 U.S.C. §§ 1331 & 1338. The court of appeals entered its opinion and judgment on March 2, 2005. The court of appeals entered an order on May 3, 2005, denying a timely petition for rehearing and rehearing *en banc*. App. 31a-32a. On July 21, 2005, the Chief Justice extended the time for filing this petition up to and including August 31, 2005. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

The statute at issue in this case is 35 U.S.C. § 271(f), which provides:

> (1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.
>
> (2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

STATEMENT OF THE CASE

A. Nature Of The Case.

Respondents sued Microsoft, alleging that computers programmed with Microsoft's Windows® with Internet Explorer ("IE") software infringe claims 1 and 6 of U.S. Patent No. 5,838,906 ("the '906 patent"). The '906 patent generally claims a computer program product (*e.g.*, a Web browser) and method of using a computer automatically to launch another application to enable users to interact with animations and other "objects" embedded in Web pages. Consistent with prior decisions of this Court and the Federal Circuit concerning patentable subject matter, see, *e.g.*, *Diamond* v. *Diehr*, 450 U.S. 175 (1981); *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994) (en banc), the "computer program product" claimed in the '906 patent is not software code or the instructions or underlying algorithms it represents, but rather "a computer usable medium"—such as, for example, a computer hard drive—with operable computer-readable code installed on it. App. 6a (quoting '906 patent, Claim 6).

After a trial on infringement, a jury returned a verdict in favor of respondents. Respondents asserted that if Windows® with IE infringes, then they are entitled to royalty damages on the worldwide sales of Windows® with IE, not just sales in the U.S. The trial court had earlier ruled in their favor on that issue, and so the jury was directed to calculate its royalty award based on worldwide sales of Windows® with IE, including units produced and sold outside the United States. The resulting award exceeded $520,000,000.

This petition seeks review of the Federal Circuit's ruling that 35 U.S.C. § 271(f) entitles respondents to royalties based on foreign manufacture and sale of an infringing software-related product.[1] Specifically, the Federal Circuit ruled that

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[1] The Federal Circuit vacated the judgment in favor of respondents based on the trial court's erroneous rulings that prevented Microsoft

all foreign-made and sold computers on which Windows® software has been installed by foreign Original Equipment Manufacturers ("OEMs") can infringe a United States patent because the software was designed in the United States and a single disk on which the software code was recorded was transmitted from the United States and replicated abroad by the foreign OEMs. The Federal Circuit reached this result despite the fact that not a single physical part of any of the foreign-made computers was supplied from the United States, and in the face of its own prior decisions holding that section 271(f) refers to the supply of physical components, not instructions or information. This ruling accounts for more than 64% of the $520,000,000 that the jury awarded. If allowed to stand, the ruling would dramatically expand the extraterritorial scope of U.S. patents contrary to this Court's rulings and longstanding U.S. patent policy.

B. Software Code Is Design Information.

Software code, standing alone, is a set of instructions for use by a digital computer, instructions that embody an algorithm or set of algorithms. When used to program a computer, software code "creates a new machine" by physically transforming a "general purpose computer" into a "special purpose computer." *In re Alappat*, 33 F.3d at 1545; *see In re Noll*, 545 F.2d 141, 148 (C.C.P.A. 1976) (a programmed computer "comprises physical structure, including storage devices and electrical components uniquely configured to perform specified functions through the physical properties of electrical circuits to achieve controlled results."). That is, a computer on which software code is installed and running has its internal circuitry physically arranged in a particular way that produces particular results.

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from presenting evidence and argument in support of its defense that the patent is invalid in light of certain prior art. The Federal Circuit also vacated the trial court's ruling in favor of respondents on Microsoft's inequitable conduct defense.

Any particular expression of software code is, thus, a particular form of design instructions for computers—instructions that dictate how the millions of switches in a computer's central processing unit will be configured, *i.e.*, which will be open and which closed. A designer of computer software proceeds like any other designer. He or she imagines what the computer should be able to do (*e.g.*, perform as a simple calculator) just as, for example, a tire designer imagines what a particular tire should do (*e.g.*, provide improved traction in wet conditions). Each idea will find expression in a physical product. The tire designer's idea will become rubber formed in a particular way to direct the flow of water so that traction is improved. The software designer's idea will become a rearrangement of the switches of a microprocessor to direct the flow of current so that calculations are performed and their results displayed.

Each designer produces a set of instructions for making the desired product. The tire designer produces drawings of a tread design, indicating the thickness of the rubber, the shape and depth of the grooves, *etc.* These drawings instruct a manufacturer who will turn the written design into a mold that a machine can use to form the tires. The software designer cannot draw a picture of how the millions of switches in a modern microprocessor ought to be arranged to perform as desired. Instead, the software designer expresses processor design instructions in a standard computer format called "source code." Source code is then passed through a "compiler," which produces the equivalent of a tire mold: computer-readable "object code" in which the processor design instructions are expressed in binary form, the "1's" and "0's" used by digital computers. Then, just as a tire-making machine would use the tire mold to shape rubber into tires, a general purpose computer will use the object code to rearrange its processor's switches to produce a special purpose (calculating) computer.

In sum, the software code is like any other set of design instructions, which can be seen by considering how a single set of instructions can be used to make countless units of the product. A tire designer need produce only one set of design instructions that can be used to make a single mold which then produces as many tires as desired. Likewise, a software designer need produce only one version of source code which can be used to make a single computer-readable version of the code, and countless additional (new) copies of that object code can be made and installed on computers, transforming them into as many "special purpose"—programmed—computers as desired.

Cosmetically, the tire-making process is different from the special purpose computer-making process: the process of following the design instructions of computer software is automated and largely invisible to humans. But in substance, the two processes are the same.

C. Installing Windows® On Computer Hard Drives.

Microsoft develops its Windows® software and records the object code form of that software on a "golden master" disk, on which the ones and zeros of the object code are stored. Microsoft does not itself install Windows® onto any computers. Instead, Microsoft licenses its software to OEMs and sends the golden master to them. The OEMs then use the golden master as part of a process which creates new copies of the Windows® code installed on the hard drives of their computers. Thus, as the district court recognized in this case, the Windows® code installed on the hard drive of, for example, a French-made computer is actually made in France, replicating the information provided on the golden master sent from the United States. App. 28a. These Windows®-programmed computers are alleged to infringe the '906 patent.

When an OEM "installs" the Windows® code onto the hard drives of its computers, it takes nothing physical off the

golden master. (Likewise, no physical part of a tire mold becomes part of a tire.) The golden master remains physically unchanged. Like a tire mold, it is removed from the OEM's equipment in exactly the same condition in which it was inserted. This is because, as described above, when the OEM's computer "installs" Windows®, it makes on its hard drive a new copy of the instructions that are recorded in object-code form on the golden master. The computer, in turn, will follow those instructions by rearranging its processor's circuitry to transform itself from a "general purpose" computer into a "special purpose" (Windows®-operated) computer.

D. The Decision Below.

Respondents claimed royalty damages arising from foreign sales of foreign-made computers programmed with Windows® under 35 U.S.C. § 271(f). Section 271(f) provides that whoever "supplies" "components of a patented invention" from the United States in "such manner as to actively induce the combination of such components outside of the United States" in a way that would infringe a patent if so combined inside the United States is liable for patent infringement. 35 U.S.C. § 271(f)(1); see also *id.* § 271(f)(2). Microsoft argued that it does not supply any components of the foreign-made computers: what it "supplies"—the golden master—is not "combined" with anything else to produce a foreign-made computer and does not become a "component" of any such computer. The Federal Circuit disagreed.

The Federal Circuit concluded that because a computer program product is a patented invention, "'computer readable program code'" must be a component of "that patented invention." App. 22a. That is, the court held that the Windows® code is a "component" of a patented invention, where the patented invention is a computer program product consisting of a computer programmed with software that instructs the computer to configure its circuitry in a way that

will enable it to perform the operations that a Windows®-programmed computer can perform.

Even that much, though, is not enough to establish liability under § 271(f). The court still had to establish how Microsoft "supplies" anything that is "combined" outside the United States in such a way that it would infringe were the combination to take place in the United States. While the court did not expressly use the language of "combination," it stated that "duplicates of the software code on the golden master disk are incorporated as an operating element of the ultimate device." App. 22a. That is, in the Federal Circuit's view, the process of duplicating Windows® code onto computer hard drives involves a "combination" of the intangible software code and the general purpose computer within the meaning of § 271(f).

The Federal Circuit has, since the decision in this case, further explained why it believes that Microsoft's conduct with respect to providing the Windows® operating system software code exposes it to liability for infringement, even for computers made and sold entirely overseas, without a single U.S.-supplied part. In *AT&T Corp.* v. *Microsoft Corp.*, 414 F.3d 1366 (Fed. Cir. 2005) (pet. for rehearing and rehearing *en banc* pending, No. 04-1285),[2] the Federal Circuit reasoned

[2] *AT&T* v. *Microsoft* involves the identical issue presented here—how to interpret § 271(f) in a case involving the copying of Windows® software code onto computer hard drives manufactured and sold entirely abroad. In *AT&T*, the Federal Circuit suggested that its decision in this case was limited to whether software can be a "component" of a patented invention within the meaning of § 271(f). *AT&T Corp.* v. *Microsoft Corp.*, 414 F.3d at 1369. But the operative terms in § 271(f)—"supplies," "component," and "combination"—are inextricably related. It is undisputed that Microsoft "supplies" the golden master disk from the United States. And so Microsoft, in this case, focused on whether the golden master, or even the algorithm or instructions for rearranging the computer's circuitry recorded on the golden master, is a "component" of the foreign-made computer, or is "combined" with other parts when the foreign computer is manufactured. In *AT&T*, the Federal Circuit focused on whether what is ultimately made a part of the foreign-made computer is "supplied" from the United States. *Id.* at 1369-71. These are but different ways of saying the same thing. The ultimate question is unchanged no matter which statutory term is the starting point: does the foreign-made and sold product contain a "component" that was "supplied" from the United States and "combined" with other parts to make the final product. In both this case and *AT&T*, the Federal Circuit determined that a foreign-made and sold computer that has been programmed with the Windows® software code includes a "component" that was "supplied" from the United States and "combined" with other components to produce the final product within the meaning of § 271(f).

that the foreign "copying" of software is "subsumed in the act of 'supplying'" software from the United States, "such that sending a single copy abroad with the intent that it be replicated invokes § 271(f) liability for those foreign-made copies." *Id.* at 1370. Put simply, whenever any single unit of software is supplied to OEMs abroad, "[a]ll ... resulting copies have essentially been supplied from the United States." *Id.*

Critically, in neither *AT&T* nor this case did the Federal Circuit dispute that software code is a "detailed set of instructions." App. 22a. To the contrary, the court acknowledged that the information recorded on the golden master disk is used physically to transform the computer. *Id.* at 23a (noting that "the computer transforms the code on the golden disk into a machine component in operation"). But this was, in its view, no obstacle to finding infringement under § 271(f). In the Federal Circuit's view, the importance of the information—the code—on the golden master disk to the successful operation of the ultimate device—the "invention would not work at all" without the software code—meant that § 271(f) applies. *Id.* at 22a. The Federal Circuit accordingly held that foreign-made duplicates of the U.S.-designed code created U.S. patent liability.

REASONS FOR GRANTING THE PETITION

The issue presented in this petition warrants this Court's review for two related reasons. First, the decision below conflicts with the numerous decisions of this Court stating that United States patent law should not be given broad extraterritorial effect. Section 271(f) represents a narrow exception to that longstanding federal policy, an exception designed to close what Congress understood to be a loophole in the patent laws created by this Court's decision in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972). The *Deepsouth* loophole that concerned Congress existed only where the actual, physical components of the patented device were made in the United States and sent to be assembled into the patented invention abroad. By finding infringement liability where no physical parts of the foreign-assembled invention are made in the United States, the Federal Circuit ignores both the language and the purpose of the statute, as well as its own prior decisions construing the statute. The Federal Circuit's interpretation of § 271(f) will trigger a revolution in the extraterritorial application of U.S. patents that this Court has repeatedly stated should occur only if Congress so directs. Such a sea change in the scope of U.S. patent law is not properly the subject of creative judicial interpretation of the patent statute. To the contrary, this Court has made clear that statutes should be interpreted in ways that best harmonize them with the body of existing law into which they must be fit. The Federal Circuit's interpretation of § 271(f) disregards that important principle of statutory construction.

Second, the economic impact of the decision below on domestic knowledge-based industries marks this as a case of exceptional importance warranting this Court's review. Sup. Ct. R. 10(c). The decision below makes it an act of patent infringement to send from the United States design instructions concerning the manufacture of a patented invention. The result is that U.S. companies, like Microsoft,

that design their products domestically, but manufacture and sell all or many units of their products abroad, will find themselves at risk of patent infringement liability not only for domestic sales, but also for sales the world over. This creates a powerful incentive for such companies to move their research and development operations overseas to avoid the potentially crippling liability created by the Federal Circuit's interpretation of § 271(f) by ensuring that the design information they produce is never "supplied" from the United States. Further, given the intrusion on the sovereign prerogatives of other nations that the Federal Circuit's interpretation entails, there is the risk that the decision, if allowed to stand, will spark other nations similarly to expand the scope of their own patent laws, thus intruding on otherwise lawful and productive economic activity in the U.S.

The Federal Circuit's exclusive jurisdiction over the interpretation and application of the patent laws gives its ruling immediate national scope, and only this Court can correct the distorting effect of the decision below. Nothing in the text, legislative history, or purpose of § 271(f) suggests that Congress intended to disrupt the process of cross-border sharing of design information for novel products. Yet that economically unsettling result is precisely what the Federal Circuit's interpretation of § 271(f) creates. This Court should grant the petition to restore the extraterritorial scope of U.S. patent law to its proper, limited bounds.

1. Section 271(f) is a narrow exception to the general rule that U.S. patent law has no extraterritorial effect. This Court has long recognized that U.S. patent law generally does not have extraterritorial effect. "Our patent system makes no claim to extraterritorial effect; 'these acts of Congress do not, and were not intended to, operate beyond the limits of the United States,' and we correspondingly reject the claims of others to such control over our markets." *Deepsouth*, 406 U.S. at 531 (quoting *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183, 195 (1856)). "The right conferred by a patent under our

law is confined to the United States and its territories." *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915). The longstanding presumption against extraterritorial effect of U.S. patents serves to "avoid unreasonable interference with the sovereign authority of other nations." *F. Hoffman-La Roche Ltd.* v. *Empagran S.A.*, 124 S. Ct. 2359, 2366 (2004).

The Federal Circuit's interpretation of § 271(f) in this case gives U.S. patents a capacity to sanction foreign conduct that has no connection to or consequences in the United States. This intrusion on the sovereign authority of other nations to define the scope of patent protection within their territories is unprecedented. It also runs afoul of well-established principles of international law governing patents. For example, under the *Paris Convention for the Protection of Industrial Property* (Sept. 28, 1979) (amended), patents issued by individual countries are to be "independent" (in scope and effect) of patents issued by other Paris Convention Members.[3] Under the Federal Circuit's decision, U.S. law would give rights under a U.S. patent with respect to conduct in a foreign country that a patent issued by that foreign country may not give, even though the Paris Convention—to which the U.S. is a party—dictates otherwise. Indeed, the Federal Circuit's interpretation of § 271(f) would apply U.S. patent law to prohibit or restrict or penalize the manufacture and sale of goods in a foreign country even if the U.S. patentholder has not secured or could not secure patent protection in that country.

Section 271(f) is a narrow exception to the important federal policy against extraterritorial application of U.S.

[3] Article 4*bis*(1) of the *Paris Convention* provides that "[p]atents applied for in the various countries of the Union by nationals of countries of the Union shall be independent of patents obtained for the same invention in other countries, whether members of the Union or not." World Intellectual Prop. Org. [WIPO], *Paris Convention for the Protection of Industrial Property* art. 4*bis*(1) (Sept. 28, 1979).

patent law which directly addresses the particular problem identified in *Deepsouth*. *Deepsouth* involved a patent for shrimp deveining machinery. The Laitram Corporation held that patent, precluding domestic production of the patented machinery by Deepsouth. In response, Deepsouth shipped to foreign buyers a kit containing all of the various parts of the shrimp deveining machine for assembly and sale outside the United States. The company contended "that by this means both the 'making' and the 'use' of the machines occur abroad," thus avoiding infringement liability. *See Deepsouth Packing*, 406 U.S. at 524. Even though Deepsouth was "entirely straightforward in indicating that its course of conduct [was] motivated by a desire to avoid patent infringement," *id.* at 523 n.5, this Court overturned the lower courts' findings of infringement and interpreted the statutes narrowly to prevent extension of the U.S. patent right beyond the U.S. borders. The legislative history of § 271(f) makes clear that Congress perceived this Court's decision in *Deepsouth* as creating a loophole in the patent laws that should be closed. 130 Cong. Rec. H10525 (daily ed. Oct. 1, 1984), 98th Cong., 2d Sess., *reprinted in* 1984 U.S.C.C.A.N. 5827, 5828. Congress wanted to protect against a U.S. company avoiding U.S. patent laws by manufacturing the physical parts of a patented device in the United States and shipping those parts abroad for combination into the patented invention.

The language of § 271(f) makes clear that Congress achieved precisely what it intended, and no more. Congress made it an act of infringement to supply "components of a patented invention" (the physical parts of the deveining machine) which are "uncombined" (as in *Deepsouth*) "in such manner as to actively induce the combination of such components outside of the United States" (as in *Deepsouth*) "in a manner that would infringe the patent if such combination occurred within the United States" (as in *Deepsouth*). It is difficult to imagine statutory language more

closely tied to the express statutory purpose of dealing with the precise situation this Court confronted in *Deepsouth*.

To be sure, the result of the statute is to extend U.S. patent laws beyond U.S. borders, but only in a narrowly tailored way. Section 271(f) reaches certain conduct overseas—combination—but only combination of components supplied from the United States. The limitation of § 271(f) to "components" as understood in *Deepsouth*—the physical parts of the machine—is an important limitation on the potential liability of a U.S.-based infringer. A U.S.-based infringer is liable for only as many units of the infringing product as result from proscribed conduct in the United States—the number of sets of "components" produced in the U.S. and subsequently exported for assembly abroad. Any additional units made outside the U.S. from foreign-made parts are not within the reach of § 271(f).

2. The Federal Circuit's interpretation of § 271(f) massively expands its reach in a way that disregards the rule against giving U.S. patents extraterritorial effect and does violence to this Court's standard principles of statutory interpretation. The Federal Circuit in this case and in *AT&T* flatly refused to limit § 271(f) to the export of physical parts of a foreign-assembled product or to combining outside the United States physical parts supplied from the United States. It is undisputed that the golden master disk—the only physical thing Microsoft supplies from the United States—is never made a part of any foreign-made computer. It is also undisputed that the software code recorded on the golden master—divorced from its particular physical embodiment on the disk, a computer hard drive, or other physical structure—is information, a set of instructions implementing an underlying algorithm. Nevertheless, the Federal Circuit based liability in this case on the supply of a single copy of that information, the software code recorded on the disk which provides instructions for how a computer's processor's circuitry should be physically arranged. App. 22a-23a.

This conclusion was surprising, for not only do the language and history of § 271(f) dictate that it applies only to the supply of physical components, but the Federal Circuit itself had reached that very conclusion in prior encounters with the statute. Thus, in *Pellegrini* v. *Analog Devices, Inc.*, 375 F.3d 1113 (Fed. Cir.), *cert. denied*, 125 S. Ct. 642 (2004), the Federal Circuit held that a defendant that designed allegedly infringing integrated circuit chips in the U.S. and sent the design instructions to foreign countries where the chips were manufactured and sold had not infringed a U.S. patent under § 271(f). *Id.* at 1115. As the court construed the statute in *Pellegrini*, there can be "no liability under § 271(f)(1) unless components are shipped from the United States for assembly," *id.* at 1117, for the statute "refers to *physical supply* of components, not simply to the supply of instructions," *id.* at 1118 (emphasis added).[4]

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[4] This principle—that the term "component" in § 271(f) requires the supply of a physical part of the infringing product and not merely intangible information—is reflected in other Federal Circuit decisions as well. Before the decision in this case, the Federal Circuit had held that § 271(f) is not "implicated" in cases involving infringement of method (as opposed to product) patents. *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 953 F.2d 1360, 1374 (Fed. Cir. 1991). Since the decision in this case (and *AT&T*), the Federal Circuit has, again, observed that "it is difficult to conceive of how one might supply or cause to be supplied all or a substantial portion of the steps of a patented method in the sense contemplated by the phrase 'components of a patented invention' in section 271(f)." *NTP, Inc.* v. *Research in Motion, Ltd.*, No. 03-1615, 2005 U.S. App. LEXIS 15920, at *107 (Fed. Cir. Aug. 2, 2005). The difficulty stems from the contextual incongruence of treating an intangible thing (whether the steps of a process or instructions in the form of software code) as a "component" within the meaning of § 271(f), given the language of the statute and Congress's focus on the facts of *Deepsouth* when it enacted § 271(f). *NTP*, 2005 U.S. App. LEXIS 15920, at *105-*07. Similarly, in *Bayer AG* v. *Housey Pharmaceuticals, Inc.*, 340 F.3d 1367, 1372-73 (Fed. Cir. 2003), the word "component" in the phrase "trivial and nonessential component" in § 271(g)(2), the companion provision to § 271(f), was read to refer only to "a physical product."

This natural and sensible reading of the statute was simply abandoned in this case. As now construed, § 271(f) covers products sold solely outside the United States and made entirely with foreign-supplied parts, if those products are made or modified according to design information supplied from the United States. What was a narrow exception to the rule against extraterritorial application of the patent laws has been transformed into a roving commission to enforce U.S. patents worldwide.

The enforcement of U.S. patents on software inventions against all computer products, wherever manufactured and sold, that include U.S.-designed software is itself a sufficiently broad and profoundly important exception to the territorial limit of U.S. patents to warrant this Court's review. Making matters worse, the logic of the decision below cannot be confined exclusively to software patents. Indeed, the Federal Circuit in this case made no attempt to limit the scope of its ruling. The panel majority in the subsequent *AT&T* case, apparently recognizing the sea change in the extraterritorial reach of U.S. patents the court was creating, tried to limit the new rule to software patents. 414 F.3d at 1369 (stating that the court was examining § 271(f) "in the context of software distribution."). That effort, however, failed.

As the Federal Circuit noted in this case, patent law "accords the same treatment to all forms of invention." App. 23a.[5] Further, there is no principled ground on which to rest a

[5] The United States also is bound by international agreements not to discriminate in the enjoyment of patent rights based on the technological field of the patented invention. *See* Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, art. 27.1, Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1197, 1208 (1994) ("TRIPS Agreement") ("patents shall be available and patent rights enjoyable without discrimination as to the place of invention, *the field of technology* and whether products are imported or locally produced ") (emphasis added)

software-only rule. The *AT&T* panel claimed that software was different because "[i]t is inherent in the nature of software that one can supply only a single disk that may be replicated—saving material, shipping, and storage costs—instead of supplying a separate disk for each copy of software to be sold abroad." 414 F.3d at 1370. But that rationale applies equally to *any* set of instructions (or, returning to the tire example, *any* product mold) for making additional units of *any* invention. In this case, the Federal Circuit emphasized that "the software code on the golden master disk is ... probably the key part of this patented invention." App. 22a-23a. Again, however true that may be, it is equally true for the design instructions or mold used to create *any* other product. Every patented invention, at bottom, is the reduction to practice of a conception that has been sufficiently described "to enable a person skilled in the art to practice the invention." *Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 67-68 (1998). When the Federal Circuit says that software code is the "key" to this invention, it is saying nothing more than that the description of how to practice an invention—the design instructions for making it—is the "key" to that invention. The Federal Circuit's decision, first announced in this case and then repeated in *AT&T*, to hold that § 271(f) applies to foreign-made units of computers programmed with Windows® will, unless corrected, expand the reach of U.S. patents of *all* sorts well beyond the nation's borders.

This massive expansion of the extraterritorial reach of U.S. patents is contrary to longstanding federal policy. *Deepsouth*, 406 U.S. at 531; *Dowagiac Mfg. Co.*, 235 U.S. at 650; *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183, 195 (1856). Not only does § 271(f) cover the circumstances at issue in *Deepsouth*, as Congress intended, but, under the Federal Circuit's reasoning, it covers much more. Imagine that the *Deepsouth* defendant, instead of shipping the various tangible parts of a

deveining machine, simply mailed a detailed set of manufacturing instructions for the machine—describing all of the necessary parts, their dimensions, and the raw materials from which the parts are made, and explaining precisely how to put all of them together. Notwithstanding its prior decision in *Pellegrini*, the Federal Circuit now apparently views the ease with which such instructions can be delivered overseas, and the countless units that can be made using those instructions, as a threat to the efficacy of § 271(f). *AT&T*, 414 F.3d at 1371 ("Section 271(f), if it is to remain effective, must ... be interpreted in a manner that is appropriate to the nature of the technology at issue."). So the Federal Circuit has read § 271(f) to cover that unforeseen case as fully as it covers what actually happened in *Deepsouth*, even though it is difficult to imagine using the word "component" to describe the detailed set of instructions that the hypothetical envisions, and it is difficult to imagine describing the construction of the machine overseas as a "combination" of the foreign-supplied parts and the U.S.-supplied instructions.

In our modern, information-based economy, the sharing of information, including design information, is essential, common, and often instantaneous. Such information has long been shared—with corresponding benefits to our economy—without any fear that patent infringement liability might accompany such conduct. Under the ruling below, such information-sharing now carries the unavoidable risk that what has been communicated from the United States will inadvertently run afoul of some previously unknown patent and thereby impose a massive damages award on the information supplier, even though all the parts of the allegedly infringing products were of foreign origin, and all the assembled units were sold overseas. Cf. *Bayer AG* v. *Housey Pharms., Inc.*, 340 F.3d 1367, 1371-77 (Fed. Cir. 2003) (holding that 35 U.S.C. § 271(g), which makes it an act of infringement to import into the U.S. a product "made" with a patented process outside the U.S., does not cover the

importation of information produced through overseas use of the patented process). Indeed, it may now be an act of infringement to transmit a patent itself (which, after all, instructs the reader how to practice the invention) in such a manner that it actively induces entirely foreign manufacture of the invention. Congress did not intend such absurd results. See *Paul* v. *Davis*, 424 U.S. 693, 698-99 (1976). Yet they follow from the Federal Circuit's ruling in this case. If the commonplace act of supplying design information regarding patented products to overseas manufacturers is patent infringement, the rule against extraterritorial application of the patent laws is reduced to empty words.

Expansion of the scope of patent protection is a matter for Congressional action, not innovative judicial interpretation. *Deepsouth*, 406 U.S. at 531 (refusing to expand the scope of patent protection "unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language."); *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178, 198-99 (1933) (stating that policy considerations that attend to defining the scope of patent protection are legislative in nature, not judicial). Courts do not expansively read provisions of the patent laws to cover new circumstances that were unforeseen by the enacting Congress. *Parker* v. *Flook*, 437 U.S. 584, 596 (1978) (stating "we must proceed cautiously when we are asked to extend patent rights into areas wholly unforeseen by Congress."). That sound policy, which the decisions in this case, App. 21a-25a, and *AT&T*, 414 F.3d at 1369-72, make clear has been ignored by the Federal Circuit, is particularly worthy of respect in the context of an effort to apply United States law to overseas conduct. Patents provide their holders with state-sanctioned market exclusivity. It is particularly intrusive upon the sovereignty of a foreign state to prohibit or penalize the manufacture and sale of goods in that nation by force of U.S. patent protection, even if the U.S. patentholder has not secured or could not secure patent protection in the

foreign nation. See *Deepsouth*, 406 U.S. at 531 (stating that "[t]o the degree that the inventor needs protection in markets other than those of this country [he should] seek it abroad through patents secured in countries where his goods are being used.").

The policy against expansion of patent protection through court action is also in keeping with this Court's general approach to statutory interpretation. This Court has said that statutes should be interpreted in a way "which fits most logically and comfortably into the body of ... previously ... enacted law." *West Virginia Univ. Hosps., Inc.* v. *Casey*, 499 U.S. 83, 100 (1991); *Dewsnup* v. *Timm*, 502 U.S. 410, 419 (1992) (courts do not read statutes fundamentally to change statutory framework absent some clear indication of congressional intent). The Federal Circuit's interpretation of § 271(f) does serious violence to the settled general policy against extraterritorial application of the patent laws (from which § 271(f) is a narrow exception).

Finally, the plain language of § 271(f) fully supports the narrow view proposed by Microsoft but rejected by the Federal Circuit. *FDIC* v. *Meyer*, 510 U.S. 471, 476 (1994). As noted above, one does not typically speak of the "design" of, say, a car as a "component" of the car. The design is, however, "incorporated" into the car in the same way that the software design algorithm recorded on the golden master is "incorporated" into a computer programmed with Windows®. App. 22a. Likewise, one does not typically speak of the process of assembling a car as a "combination" of its parts and its design. Yet the Federal Circuit's interpretation of § 271(f) depends upon this unnatural reading of these critical statutory terms.

Limiting § 271(f) to the supply of physical parts of a foreign-assembled product, that is, limiting § 271(f) to the circumstances that brought it into existence—legislatively closing the *Deepsouth* "loophole"—gives effect to the plain meaning of the provision without revolutionizing patent law.

This Court should grant this petition to bring the interpretation of § 271(f) into line with this Court's consistent statements regarding the extraterritoriality of patent law, and with this Court's general principles of statutory interpretation.

3. The economic consequences of the Federal Circuit's overbroad interpretation of § 271(f) mark this case as exceptionally important, warranting this Court's review. As noted above, the Federal Circuit's interpretation of § 271(f) threatens any person who exports design information concerning a patented product with massive infringement liability. The court's ruling thus casts a pall over the cross-border flow of design information from the United States. Given the status of the United States as one of the world's leaders in innovative design of useful products—not just software but across a variety of industries such as electronics, pharmaceuticals, and manufacturing[6]—the Federal Circuit's ruling potentially carries a variety of serious economic consequences.

The most obvious consequence is that leading design-producers will move their operations overseas to avoid the reach of the Federal Circuit's rule in this case. The Federal Circuit's rule places a domestic design company (like Microsoft) at a disadvantage relative to its foreign competitors. If a U.S.-based firm were to run afoul of some unknown patent, it, unlike its foreign counterparts, would face patent liability for worldwide sales. The foreign-based company faces potential liability (under U.S. law) only for U.S. sales. Before an important segment of this country's

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[6] An analysis conducted by *Technology Review* and published in December 2004 indicates that U.S.-based companies in various technology-heavy sectors spent more than $102 billion on research and development in 2003 alone. Stacy Lawrence, *Corporate R&D Scorecard 2004*, Tech. Rev., Dec. 2004, at 68-71, *available at* http://www.technologyreview.com/articles/04/12/scorecard21204.pdf. That includes research and development spending of more than $8 billion by U.S.-based software companies.

information-based economy is placed at a competitive disadvantage based on an unsupported and novel interpretation of a provision of the patent laws, this Court should review the issue.

Similarly, the Federal Circuit's rule will distort investment decisions about where to locate new research and development operations in such information-based and information-intensive industries as computer hardware and software, pharmaceutical products, or sophisticated manufacturing. The ease with which information can be transferred in the digital age makes the physical location of a company's research and development operations less driven by geographic considerations than ever before. The software industry in particular, where the "product" is information—computer code—can at the push of a button deliver its product from anywhere in the world to anywhere in the world. If the legal exposure of settling research and development operations overseas is substantially less—and under the Federal Circuit's new rule it will be—companies will have a powerful incentive to relocate those operations outside the U.S.

Finally, the Federal Circuit's interpretation of § 271(f) raises serious concerns regarding relations with our trading partners. International agreements such as the *Agreement on Trade-Related Aspects of Intellectual Property Rights* ("TRIPS Agreement"), and the *Paris Convention for the Protection of Industrial Property* (*see supra* at 12 n.3 & 16 n.5) establish the fundamental premise that patent rights are territorial and independent in nature. Where the United States and other countries have elected to limit the territorial and independent nature of their patents, they have done so explicitly in these agreements.[7] No international agreement

[7] For example, Article 28.1 of the TRIPS Agreement defines what exclusive rights each country must confer with the grant of a patent. The only rights that must be conferred are those that give rights to

exists that has extended the effect of a patent as far as the Federal Circuit's construction of § 271(f). The Federal Circuit's rule intrudes on the basic premise of sovereign authority over patents which underlies these agreements. Were other nations to respond in-kind, the result could be a substantial slowing of the cross-border flow of information and a broader exposure of U.S. companies to liability in other countries.

products made by acts performed abroad that, if performed in the territory of the country, would infringe the domestic patent. *See* TRIPS Agreement, art. 28.1(b), 33 I.L.M. at 1208 ("where the subject matter of a patent is a process, to prevent third parties not having the owner's consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process."). *See also* WIPO, *Paris Convention*, art. 5*qater* ("When a product is imported into a country of the Union where there exists a patent protecting a process of manufacture of the said product, the patentee shall have all the rights, with regard to the imported product, that are accorded to him by the legislation of the country of importation, on the basis of the process patent, with respect to products manufactured in that country ").

CONCLUSION

This petition for writ of certiorari should be granted.

Respectfully submitted,

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APPENDICES