

No. 05-1056

In the Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

AT&T, CORP.,

Respondent.

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

**BRIEF OF PROFESSOR EDWARD LEE
AS *AMICUS CURIAE*
IN SUPPORT OF NEITHER PARTY**

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INTEREST OF THE *AMICUS CURIAE*¹

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INTRODUCTION AND SUMMARY OF ARGUMENT

When Congress enacted § 271(f) of the Patent Code in 1984, it was operating in a world before Microsoft Windows software even existed,² at a time when personal computers were crude and the law on the patentability of software-related inventions was just beginning to develop. *Diamond v. Diehr*, 450 U.S. 175 (1981). Back then, the Internet, as we know it, and the Agreement on Trade Related Aspects of Intellectual Property (TRIPs Agreement) were a decade away from formation. Markets were more domestic than global, and intellectual property disputes more often involved purely domestic conduct. Against this backdrop, Congress enacted § 271(f)(1) to proscribe certain extraterritorial conduct involving the shipment of component parts of a patented

¹ The parties' letters of consent to the filing of *amici* briefs have been lodged with the Clerk. Pursuant to Rule 37.6 of the Rules of the Court, *amicus curiae* states that no counsel for a party has written this brief in whole or in part and that no person or entity, other than *amicus*, has made a monetary contribution for preparing or submitting this brief.

² Microsoft Windows 1.0 was first publicly sold in November 1985. See Public Broadcasting Station, *A History of the Computer*, <http://www.pbs.org/nerds/timeline/micro.html>.

invention for assembly abroad. Section 271(f)(1) overruled the strict territorial approach taken in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), a case involving the shipment of components of a patented shrimp deveiner for assembly abroad. Such conduct § 271(f)(1) now proscribes.

This case is a long way from 1984, and shrimp deveiners. It involves a dispute over speech compression technology contained within highly sophisticated computer software, which, when stored on computers, infringes the patent of AT&T. It takes no encyclopedic knowledge of law, history, or technology to understand why Congress in 1984 did not anticipate the precise issue presented today: whether § 271(f)(1) applies to second-generation³ copies of software made abroad from a master copy sent from the United States, with the specific intent of the sender that the second-generation copies be made by its foreign licensee.

The Federal Circuit held that § 271(f)(1) does apply to such second-generation software copies. *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1370-72 (Fed. Cir. 2005). Under an ordinary understanding of “supplied,” the Federal Circuit’s interpretation is not unreasonable. But the Federal Circuit’s interpretation, although reasonable, is not the only interpretation of § 271(f)(1), much less one that is clearly prescribed by its language (or purpose). In dissent, Judge Rader offered a narrower interpretation of § 271(f)(1), one that arguably is no less reasonable, but one that produces the

³ By a “first-generation” copy of Windows software, I mean any copy of Windows made by Microsoft for further copying by its licensees. By “second-generation” copy, I mean any copy of Windows made by a Microsoft licensee from a first-generation or master copy sent by Microsoft, or from a subsequent copy made by the licensee from a first-generation or master copy sent by Microsoft. Thus, under the terminology I use, second-generation copy would apply to all copies of Windows made by the Microsoft licensee under the terms of its license, as long as the licensee first generated some copies from a master copy sent from Microsoft (which copies could generate even more copies).

opposite result in this case. *AT&T*, 414 F.3d at 1372-73 (Rader, J., dissenting).

In deciding between these two interpretations, I believe the Court should consider two additional factors in the law. One factor, favoring the Federal Circuit’s position, is an analogous copyright doctrine—overlooked by the parties and the courts below—that permits recovery of extraterritorial damages for lost profits based on foreign copying of a U.S. copyrighted work where a predicate act of infringement facilitated the foreign copying. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939) (L. Hand, J.). The other factor, favoring Judge Rader’s dissenting position, is the canon of construction against extraterritorial interpretation of U.S. statutes. The precise issue is whether this canon can apply in interpreting a provision that Congress clearly intended to have some extraterritorial scope. Below, I argue that the canon may apply even to a provision that Congress intended to have extraterritorial scope, if the statutory language is ambiguous in a way that warrants a concern for substantial interference with the ability of foreign countries to regulate conduct within their borders. Such is the case here.

ARGUMENT

I. The Text of § 271(f)(1) Is Susceptible to Two Reasonable, But Competing Interpretations

The second question presented raises the more difficult issue of statutory interpretation.⁴ The question is whether

⁴ I agree with the Federal Circuit’s analysis of the first question presented, i.e., the interpretation of “component” to include software components of “a patented invention.” See *AT&T*, 414 F.3d at 1369. Section 271(f) applies to “a patented invention,” and the “components” thereof. There is no exclusion for software components or software-related inventions. Section 271(a), which is the basic provision that

Microsoft “supplies or causes to be supplied … *from the United States* all or a substantial portion of the components of a patented invention,” when Microsoft has shipped from the United States its Windows software on “golden master” disk or electronically to its foreign licensees for them to copy and install on computers abroad. (The Windows program contains speech codecs that infringe AT&T’s ’580 patent when the codecs are installed on a computer in the U.S.)

In interpreting a statute, the Court begins with the text. *Carter v. United States*, 530 U.S. 255, 271 (2000). Section 271(f)(1) of the Patent Code states:

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.

35 U.S.C. § 271(f)(1) (emphasis added).

defines the exclusive rights for all patent holders, applies generally to “any patented invention,” a term that must necessarily include all patented inventions, including processes (otherwise, no provision would exist in the Patent Code to define the exclusive rights of patented processes—an absurd result). 35 U.S.C. § 271(a). In other parts of § 271, where Congress wanted to specify patented products versus patented processes, Congress did so expressly. *Id.* § 271(c) (liability where someone “offers to sell or sells within the United States or imports into the United States *a component of a patented machine, manufacture, combination or composition*, or a material or apparatus for use in practicing *a patented process*”) (emphasis added); *see also id.* § 271(g). Here, there is no dispute AT&T has a patented invention, a part of which involves speech codecs (that Microsoft incorporates into Windows).

As this Court has advised, “Unless otherwise defined, words will be interpreted as taking their ordinary, contemporary, common meaning, and, in dealing with the patent laws, we have more than once cautioned that courts should not read into the patent laws limitations and conditions which the legislature has not expressed.” *Diamond v. Diehr*, 450 U.S. 175, 182 (1981) (internal quotations and citations omitted).

A. The Federal Circuit’s Interpretation of § 271(f)(1)

An ordinary understanding of the verb “supply” is “to make available for use, provide,” or “to furnish or equip with.” THE AMERICAN HERITAGE DICTIONARY OF THE ENGLISH LANGUAGE 1739 (4th ed. 2000). To “supply” can also mean to “be a source of.” THE NEW OXFORD AMERICAN DICTIONARY 1707 (2001).

The district court and the Federal Circuit effectively held that the Windows software on the “golden master” disk or electronic copy sent by Microsoft was “supplied … from the United States,” as were even the *second-generation* copies of the software made by Microsoft’s licensees in foreign countries because those second-generation copies resulted from the simple process of copying onto a computer the master or first-generation software sent by Microsoft from the United States. *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1370 (Fed. Cir. 2005).

As the Federal Circuit explained, “It 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 the software to be sold abroad. All of such resulting copies have essentially been supplied from the United States.” *Id.*

An ordinary understanding of “supply” arguably supports the Federal Circuit’s interpretation. For example, imagine that Microsoft’s licensees had all been located in the U.S. and had made the second-generation copies here. Even though the licensees (not Microsoft) actually made the second-generation copies on their computers, we probably would have no problem saying that the second-generation copies were *supplied from Microsoft*, given the facile nature of making copies of software onto a computer. Microsoft is the ultimate source of the second-generation software, which was copied from master copies that Microsoft intended its licensees to copy. No doubt Microsoft wants all consumers to believe that Microsoft ultimately is the *source, provider, and furnisher* of all computer software that bears its well-known trademarks “Microsoft” and “Windows.”

The only difference with this example and the case at hand is geography: the facts here involve second-generation copying that occurs abroad, not in the United States. A fair argument can be made, however, that this change in geography should not alter the above analysis. In both the purely domestic example above and this case involving some transnational copying, the second-generation copies of Microsoft Windows are so easily produced from the first-generation copy that, practically speaking, it may be fair to characterize the creator of the first-generation copy as the person who “supplied” the second-generation copies as well. Once a software program is created, it can easily be copied by the automated operation of a computer. No linguistic leap is needed to say that second-generation copies of an item whose very nature allows virtually automatic reproduction are “supplied from” the original source of the item who specifically intended the item to be so copied. Once Microsoft created the software with the potentially infringing speech codecs in the United States, nearly “everything was accomplished in this country except putting the pieces together as directed.” *Deepsouth*, 406 U.S. at 533

(Blackmun, J., dissenting). Indeed, any computer can generate copies of software from a master version with almost negligible human effort.⁵

For an analogy, consider digital copying of music files on the Internet. If a U.S. citizen sent from the United States an email with a file of an unpublished Madonna song to friends in Germany, with the specific intent that the friends copy the unpublished Madonna song and disseminate it to others in Germany, we probably would have no trouble saying that the second-generation copies of Madonna's song were "supplied from the United States" by the U.S. citizen, because that is precisely what the U.S. citizen intended and because digital files are so easily copied from the first digital copy by the automated operation of a computer. The only activity required of the German friend who received the master copy of the Madonna song from the U.S. citizen would be to hit the "forward" button on his Eudora (or Outlook Express) email program after inserting the email addresses of his friends. Once the U.S. citizen has emailed the Madonna song to his friend with the common intention for further copying of the song, the further digital copies of the song are practically a *fait accompli*.

Although the Federal Circuit's interpretation strikes me as reasonable, and consistent with a possible ordinary, everyday understanding of the word "supplied," as I explain below I do not believe it is the only reasonable interpretation of § 271(f)(1).

⁵ Indeed, it is not inconceivable that monkeys could be trained to copy software. See BBC, *No Words to Describe Monkeys' Play*, May 9, 2003, at <http://news.bbc.co.uk/1/3013959.stm> (discussing experiment in which 6 monkeys, placed in a room with a computer, hit "s" most often).

B. The Dissent's Interpretation of § 271(f)(1)

In dissent, Judge Rader argued that an ordinary meaning of “supply” does not include acts of *copying*, which are in effect a form of manufacturing. 414 F.3d at 1372. As Judge Rader explained, “As a matter of logic, one cannot supply one hundred components of a patented invention without first making one hundred copies of the component, regardless of whether the components supplied are physical parts or intangible software. Thus, copying and supplying are different acts, and one act of ‘supplying’ cannot give rise to liability for multiple acts of copying.” *Id.* at 1373. Representing the United States, the Solicitor General now advances a similar interpretation. Brief for United States as *Amicus Curiae* 10 (No. 05-1056) (Sept. 2006) (petition stage).

The dissent’s interpretation is not unreasonable. For physical components of a machine, such as the parts of a shrimp deveiner, which do not lend themselves to facile reproduction, we probably would *not* include the (re)production of those physical components by a foreign plant within the meaning of “supplied … from the United States,” even though a “master” physical component had been sent from the United States. Instead, we probably would more commonly describe the foreign plant as the one that “supplied” the components from the foreign country, where the components were made after they had been reverse-engineered and redesigned from the master, and then manufactured by the foreign manufacturing plant. The dissent’s interpretation effectively requires us to understand “supplied” in the same way as we do for physical components where the components are copies of computer software. If the components are produced abroad in any way, they are not supplied from the United States. This interpretation, I believe, is reasonable, although still debatable.

Whether the dissent's interpretation is more persuasive than the majority's is, I believe, open to argument. In the case of computer software, what seems to be different from the shrimp deveiner example is that any computer can generate copies of the software with almost negligible human effort. Digital copies beget digital copies. By the time the software code is written, it can virtually reproduce itself. In order to make a physical part of a machine, however, a foreign manufacturing plant is needed to undertake considerable effort—reverse engineering and recreating the design of the component and then setting up an assembly line for production. In any event, I do not believe either interpretation is clearly prescribed by § 271(f)(1)'s language. Both interpretations are reasonable constructions.

II. Given the Ambiguity in § 271(f)(1), the Court Should Consider (i) Copyright Doctrine Allowing Recovery of Extraterritorial Damages and (ii) the Canon Against Extraterritorial Interpretation

Because § 271(f)(1) is susceptible to two reasonable, yet opposing constructions, the Court should consider two other considerations beyond the text of the statute: (1) First, an analogous copyright doctrine that allows recovery of extraterritorial damages for lost profits stemming from second-generation copying in a foreign country that had been facilitated by a predicate act of domestic infringement; and (2) second, the canon of construction against extraterritorial interpretation of domestic statutes. These considerations probably cut in opposite directions, but I believe the canon against extraterritorial interpretation may have greater force in this case.

A. The *Sheldon* rule: Copyright Law’s Approach to Second-Generation Copying in Foreign Countries

The Court should consider that this case presents a fact pattern similar to one that lower courts have already addressed in copyright law, dating back over 65 years to Judge Learned Hand’s opinion in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939) (*Sheldon II*). In *Sheldon*, the Second Circuit held that a copyright holder can recover damages for lost profits resulting from *both* domestic *and* foreign copying, if the domestic copying was a predicate act that facilitated the foreign copying. *Id.* at 52. Although decided under the 1909 Copyright Act, Pub. L. No. 60-349, ch. 320, § 1(d), 35 Stat. 1075 (1909), the *Sheldon* rule is still followed today in the Second and the Ninth Circuits under the 1976 Copyright Act. *See Update Art, Inc. v. Modigliani Publ’g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988); *L.A. News Serv. v. Reuters Television Int’l, Ltd.*, 149 F.3d 987, 991-92 (9th Cir. 1998) (*L.A. News I*), cert. denied, 525 U.S. 1141 (1999).

The *Sheldon* case involved facts analogous to those presented in this case—i.e., a predicate act of infringement under U.S. law that facilitates foreign acts of copying. In 1938, Edward Sheldon sued Metro-Goldwyn Pictures and other defendants (collectively, “MGM”) for making, distributing, and exhibiting the movie *Letty Lynton*, parts of which Sheldon alleged infringed his play *Dishonored Lady*. Both the movie and the play were based on the cause célèbre involving the 1857 trial and acquittal of Madeleine Smith, who had been charged with poisoning her lover. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F.2d 49, 49-50 (2d Cir. 1936) (*Sheldon I*). In reversing the trial court’s dismissal of the claim, the Second Circuit (in a now famous opinion written by Learned Hand) ultimately found that MGM’s movie infringed Sheldon’s play. *Id.* at 55-56.

Given the finding of copyright infringement, a key issue remaining involved whether Sheldon could recover additional damages for defendants' foreign copying (and exhibiting) of their movie from negatives of the film they made in the U.S., but shipped abroad for copying into positives of the film. The Second Circuit held that the Copyright Act permitted recovery for any profits defendants made from such foreign activity:

The plaintiffs made no proof of foreign law, and we cannot say that the exhibition of the positives abroad was a tort. However, exhibition is not the only act forbidden by the Copyright Act; Section 1(d), 17 U.S.C.A. § 1(d), gives to the author the exclusive right, not only to perform a dramatic work, but 'to make * * * any transcription or record thereof * * * from which, in whole or in part, it may in any manner * * * be * * * reproduced.' *The Culver Company made the negatives in this country, or had them made here, and shipped them abroad, where the positives were produced and exhibited.* The negatives were 'records' from which the work could be 'reproduced', and it was a tort to make them in this country. The plaintiffs acquired an equitable interest in them as soon as they were made, which attached to any profits from their exploitation, whether in the form of money remitted to the United States, or of increase in the value of shares of foreign companies held by the defendants. We need not decide whether the law of those countries where the negatives were exploited, recognized the plaintiffs' equitable interest; we can assume arguendo that it did not, for, as soon as any of the profits so realized took the form of property whose situs was in the United States, our law seized upon them and impressed them with a constructive trust, whatever their form. Compare *Goulds Mfg. Co. v. Cowing*, 105 U.S. 253; *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, at page 650.

Sheldon II, 106 F.2d at 52 (emphasis added).

Subsequent courts and commentators have explained the *Sheldon* rule as allowing, under copyright law, the recovery of lost profits accruing from foreign activity if a “predicate act of infringement occur[ed] within the United States [that] enabled further reproduction abroad.” *L.A. News Serv. I*, 149 F.3d at 992; see 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT §14.0, at 14:2 (3d ed. 2006); 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 14.05, at 14-119 (2006). As Learned Hand explained, part of the theory for this doctrine is that the copyright holder is deemed to possess an “equitable interest” in any lost profits that attaches once the defendant has committed a predicate act of infringement in the U.S. *Sheldon II*, 106 F.2d at 52. Courts, however, have not allowed recovery, such as for general damages, where the defendant did not profit from its domestic infringement or foreign activity. See *L.A. News Serv. v. Reuters Television Int'l, Ltd.*, 340 F.3d 926, 931 (9th Cir. 2003) (*L.A. News II*), cert. denied, 541 U.S. 1041 (2004).

Of course, it is open to question whether copyright doctrine has any relevance to patent law. It may not. But, as this Court has unanimously reaffirmed, copyright law and patent law share a “historic kinship” that, in some cases, militates in favor of adopting a similar approach for both areas of law. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2780 (2005) (“For the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright.”); *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (recognizing “historic kinship” between patent and copyright law).⁶ Moreover, the Court should bear

⁶ In enunciating its rule, the *Sheldon* court noted, for comparison, this Court’s territorial interpretation of the Patent Code. See *Sheldon II*, 106 F.2d at 52.

in mind that the Copyright Act protects computer software. *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 702 (2d Cir. 1992). Future cases involving fact patterns analogous to this case could easily involve both copyright and patent claims, thereby implicating directly the *Sheldon* rule.

By analogy to the *Sheldon* rule, one could argue that Microsoft committed at least one predicate act of infringement under § 271(f)(1) by sending its Windows software on master disk from the United States to its foreign licensees abroad, with the specific intent that it be used for assembly into computers that infringe AT&T's patent.⁷ (Even Judge Rader in dissent appeared to agree that Microsoft's sending of a master copy violated § 271(f). *AT&T*, 414 F.3d at 1373 (§ 271(f) "attaches liability to each individual export from the United States of components of an incomplete invention for assembly abroad"). Given this predicate act of infringement by Microsoft under § 271(f)(1), a court should be allowed to consider, when computing damages for profits lost by AT&T, the acts of copying by Microsoft's licensees that Microsoft's predicate act of infringement facilitated—i.e., the second-generation copies derived from Microsoft Windows by Microsoft's licensees in foreign countries. See 35 U.S.C. § 284 (allowing damages "adequate to compensate for the infringement," including treble damages). This argument is at least worth consideration, although ultimately I believe the canon against extraterritorial application of domestic statutes carries greater force in this case for the reasons explained below.

⁷ An additional predicate act of infringement would be Microsoft's development and inclusion of the speech codec technology in Windows, which infringes AT&T's patent when installed on a computer. Microsoft stipulated that it had infringed AT&T's patent "by selling copies of its Windows software to manufacturers of computers that are ultimately manufactured, used, or sold in the United States" Microsoft Pet. for Writ of Certiorari 7 (No. 05-1056) (Feb. 17, 2006).

B. The Canon Against Extraterritorial Application of U.S. Statutes

1. The relevance of the canon to extraterritorial provisions

This Court should also consider the extent to which the canon against extraterritorial interpretation of the Patent Code applies, if at all. This Court has long recognized a general presumption against extraterritorial application of a domestic statute and a specific presumption against extraterritorial interpretation of the Patent Code. *See Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285 (1949); *Brown v. Duchesne*, 60 U.S. 183, 195 (1856). The more difficult question presented here—unaddressed by the courts below—is whether the presumption has any application to a statutory provision Congress clearly enacted to apply extraterritorially in some cases.

On the one hand, it could be argued that, because Congress has given clear expression that § 271(f) applies to some extraterritorial conduct, the canon does not apply. It simply drops out of the equation, even if there is ambiguity in interpreting the *scope* of the extraterritorial provision. The ordinary tools of statutory construction then apply, without resort to the canon.

On the other hand, one could argue that the presumption should be considered (if not necessarily applied) in precisely those circumstances where the scope of an extraterritorial provision is ambiguous.

Some support for this latter approach can be found in this Court’s analysis in *Smith v. United States*, 507 U.S. 197 (1993). There, the Court held that the Federal Tort Claims Act’s waiver of sovereign immunity for certain tort claims against the federal government did not apply to claims that

arose in Antarctica because § 2680(k) of the Act barred jurisdiction over “[a]ny claim arising in a foreign country.” *Id.* at 199. While concluding that an ordinary understanding of “country” might include Antarctica, even though it has no government, the Court conceded that “this is not the only possible interpretation of the term.” *Id.* at 201. After examining other parts of the Act, the Court also relied on two canons of construction to support its interpretation—the canon for interpreting waivers of the immunity of the United States and the canon against extraterritorial application of domestic statutes. *Id.* at 203-04. As to the latter canon, the Court stated that “[t]he applicability of the presumption is not defeated here just because the FTCA specifically addresses the issue of extraterritorial application in the foreign-country exception.” *Id.* at 204.

Of course, *Smith* presented an easier case in which to apply the canon against extraterritorial interpretation because the “foreign country” exception specifically indicated Congress’s intent against an extraterritorial scope to the FTCA. The canon reinforced the non-extraterritorial intent of the provision. *See id.* In this case, however, Congress’s intent in § 271(f) was *for* an extraterritorial scope to that provision. Accordingly, here, the canon against extraterritorial interpretation would be operating to *constrain*—rather than to fortify, as was the case in *Smith*—the statute’s directive on extraterritorial application.

However, in *F. Hoffmann-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155 (2004), the Court recently *applied* the canon against extraterritorial construction in interpreting the scope of an extraterritorial antitrust provision. The case involved the “domestic injury” exception in the Foreign Trade Antitrust Improvements Act of 1982 that applied extraterritorially to create a cause of action under the Sherman Act for foreign activity that caused a domestic injury. *Id.* at 159. The provision was an exception to a more

general provision that expressly stated that the Sherman Act “shall not apply to conduct involving trade or commerce ... with foreign nations.” *Id.* at 158. The Court found the language of the domestic injury exception was ambiguous as to whether it applied to foreign activity that caused some domestic antitrust injury, but also some “independently cause[d] separate foreign injury.” *Id.* Given the ambiguity, the Court applied the presumption against extraterritorial interpretation to limit the scope of the extraterritorial “domestic injury” exception. *Id.* at 164.

Empagran seems on all fours with this case. Like the general exclusion of the Sherman Act from reaching foreign conduct, *see Empagran*, 542 U.S. at 158, the basic patent infringement provision is expressly worded to apply to conduct “within the United States.” 35 U.S.C. § 271(a). And, like the domestic injury exception in *Empagran*, § 271(f) operates as an extraterritorial exception to the general patent infringement provision.

2. The policy behind the canon would be served by a narrow reading of § 271(f)(1)

Therefore, it is appropriate to consider the canon against extraterritorial interpretation in this case. If this Court agrees with the foregoing analysis that the language of § 271(f)(1) lends itself to two reasonable, but opposing interpretations, then the Court should consider applying the presumption against extraterritorial interpretation. *Smith*, 507 U.S. at 203-04 (characterizing canon as “presumption”).

First, the policy behind the canon militates against the extraterritorial reading of the Federal Circuit. The canon “serves to avoid ‘unintended clashes between our laws and those of other nations which could result in international discord.’” *Id.* at 204 n.5.

In this case, a broad extraterritorial reading of § 271(f), particularly as applied to computer software, could well conflict with the patent laws of foreign countries. Unfortunately, neither of the courts below even considered how their decisions might affect the patent systems in foreign countries. Unlike *Deepsouth*, where the record before this Court indicated that the patentee had “foreign patents” for its invention, 406 U.S. at 531, the record here does not appear to indicate whether AT&T has any foreign patents in the countries where it alleges Microsoft has infringed AT&T’s U.S. patent. In its reply brief at the petition stage, Microsoft asserts that AT&T “never bothered to undertake” applying for foreign patents. Microsoft Reply Brief for Pet. 4 (No. 05-1056) (April 4, 2006). If that allegation is correct, then AT&T’s speech codec invention would likely be free for others to copy in those foreign countries where it is not patented. In such case, the Federal Circuit’s ruling would create a direct conflict with foreign patent laws, proscribing under U.S. law conduct of Microsoft that foreign countries would intend to allow within their borders.

In addition, a broad extraterritorial reading of § 271(f)(1) runs in tension with the general principle of territoriality, which forms the background assumption of all the major international IP agreements, most notably, the TRIPs Agreement, which applies to all WTO countries. The principle of territoriality, although not a formal treaty obligation, allows each country the flexibility to decide those areas of patent law (such as the patentability of computer software) that are not dictated by the international minimum standards of the TRIPs Agreement. See Edward Lee, *The New Canon: Using or Misusing Foreign Law to Decide Domestic Intellectual Property Claims*, 46 HARV. INT’L L.J. 1, 7 (2005). This strict territorial approach to patent laws is reinforced by the prevailing approach among countries in not recognizing any subject matter jurisdiction over foreign patent claims. See DANIEL C.K. CHOW & EDWARD LEE,

INTERNATIONAL INTELLECTUAL PROPERTY 24, 824 (West 2006).⁸

Particularly because patent laws affect business and innovation policy within a country, countries need flexibility to decide how conduct within their own borders is to be adjudged by patent law. For example, in the European Union, how patent law should treat computer software is a major area of controversy that is, as of yet, unresolved. In 2005, the European Parliament overwhelmingly rejected, by a vote of 648 to 14, the proposed European Directive on the Patentability of Computer-Implemented Inventions, which would have attempted to harmonize the patent laws of all EU countries with respect to software inventions. *See CHOW & LEE, supra*, at 360.

Second, accepting that the canon's policy supports applying it here, the text, legislative history, and purpose of § 271(f) all fail to overcome this presumption against extraterritoriality. As analyzed above, the language "supplied ... from the United States" in § 271(f)(1) is open to two reasonable, but competing interpretations. The text falls short of providing "clear evidence," *Smith*, 507 U.S. at 204, or a "clear and certain signal from Congress," *Deepsouth*, 406 U.S. at 531, as to the extraterritorial prohibition of the kind of second-generation copying of software in this case.

Moreover, to the extent legislative history is relevant to the Court's analysis, there does not appear to be any evidence providing a clear or significant indication that Congress intended § 271(f)(1) to apply to the circumstances of second-generation software copying from a master copy sent abroad. Given the relatively nascent state of personal computers and software at the time, Congress understandably did not focus

⁸ In a case pending on appeal, the Federal Circuit is revisiting this issue. *Voda v. Cordis Corp.*, No. 05-1238 (Fed. Cir.) (argued Jan. 12, 2006).

on the kind of facts presented here when enacting § 271(f)(1). Congress intended “to close a loophole in patent law” created by *Deepsouth*, the shrimp deveiner case. Patent Law Amendments Act of 1984, Section-by-Section Analysis, 1984 U.S.C.C.A.N. 5827, 5828. But Congress did not discuss whether that loophole applied to facile second-generation copying of components, much less consider how § 271(f) might affect the U.S. software industry—which now is vital to the U.S. economy.

To the extent that Congress’s purpose in enacting § 271(f) was also “to avoid encouraging manufacturing outside the United States,” Patent Law Amendments Act of 1984, Section-by-Section Analysis, 1984 U.S.C.C.A.N. 5827, that purpose itself may not necessarily be served by the Federal Circuit’s interpretation. Before the district court, Microsoft threatened to “simply pick up [its] manufacturing operation for the golden master, go [one] hundred miles north to Vancouver, set up the operation in Vancouver, [and] burn [its] golden master CDs [there].” *AT&T Corp. v. Microsoft Corp.*, No. 01 Civ. 4872, 2004 WL 406640, at *8 (S.D.N.Y. March 5, 2004). Assuming AT&T did not have a Canadian patent for its invention and assuming Microsoft recreated its Windows software independently in Vancouver, Microsoft’s relocation of its plant to Vancouver might allow it—properly—to escape future liability under U.S. patent law.

Finally, to the extent the *Sheldon* rule in copyright law might support the Federal Circuit’s interpretation by analogy, the *Sheldon* rule itself may no longer be justifiable under the canon against extraterritorial interpretation.⁹ The Copyright Act has even less textual support than the Patent Code (which has § 271(f)) for recovery for extraterritorial conduct. That question, however, can be properly reserved for another day.

⁹ Two leading copyright treatises have questioned the soundness of the *Sheldon* rule. See 2 GOLDSTEIN ON COPYRIGHT, *supra*, at § 14.0, at 14:2 – 14:3; 4 NIMMER ON COPYRIGHT, *supra*, at § 14.05, at 14-119.

The prudence of applying the canon against extraterritorial application is that it gives Congress another chance to reconsider the issue, *before* an extraterritorial encroachment is made on the laws, commercial relationships, and innovation policies in foreign countries. This restraint is, as the Court has admonished, especially “needed in today’s highly interdependent commercial world.” *Empagran*, 542 U.S. at 165.

CONCLUSION

For the foregoing reasons, the Court should consider the relevance of the canon against extraterritorial interpretation to this case.

Respectfully submitted,

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