04-1234

IN THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

EOLAS TECHNOLOGIES INCORPORATED and
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,
Plaintiffs-Appellees,

v.

MICROSOFT CORPORATION,
Defendant-Appellant.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS IN CASE NO. 99-CV-626, JUDGE JAMES B. ZAGEL

BRIEF OF AMICUS CURIAE, THE BUSINESS SOFTWARE ALLIANCE ("BSA"), IN SUPPORT OF COMBINED PETITION FOR REHEARING AND REHEARING EN BANC OF DEFENDANT-APPELLANT MICROSOFT CORPORATION

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CERTIFICATE OF INTEREST

Counsel for the amicus, The Business Software Alliance, certifies the following:

1. The full name of every party or amicus represented by me is:

   The Business Software Alliance [See Addendum]

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

   None

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

   None

5. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

   Arent Fox PLLC – Janine A. Carlan

March 16, 2005
Date

Signature of counsel

Janine A. Carlan
Printed name of counsel

ADDENDUM TO AMICUS CURIAE'S,
THE BUSINESS SOFTWARE ALLIANCE,
CERTIFICATE OF INTEREST

1. The full name of every party or amicus represented by me is:

The Business Software Alliance, whose members include:

Adobe Systems, Inc., Apple Computer, Inc., Autodesk, Inc., Avid Technology, Inc., Bentley Systems, Inc., Borland Software Corporation, Cadence Design Systems, Inc., Cisco Systems, Inc. CNC Software/Mastercam, Inc., Dell, Inc., Entrust, Inc., Hewlett Packard Development Company, L.P., IBM Corporation, Intel Corporation, Internet Security Systems, Inc., Macromedia, Inc., McAfee, Inc., Microsoft Corporation, Parametric Technology Corporation, RSA Security, Inc., SAP AG, SolidWorks Corporation, Sybase, Inc., Symantec Corporation, UGS Corporation, and VERITAS Software Corporation.

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I. STATEMENT OF COUNSEL UNDER FEDERAL CIRCUIT RULE 35(b)

Based on my professional judgment, I believe this appeal requires an answer to one or more precedent-setting questions of exceptional importance:

Whether export of one master disk containing software code is a "substantial portion of the components of a patented invention" pursuant to 35 U.S.C. § 271(f)(1) such that the company exporting the master disk may be liable for damages based on every copy made of the code that is incorporated into a computer and sold in a foreign country.

Janine A. Carlan
Counsel of Record for
The Business Software Alliance

II. INTRODUCTION

The Court's decision that software code is a "substantial portion of the components of a patented invention" pursuant to 35 U.S.C. § 271(f)(1) is flawed in that software code on a master disk is not within the language or purpose of 271(f). Furthermore, this decision subjects the entire United States software industry to monumental risk. The impact of the Court's opinion on the software industry will be extensive and harmful, as the industry is now at risk of liability and significant damages from the shipment of a single disk containing code to overseas original equipment manufacturers. Indeed, the industry may also be at risk for any transfer

of information outside of the United States. Thus, *amicus curiae*, the Business Software Alliance ("BSA"), requests this Court reconsider the issue.

III. GOLDEN MASTER DISKS DO NOT FALL WITHIN THE LANGUAGE OR THE PURPOSE OF SECTION 271(f)

A. Golden Master Disks are Not "Components" Because they are Templates that are Not Incorporated into Patented Inventions

Disks containing code, known as "golden master disks" are not "components" within the meaning of section 271(f). According to §271(f)(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 a manner as to actively induce the combination of such components outside 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). Unlike tangible items that are incorporated into a patented apparatus, software code on a golden master disk is akin to a template or blueprint that is never incorporated into any product. In fact, software is simply information, which can be described as a series of steps. Consequently, the master disk containing code – the item that is exported – never changes, is not within the end product, does not serve as a component of a patented invention, and thus does not fall under section 271(f).

B. Congress Enacted Section 271(f) to Eliminate the Ability of Infringers to Circumvent the United States Patent System, Not to Ensnare Companies That Transmit Know-How

Not surprisingly, nowhere in the legislative history of section 271(f) does

Congress specifically address whether sending golden master disks to foreign original equipment manufacturers would constitute infringement under 271(f). *See* Patent Law Amendments Act of 1984, 1984 U.S.C.C.A.N., at 5827. This Court, however, previously noted that the law stays true to its basic principles even when it addresses new concepts. *See e.g., AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352, 1356 (Fed. Cir. 1999). To that end, the basic principle underlying section 271(f) is to address blatant evasion of the United States patent laws, not the actions of companies exporting knowledge, instructions, or information overseas.

Congress enacted section 271(f) to specifically prohibit the situation that arose in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). In *Deepsouth* the accused infringer manufactured all the components to a patented device in the United States, but avoided infringement under section 271(a) by simply shipping the parts overseas and having them combined outside the United States. *Id.* at 523. As the dissent in *Deepsouth* remarked, such actions by the infringer were "iniquitous and evasive" by nature. *Id.* at 533-34.

Directly contrary to the "iniquitous and evasive" nature of the accused infringer in *Deepsouth*, software companies send *no* component that is directly incorporated into an infringing device, and in fact send only one disk that contains the original from which to make copies that are incorporated into a final product. Considering the global nature of the business world, the sending of master disks

overseas should not lead to liability because of an over broad and unjustified reading of 271(f), particularly in light of Congress' intent to address a particular infringement activity found in *Deepsouth*.

IV. THE COURT'S DECISION REGARDING THE SCOPE OF 35 U.S.C. § 271(f) LEADS TO POTENTIALLY DISASTROUS RESULTS FOR AN ENTIRE INDUSTRY

This Court held that software code on a disk is a "component" of a patented invention within the meaning of section 271(f), and that the production and distribution of copies of executable code outside the United States using a "golden master" disk obtained from the U.S. were properly included in the calculation of damages. Such expansion of the scope of Section 271(f) leads to uncertainty as to what will be considered "components" under the statute. In the face of potential severe economic damages, the software industry, and other industries as well, may have to face relocating research and development activities outside the U.S.

A. Court's Decision Regarding 271(f) Creates Confusion as to What Activities Will Be Captured by the Statute

1. The Court's Opinion Makes it Unclear Where to Draw the Line as to What Will Constitute Infringing Activity

The Court's conclusion that "section 271(f)(1)'s 'components' include software code on golden master disks" raises substantial questions. *See Eolas Technologies Inc. v. Microsoft Corp.*, ---- F.3d ----, 2005 WL 475391, at *14 (Fed. Cir. 2005). Indeed, the Court's ruling makes the reach of the statute *less* clear. For instance, it is well settled that shipment of machine parts for easy assembly into an

infringing machine overseas is a violation of 271(f). *See, e.g., Paper Converting Machine Co. v. Magna-Graphics Corp.*, 745 F.2d 11 (Fed. Cir. 1984). It is also generally recognized that 271(f) does not apply to design patents or pure method claims. *See, e.g., Standard Havens Products, Inc. v. Gencor Indus., Inc.*, 953 F.2d 1360 (Fed. Cir. 1991)(holding that 271(f) was not implicated in a method for producing asphalt); *Aerogroup Int'l., Inc. v. Marlboro Footworks, Ltd.*, 955 F. Supp. 220 (S.D.N.Y. 1997)(holding that 271(f) does not apply to design patent to a shoe sole, since it has no component parts).

But what is unclear after this Court's March 2, 2005 opinion is precisely what activities will trigger Section 271(f). The Court specifically states that the "components" include software code *on golden master disks* and that "this software code claimed in conjunction with a physical structure, such as a disk, fits within . . . the broad statutory label of 'patented invention.'" *Eolas Technologies*, 2005 WL 475391, at *12. The Court's language begs the question: Is it required that the software code is on a disk in order to create liability under section 271(f)? What if, instead of on disk, code is read over the phone to someone in China? Would this trigger section 271(f)? What if the code is sent via e-mail to a foreign company? Will the mere transfer of information or know-how be an infringing activity? As shown above, the Court's decision provides an ambiguous boundary with respect to the reach of 271(f), creates uncertainty within the software industry,

and causes hardship for companies that endeavor to minimize their exposure to risk.

2. The Court's Opinion Creates Liability without Limits

The Court's finding that a shipment overseas of a golden master disk containing code falls within section 271(f) imparts nearly limitless liability. Indeed, the *Eolas* decision transforms the standard of section 271(f) into one where sales of allegedly infringing articles in countries across the globe could be captured exclusively through a U.S. patent, even when the alleged "component" was one disk containing software code. For example, exporting a key piece a of machine that is a "component" under 271(f), such as an engine for a tractor, results in damages attributable to the one tractor in which the exported engine resides. On the other hand, exporting one golden master disk containing code, if it were to be considered a "component" under 271(f), could create infinite liability since the code is infinitely reproducible. Contrary to other cases imparting liability under section 271(f), in the case of software, there is no correlation between the number of articles exported to a foreign country (in this case, one master disk) and the number of units sold. In further contrast to the cases that do not involve software, in this case the alleged "component" -- the golden master disk -- is never sold in the final product. Unlike other products, where the end product is limited by factors such as production capability, supply, resources, labor, and raw materials,

software is not hampered by such constraints. Indeed, millions of copies of software can be made in a short amount of time with few resources. Thus, the Court's opinion that the copies made from the one "component" exported from the United States are considered under section 271(f) subjects the software industry to virtually unlimited liability.

B. The Court's Decision Regarding Section 271(f) Puts the Software Industry and Other Development-Oriented Industries At Risk

Amicus curiae urges the Court to rehear the case *en banc*, in light of the panel's decision's likely harmful impact on industry in the United States. In particular, the software industry, which is a tremendous resource for this country, faces risk in light of the ruling unless it significantly changes the way it does business. Moreover, other research and knowledge-based industries are also potentially at risk under the Court's application of section 271(f).

1. U.S. Software Developers are Now at Risk

a. The *Eolas* Decision Significantly Increases Risks for U.S. Software Producers

Under the Court's ruling, the export of one copy of code on a disk from the United States will translate into damages based on all foreign activities involving the code. As shown in the *Eolas* case, the scope of these damages is astronomical, because the courts will include each foreign-made unit in an accounting. *See Eolas Technologies*, 2005 WL 475391, at *4 (noting that the jury included foreign sales of the computer code in arriving at a total award of $520,562,280). Because

section 271(f) would apply to software developed in the U.S. and shipped overseas, U.S. companies may well have no reasonable alternative, and may be forced to relocate software development outside of the United States.

b. The Impact on the U.S. Industry Could be Devastating

The software industry is an extremely important part of the United States economy. Should the *Eolas* decision stand and software companies relocate their development overseas, there would be a tremendous loss of jobs, tax revenues, and export revenues. In the United States, the computer market is substantial; the packaged software industry is a $190 billion industry (according to GDP measures), and it is overwhelmingly American-created and American-owned. *See* U.S. Department of Commerce, *Gross Domestic Product and Related Measures: Level and Change From Preceding Period*, 2/25/05. The computer design and software industry employed hundreds of thousands of workers in the U.S. and those numbers are growing.[1] *See* U.S. Bureau of Labor Statistics, *Occupational Employment and Wages*, November 2003 at http://stats.bls.gov/oes/current/oes150000.htm. The BSA member companies, who represent only part of the industry, spent, on average, 18.3% of their revenues on

[1] Employee growth of BSA companies is up 2.1% from the prior reporting period, which was 12/31/03 for all BSA companies except Apple Computer, Inc. (9/25/04), Hewlett Packard Co. (10/31/03), and Adobe Systems, Inc. (11/28/03).

research and development ("R&D").[2] For a number of the member companies, this figure is even higher, representing some of the highest rates of R&D investment of any sector of the U.S. economy. Indeed, BSA member companies spent a combined $27.3 billion on R&D in the most recent filing period, up 10.0% over the prior period.[3] Total state and federal income taxes collected on software industry wages in 2002 was a significant $24.8 billion. *See* Nathan Associates Inc., *Software and the U.S. Economy in 2002* at 9 (1/31/03), at http://www.bsa.org/usa/research/. If the software industry is forced to move its development overseas in response to the Court's ruling, the U.S. economy and numerous Americans will feel the detrimental effects. Thus, where Congress intended to encourage manufacturing in the United States by enacting section

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[2] This number represents the average percentage of revenues that publicly traded BSA Worldwide member companies spent on R&D according to the latest SEC 10-K filings as of 12/20/04. BSA Worldwide member companies and their associated 10-K release dates used in this calculation include: Adobe Systems (12/3/04), Apple Computer (9/25/04), Autodesk (1/31/04), Avid Technology (12/31/03), Borland Software (12/31/03), Internet Security Sys. (12/31/03), Macromedia (3/31/04), McAfee (12/31/03), Microsoft (6/31/04), Sybase (12/31/03), Symantec (3/31/04), and VERITAS Software (12/31/03).

[3] This number represents the combined total R&D expenditure of publicly traded BSA Worldwide and Policy Council companies, according to the latest SEC 10-K filings as of 12/20/04. BSA member companies and their associated 10-K release dates used in this calculation include: Adobe Systems (12/3/04), Apple Computer (9/25/04), Autodesk (1/31/04), Avid Technology (12/31/03), Borland Software (12/31/03), Cisco Systems (9/20/04), Dell (4/12/04), Entrust (3/15/04), Hewlett Packard (1/20/04), IBM (3/8/04), Intel (2/24/04), Internet Security Sys. (12/31/03), Macromedia (3/31/04), McAfee (12/31/03), Microsoft (6/31/04), RSA Security (3/8/04), Sybase (12/31/03), Symantec (3/31/04), and VERITAS Software (12/31/03).

271(f), the end result, after the *Eolas* decision, may well be that U.S. research and development jobs will be lost and relocated to foreign countries. *See* H.R. 6286, "Patent Law Amendments Act of 1984," Congressional Record, Oct. 1, 1984, H10525-26.

2. The Lack of Clarity as to Exact Scope of 271(f) Creates Uncertainty for other Industries

The potential impact of the court's decision extends beyond the software industry. If the Court's ruling means that the transfer of information or "know-how" is an infringing activity under 271(f), any "export" of knowledge will subject the exporter to damages. Indeed, an engineer sending design specifications to a manufacturer overseas could subject his company to liability. Consequently, other industries may find it best to move its knowledge-workers out of the U.S. to be safe from liability and enormous damages.

V. CONCLUSION

A golden master disk is not a "component" within the meaning of section 271(f), as it is never incorporated into the final product, but if it were to be included in the calculation of damages, it should be treated as any other product, which would mean it is a single item exported from the United States. For the reasons set forth above, this amicus curiae requests rehearing of the decision regarding 35 U.S.C. § 271(f).

Respectfully submitted,

By: _____

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Dated: March 16, 2005

CERTIFICATE OF SERVICE

The undersigned certifies that on March 16, 2005 two copies of the foregoing **BRIEF OF AMICUS CURIAE, THE BUSINESS SOFTWARE ALLIANCE ("BSA"), IN SUPPORT OF COMBINED PETITION FOR REHEARING AND REHEARING EN BANC OF DEFENDANT-APPELLANT MICROSOFT CORPORATION** were served via first class mail upon counsel for Appellant and Appellee addressed as follows:

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