

04-1234

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 AMICI CURIAE AMERICA ONLINE, INC. AND INTEL
CORPORATION IN SUPPORT OF COMBINED PETITION FOR PANEL
REHEARING AND REHEARING EN BANC BY DEFENDANT-APPELLANT**

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March 24, 2005

CERTIFICATE OF INTEREST

Counsel for *Amici Curiae* America Online, Inc. and Intel Corporation
certifies the following:

The full name of every party or *amicus* represented by me is: America Online, Inc.
and Intel Corporation.

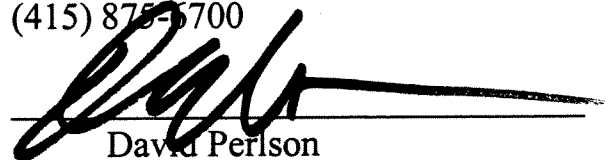
1. The name of the real party in interest (if the party named in the
caption is not the real party in interest) represented by me is: None.

2. All parent corporations and any publicly held companies that own 10
percent or more of the stock of the parties or *amicus curiae* represented by me are:
Time Warner, Inc. (only as to America Online, Inc.).

3. The names of all law firms and the partners or associates that
appeared for the *amici* now represented by me in the trial court or are expected to
appear in this Court are:

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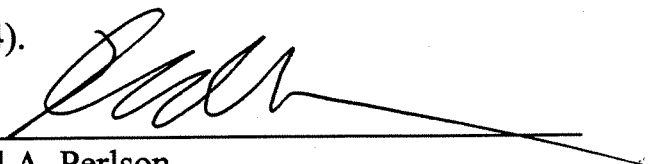
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STATEMENT OF COUNSEL

Based on my professional judgment, I believe that this case requires an answer to the following precedent-setting question of exceptional importance: (1) Whether a U.S. software company provides “components” for “combination” abroad under 35 U.S.C. § 271(f) by sending disks containing software code to foreign computer manufacturers, when neither the disk nor any physical part of it becomes a physical part of any foreign-made product?

Based on my professional judgment, I believe the panel decision is contrary to the following decision of this Court: *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113 (Fed. Cir. 2004).



David A. Perlson
Counsel for American Online, Inc.
and Intel Corporation

STATEMENT OF IDENTITY OF INTEREST OF AMICI CURIAE

Amicus curiae American Online, Inc. ("AOL") is the world's leader in interactive services, Web brands, Internet technologies and e-commerce services. AOL's offerings include such well-known software products as the Netscape and AOL browsers, the Winamp media player, the Tegic T9 mobile text system, the ICQ and AIM instant messaging products, as well as the AOL, Compuserve and Netscape branded client software used for accessing the largest online services community in the world. AOL's various software products are distributed and used in over 20 countries and compete with local software and service offerings in each of those markets. AOL employs software engineers in the United States who develop innovative software solutions for use around the world. It exports software code developed in the U.S. that is replicated overseas for use in foreign-made computer systems. Moreover, software developed by AOL is distributed worldwide through the Internet and in compact discs and other media. AOL has been, in the past, and may be in the future, accused of patent infringement based on the distribution of software.

Amicus curiae Intel Corporation ("Intel") is the world's largest chip maker, and supplies the computing and communications industries world-wide with chips, boards, systems, and software building blocks that are the "ingredients" used by industry members to create advanced computing and communications systems.

Intel exports products that are developed in the U.S. and that are replicated for use in foreign-made computer systems.

Amici's interest is in a rehearing and rehearing *en banc* of the panel's improper extension of 35 U.S.C. § 271(f) to cover the export of information such as software code. Like other U.S. companies, the *amici* who seek to submit their brief have organized their operations in reliance on an established framework of statutes and case law which do not support an extension of § 271(f) to cover information such as intangible software code designed and developed domestically, but manufactured abroad. The location of these design and development operations in the U.S., even for products destined for foreign markets, has created hundreds of thousands of jobs in the U.S.

The panel's expansion of this statute would place a significant burden on U.S. based research and development, and the livelihood of those whose trade is the exchange of information. As such, the *amici* are compelled to submit a brief in support of the Combined Petition of Microsoft Corporation for Rehearing and Rehearing *En Banc*.

INTRODUCTION

The panel acknowledges that Congress wrote section 271(f) solely to close a loophole in section 271(a) as to the export of unassembled "components" of a patented invention for assembly outside the U.S. The legislative history and the

case law of this Court confirm that Congress meant exactly what it said when it carefully worded the statute to cover only the components of each specific infringing combination that are manufactured in the U.S. The panel, however, misconstrued this legislative history and case law. Instead, it found that components are not limited to physical components, but include intangible software code.

Although the Court characterizes its result as eliminating discrimination based on technology, it actually has created discrimination against software and other companies whose trade is largely dependent on information and innovation. Unlike traditional manufacturing companies for whom the exportation of one physical component would necessarily result in damages associated with the assembly of one infringing device abroad, under the panel's interpretation of section 271(f), software companies now face the potential of damages for millions of infringing devices—manufactured entirely outside the United States—for exportation of one disk that has written on it intangible software code. The negative impact of this discrimination on such companies cannot be understated. There should be a rehearing or a rehearing *en banc* to consider this issue, which will no doubt have a wide-reaching effect on whether U.S. software producers will continue to focus their investments on domestic software programming.

**ARGUMENT IN SUPPORT OF PANEL REHEARING
AND REHEARING EN BANC**

**I. The Panel's Application of § 271(f) Cannot Be Reconciled with
Pellegrini and Prior U.S. Patent Law.**

The Courts have repeatedly confirmed that U.S. patent law is not implicated unless infringing acts occur in the U.S. *See, e.g., Rotec*, 215 F.3d at 1251. *See also Windsurfing Int'l, Inc. v. Ostermann GmbH*, 668 F. Supp. 812 (S.D.N.Y. 1987); *Enpat, Inc. v. Microsoft Corp.*, 6 F. Supp. 2d 537, 539 (E.D. Va. 1998).¹ This was confirmed recently in *Pellegrini v. Analog Devices, Inc.*, 375 F. 3d 1113 (Fed. Cir. 2004). As the panel correctly points out, “[i]n *Pellegrini*, this court held that section 271(f) did not apply to components manufactured outside the United States and never physically shipped to or from the United States.” (Op. 26) (citing *Pellegrini*, 375 F.3d at 1118). The panel, however, concludes—without explanation—that *Pellegrini* does not hold that a component must be “tangible.” Instead, the panel states that “*Pellegrini* requires only that components are

¹ In support of its construction of section 271(f), the panel cites Alan M. Fisch & Brent H. Allen, *The Application of Domestic Patent Law to Exported Software*: 35 *U.S.C. § 271(f)*, 25 *U. Pa. J. Int'l Econ. L.* 557, 575 (2004). It cites page 575 of this article for the proposition that “the language of section 271(f) does not impose a requirement of ‘tangibility’ on any component of a patented invention.” (Op. 25). There is no such statement at the cited page of Fisch. Instead, this page actually discusses similar arguments made by the *amici* and Microsoft, that “The Definition of the Word ‘Component in § 271 Logically Cannot Encompass Computer Software.” Fisch, at 575. Notably, the cited article is written by attorneys who, in another matter, represented a plaintiff against Defendant-Appellant Microsoft on the very issue concerning section 271(f) before the Court.

physically supplied from the United States.”² (Op. 26). The panel’s conclusion is incorrect.

Presumably the panel found the software code in this case fit within *Pellegrini* because it was “physically supplied” on a golden master disk. Thus, liability existed because the intangible code was delivered in a “tangible” disk from which the code was copied onto foreign-made computers.

This reliance on the physical supply of intangible code on a disk would lead to absurd and unintended results. For example, if a programmer in the U.S. emailed or streamed intangible software code over the Internet to a recipient abroad he would not have “physically supplied” any component. Similarly, a programmer in the U.S. who read software code over the telephone to someone abroad would not have violated section 271(f) because there would be no physical supply of the intangible software code abroad.

Yet, if that same programmer possessed the intangible software code in his human memory and went abroad to key in that code to foreign-made computers, under the panel’s reasoning, would that be a physical shipment such that section 271(f) liability would attach? Obviously, that scenario is not within the

² The panel also states “this court in *Pellegrini* did not address the meaning of the ‘components’ language in section 271(f).” (Op. 25-26). While the word “component” may not have been explicitly at issue in *Pellegrini*, an interpretation of this term is at least implicit. For a component to be “physically supplied from the United States,” it necessarily must be “tangible.”

requirements of *Pellegrini* or the intended scope of section 271(f). Neither is the shipment of intangible software code on a golden master disk to be copied onto foreign-made computers. The potential for differing liability under these scenarios makes no sense and could not possibly have been intended by Congress. Again, section 271(f) was passed to close a loophole, not create another one.

Further, as the panel recognizes (Op. 26), “instructions” were specifically held not to be components in *Pellegrini*. *Id.* (“[s]uppl[ying] or caus[ing] to be supplied’ in § 271(f)(2) clearly refers to physical supply of components, not simply to the supply of instructions or corporate oversight.”). Software code, however, is instructions for computers. Indeed, as observed by Microsoft in its Petition, “software code” is “merely a set of instructions capable of being executed by a computer.” Manual of Patent Examining Procedure § 2106(IV)(B)(1)(a) at 2100-13 (8th ed. 2d rev. 2004); see also 17 U.S.C. § 101. Again, the panel simply ignores this inconsistency.

II. The Panel’s Construction of Section 271(f) Cannot Be Reconciled With The Loophole-Closing Motivation that led to the Statute.

The panel concludes that the legislative history of § 271(f) supports its finding that intangibles may be components under § 271(f). (Op. 24-25). No reasoning is provided for this conclusion. There can be none. The legislative history confirms that Congress intended section 271(f) to apply only to physical components of an invention supplied in or from the U.S.

For example, as the panel correctly notes, Congress enacted § 271(f) in reaction to *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). Contrary to the panel's conclusion, however, this fact does not support its interpretation of 271(f). Instead, it commands the opposite conclusion. *Deepsouth* was a patent infringement case involving a machine for deveining shrimp. *Id.* at 520-22. The dissent of Justice Blackmun that anticipated the carefully crafted language of section 271(f) criticized the patent statute for creating a loophole that would deny the patentee protection against the defendant's "manufacture and assembly when the mere assembly is effected abroad," "even though every part is made [in the U.S.] and [the defendant] ships all the parts in response to an order from abroad." *Id.* at 532. Justice Blackmun was clear that his concern extended only to parts manufactured in the U.S. 406 U.S. at 533 ("The situation, perhaps, would be different were parts, or even only one vital part, manufactured abroad. Here everything was accomplished in this country except putting the pieces together as directed."). This narrow loophole flagged in *Deepsouth* solely in terms of "assembly" of "parts" and "pieces" suggests that it was directed to physical components, rather than intangible code as the panel suggests.

Similarly, the quotes from Congress that the panel contends—again without explanation—support of its construction of § 271(f) also do not support its conclusion. For example, the panel quotes certain comments from Representative

Kastemeier in the legislative history. (Op. 24-25) (Citing 130 Cong. Rec. H10525 (1984). Again, however, the language Representative Kastemeier used regarding “assembly” of components suggests that Congress was concerned with the shipment of physical components, not intangibles. At the time, Congress certainly knew that domestically created software code may be used to manufacture products abroad that would otherwise infringe U.S. patents manufactured in the U.S. Yet neither the statute nor legislative history says anything about such conduct. This silence strongly suggests such conduct was simply not within the intended scope of section 271(f). The panel erred finding otherwise.

III. The Panel’s Application of § 271 (f) Unfairly Discriminates Against Industries That Trade in Information or Knowledge.

The panel cites the TRIPS Agreement, Part II, Section 5 (1994), for its statement that “[p]atents shall be available and patent rights enjoyable without discrimination as to . . . the field of technology.” (Op. 23) (emphasis added). Unfortunately, the panel’s ruling will create the very discrimination it sought to avoid.

As applied to a traditional manufactured good, the test for liability under § 271(f) has been the location of manufacture of the physical item, without regard to the location of its design and development or the relative ease of its manufacture. *See, e.g., Rotec* (focusing exclusively on location of manufacture of components regardless of where they were designed or significance of

manufacturing process). The panel appears to have concluded that because of the perceived insignificance of the manufacturing process of copying code from a golden master it should not focus on the location of manufacture of the physical product. Instead, the panel focused on the perceived importance of the code to the final product. Software and the other industries trading in information, however, should not be subjected to a special test. If the test for liability under § 271(f) for traditional manufactured goods is the location of manufacture of the physical parts of each infringing product, then the same test must be applied to all industries.

The panel's construction of section 271(f) will also result in grossly disproportionate damages for companies engaged in the trade of information. For example, a company engaged in the manufacture of traditional manufactured goods physical components that exports a single component for assembly in an infringing device abroad generates a single act of infringement. The damages would be calculated based on the supplying of that one component made in the United States and for one final product assembled abroad.

The panel's construction of section 271(f) does not similarly limit damages for companies that develop software. Instead, under the panel's construction, one act performed in the United States of supplying a golden master disk abroad may result in damages based on each of innumerable final products being made entirely outside the United States. It could potentially even extend to unlicensed versions

of that software for which the software company does not even receive revenue. Not only is this manifestly unfair, but it also gives section 271(f) extraterritorial effect far beyond the stated intent to close the narrow loophole identified in *Deepsouth*.

Finally, the panel's decision profoundly discriminates against U.S. software companies compared to their foreign competitors. Its decision will make U.S. software companies liable for patent infringement anywhere in the world—no matter where their software is installed or copied. Foreign software companies, in contrast, will only be liable where manufacture or use actually takes place. Surely Congress did not intend to force U.S. companies to outsource their software development to other countries just to find a level playing field.

CONCLUSION

The *Amici* respectfully submit that, for the foregoing reasons, a rehearing or rehearing en banc should be granted to address the panel's incorrect construction of § 271(f).

DATED: March 24, 2005

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Charles K. Verhoeven', written over a horizontal line.

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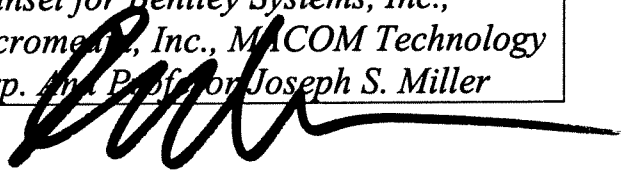
Attorneys for *Amici Curiae* America

Online, Inc., and Intel Corporation

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on March 24, 2005, two true and correct copies of the foregoing **BRIEF OF AMICI CURIAE AMERICA ONLINE, INC. AND INTEL CORPORATION IN SUPPORT OF COMBINED PETITION FOR PANEL REHEARING AND REHEARING EN BANC BY DEFENDANT-APPELLANT** were served by Federal Express overnight delivery upon counsel for Appellant and Appellee addressed as follows:

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