Appeal No. 04-1234

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IN THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

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

*Plaintiffs-Appellees,*

v.

MICROSOFT CORPORATION,

*Defendant-Appellant.*

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Appeal from the United States District Court for the Northern District of Illinois
in case no. 99-CV-626, Judge James B. Zagel

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# COMBINED PETITION OF MICROSOFT CORPORATION FOR REHEARING AND REHEARING *EN BANC*

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## CERTIFICATE OF INTEREST

Counsel for Defendant-Appellant Microsoft Corporation certifies the following:

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

Microsoft Corporation.

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

Same as stated in paragraph 1.

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.

4. X There is no such corporation as listed in paragraph 3.

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

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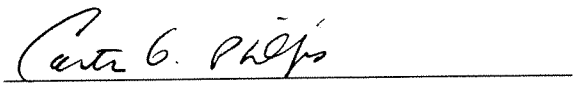

Carter G. Phillips

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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 questions 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? (2) Whether a claim term that has no customary meaning in the art is to be defined in accordance with the specification and prosecution history or is presumed to have some independent meaning that can be narrowed only if clearly disclaimed?

Based on my professional judgment, I believe the panel decision is contrary to the following decisions of this Court: *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113 (Fed. Cir. 2004), and *Irdeto Access, Inc. v. Echostar Satellite Corp.*, 383 F.3d 1295 (Fed. Cir. 2004).

Carter G. Phillips
Counsel for Microsoft Corporation

## I. INTRODUCTION TO THE POINTS OF LAW MISAPPREHENDED BY THE PANEL.

The panel opinion makes two errors of law, both of which concern matters of substantial importance and are contrary to recent decisions of this Court. First, the panel broadly construed 35 U.S.C. § 271(f) to hold a U.S. company liable for

patent infringement when the U.S. company supplied nothing more than a single physical item which reflects design information that a foreign manufacturer uses to make and then sell, outside the U.S., thousands of units of a product allegedly covered by a U.S. patent. This construction is contrary to *Pellegrini*, which construed § 271(f) to require the export from the U.S. of an actual physical part of the foreign-made product. The panel's reading greatly expands the extraterritorial application of U.S. patent law, intruding upon the sovereign rights of other nations, obviating the need to secure foreign patent protection, and placing U.S. companies at a disadvantage with respect to their foreign counterparts.

Second, while concluding that the claim term "executable application" lacks any customary meaning in the art, the panel assigned that term the broadest possible meaning, looking to the specification and prosecution history only to determine whether they clearly disclaimed that broad meaning rather than to discern the proper definition. The panel's new claim construction rule is contrary to *Irdeto Access* and will expand the scope of claim terms far beyond what is properly encompassed by the patent.

## II. STATEMENT OF THE CASE

Respondents sued Microsoft, alleging that Microsoft's Windows with Internet Explorer® infringes claims 1 and 6 of U.S. Patent No. 5,838,906 ("the '906 patent"). The patent claims a computer program product and method of using

computers by which users may interact with particular objects, such as animations, embedded in Web pages. A jury returned a verdict in respondents' favor awarding damages in excess of $520,000,000. Two legal rulings are at issue in this petition.[1]

First, over 64% of the damages were attributable to computers made, sold, and used entirely in foreign countries. The district court concluded that Microsoft could be liable for such foreign computer sales because the software code that was installed in each foreign-made computer had been copied from a master program developed in the U.S. and recorded onto a "golden master" disk. No physical part of this "golden master" disk is incorporated into the foreign-made computers, and the disk is unchanged by the process of copying the code onto those computers. Nonetheless, the district court held that by providing the disk, Microsoft had supplied a "component" of the patented invention from the U.S., and that each subsequent installation of the Windows code on a foreign computer was a "combination" of components outside the U.S. within the meaning of § 271(f).

Second, the claims require that an "executable application" display an embedded data object. Microsoft argued that an "executable application" had to be able to run, or execute, independently of other programs, while Eolas argued that

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[1] The panel vacated the judgment and remanded for new trial because the trial court had erroneously prevented Microsoft from presenting evidence concerning a potentially invalidating prior art browser called Viola.WWW. Nonetheless, the panel ruled against Microsoft on the two issues discussed below.

the phrase included both such "standalone" applications and programs that could be executed only as part of an already-executed application ("DLLs"). The panel concluded that the phrase has no customary meaning in the art (Op. 18), but then refused to consult the specification and prosecution history for evidence of its meaning, and instead *assumed* the meaning advocated by Eolas and looked to the intrinsic evidence only for a clear disclaimer of that meaning. Thus, despite the absence of any support in the claim language, the specification's reference only to standalone applications, and the applicants' prosecution arguments that certain prior art was distinguishable because it used DLLs rather than standalone applications, the panel accepted Eolas's construction.

## III. ARGUMENT

### A. The Panel Misread § 271(f) Effectively To Swallow The Rule Against The Extraterritorial Application Of U.S. Patent Law.

The panel erroneously held that the software code reflected in the physical structure — the pits and lands — of Microsoft's "golden master" disk is, under § 271(f), a "substantial component" of the foreign computers that allegedly infringe the '906 patent, even though neither the disk nor any of its pits and lands becomes a part of any such computer.

"Software code," as such, 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.

This "set of instructions" is no different than any other set of (design) instructions that is necessarily incorporated into *any* other product.[2] Thus, the consequences that follow from the panel's decision are staggering: anyone who supplies design information from the U.S. is liable for *all* "infringing" products made anywhere in the world using that information. Such a worldwide extension of U.S. patent law is not authorized by the language of § 271(f), was not intended by Congress, and is contrary to settled law and sound policy.

### 1. Software Code Is Design Information.

A designer of computer software proceeds like any other designer. A designer begins with an idea. The software designer imagines what he wants a computer to be able to do (*e.g.*, perform as a simple calculator). Likewise, a tire designer imagines what he wants a tire to 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

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[2] Section 271(f) premises liability on, *inter alia*, "the combination" of the components outside the U.S. The panel opinion, without discussion, treated the "incorporat[ion]" of software code onto the hard drives of the foreign computers as such a "combination." (Op. 23.) It is not. Software code is *reproduced* using the golden master, with each new copy installed on hard drives; it is not *combined* with them.

that calculations are performed and their results displayed. *See In re Alappat*, 33 F.3d 1526, 1545 (Fed. Cir. 1994) (a computer program "creates a new machine" by physically transforming "a general purpose computer" into "a special purpose computer"); *In re Noll*, 545 F.2d 141, 148 (CCPA 1976) (a programmed computer "comprises physical structure, including storage devices and electrical components uniquely configured to perform specified functions through physical properties of electrical circuits to achieve controlled results.").

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 produce a drawing of how the microprocessor's switches should be arranged. Modern microprocessors, with millions of switches, are too complex for that. So the software designer expresses processor design instructions in a standard computer language. This expression is called "source code." (Tr. 887-88.) The source code is passed through a "compiler," which produces the equivalent of a tire mold: the computer readable object code. (Tr. 892-94.) Then, just as a tire-making machine would take the mold and shape the rubber into tires, a general purpose computer will take the object code and rearrange its processor's switches to produce a special purpose

(calculating) computer. *See* R. White, *How Computers Work* 52-57, 68-72 (7th ed. 2004). There is only a cosmetic difference between the tire-making and calculating-computer-making processes: executing the software designer's design instructions is more automated and less visible. In substance, they are the same.

The panel held that the "software code" is "incorporated as an operating element of the ultimate device." (Op. 23.) To the extent that is true, it is only because "software code" is, as just described, a set of instructions for configuring a computer's processor to perform as desired.[3] The panel failed to appreciate that it is equally true that the tire's design instructions are "incorporated as an operating element of the" tire. The tread shape and depth — the "operating elements" of the tire — reflect the tire's design instructions just as the processor's rearranged switches — the operating elements of the special purpose computer — reflect the design instructions of the software code.

The panel emphasized that "the software code on the golden master disk is ... probably the key part of this patented invention." (Op. 23.) However true that

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[3] Software code in computer readable form (*e.g.*, a disk) may be patentable because it can interact with a general purpose computer to rearrange its processor's switches and transform the computer into a special purpose computer. *In re Beauregard*, 55 F.3d 1583, 1584 (Fed. Cir. 1995). But this case is not about whether computer readable software is patentable. The question here is whether the design *information* embodied on the disk is a "component" of a computer which has had its processor's switches rearranged according to that design. The disk itself does not become a part of any foreign computer, and its physical structure, which reflects the software code, remains unchanged.

may be, it is equally true for the design instructions for *any* other product. Every patented product 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 panel 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 is the "key" to that invention. That is as true of tires as it is of programmed computers.

Software-related patents are not given special treatment. (Op. 23 ("this court accords the same treatment to all forms of invention").) If § 271(f) applies when software code from the U.S. is used to make programmed computers elsewhere in the world, then § 271(f) applies whenever design instructions from the U.S. are used to make *any* product outside the U.S.

### 2. The Panel's Reasoning Produces A Broad Extraterritorial Expansion of U.S. Patent Law.

The disruptive reach of the panel's decision cannot be overstated. The Supreme Court has long recognized that, as a general matter, U.S. patent law does not have extraterritorial effect. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972); *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915). The presumption against extraterritoriality serves to "avoid unreasonable interference with the sovereign authority of other nations." *F. Hoffmann-La Roche, Ltd. v. Empagran S.A.*, 124 S. Ct. 2359, 2366 (2004). It is

particularly intrusive upon a nation's sovereign authority to apply U.S. patent law to prohibit or restrict the manufacture and sale of goods there,[4] even if the U.S. patentholder has not secured or could not secure patent protection in that nation.

Yet that is how the panel reads § 271(f). The panel's interpretation threatens any person who exports design information concerning a patented product with massive infringement liability. The panel thus cuts off the flow of design information from the place where it can most easily be obtained: the U.S. Even nations that have refused patent protection for the product will be deprived of the information needed to make it. Were other nations to adopt similar rules, the cross-border flow of valuable information could substantially diminish.

Further, under the panel's reasoning, the potential exposure for U.S. companies that do business overseas has grown enormously. If a U.S.-based firm were to run afoul of some unknown patent, it, unlike its foreign counterparts,

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[4] The panel concluded that § 271(f) liability can also be asserted for process patents (Op. 22-24), even though Eolas did not assert infringement of the process claim under § 271(f) (*see* Tr. 3239), and expressly disavowed any such claim during oral argument before this Court. Numerous courts, including this Court, have stated that § 271(f) does not apply to process patents. *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 953 F.2d 1360, 1374 (Fed. Cir. 1991) (concluding that sale to a foreign customer of a machine that uses a patented method does not "implicate[]" § 271(f)); *Synaptic Pharm. Corp. v. MDS Panlabs, Inc.*, 265 F. Supp. 2d 452, 464 (D.N.J. 2002) (citing cases). The panel's conclusion also raises a host of questions regarding how one "supplies" a "component" of a process patent. Are scientists liable for describing a step in a claimed process on the phone or in an email to a foreign colleague, who then performs the process overseas?

would face patent liability for worldwide sales. The rule thus provides a financial incentive for domestic firms to move their knowledge-based operations overseas to limit their potential exposure and gain parity with foreign competitors. Given the potential of the panel's broad ruling to disrupt the business decisions and plans of domestic companies, this Court should re-examine that ruling.

### 3. None Of The Traditional Rules Of Statutory Construction Supports The Panel's Expansive Construction.

Ordinarily, statutes are 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). Courts do not read statutes fundamentally to change a statutory framework absent some clear indication of congressional intent. *Dewsnup v. Timm*, 502 U.S. 410, 419 (1992). Yet the panel has chosen an interpretation of § 271(f) that, as described above, is dramatically out of step with, and fundamentally alters, the rule against extraterritorial application of U.S. patent law in the absence of *any* indication of congressional intent to do so. To the contrary, all indications point to a very limited exception to that rule, an exception carefully designed to address a specific problem.

As the panel recognized, Congress enacted § 271(f) to close a loophole identified by *Deepsouth Packing*, 406 U.S. 518. (Op. 24-25.) In *Deepsouth*, the Supreme Court held that it was not patent infringement for the defendant to manufacture all the components of a patented shrimp deveining machine in the

U.S., but ship them abroad for assembly, even though the assembled machine would have infringed, had assembly taken place in the U.S. *Id.* at 523-26.

Congress closed this loophole by making 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 a manner as to actively induce the combination of such components outside the United States" (as in *Deepsouth*) "in a manner that would infringe the patent if such combination occurred in the United States" (as in *Deepsouth*). It is difficult to imagine statutory language more closely tied to the situation at issue in *Deepsouth*.

The panel's interpretation, however, extends much further than necessary to close the *Deepsouth* loophole. The panel permits the patentholder to recover not only for each foreign *assembled* product made with parts supplied from the U.S., but also for any *additional* units made entirely with foreign parts, using the *information* derived from the first unit made with U.S.-supplied parts. By reading the word "components" in § 271(f) to include such product design information, the panel has divorced the statute from the problem it was designed to address.

Were such a reading *compelled* by the text, the legally disruptive effect discussed above might be unavoidable. But that is far from the case. First, as a matter of ordinary English usage, one does not typically speak of design information as a "component" of the product made according to that design.

Likewise, one does not typically speak of the assembly process as a "combination" of the design information and the tangible parts of the product. Yet these odd usages are what the panel concluded Congress intended. Statutory terms should be given their "ordinary or natural meaning." *FDIC v. Meyer*, 510 U.S. 471, 476 (1994). It is particularly inappropriate to construe a patent statute unnaturally and *expansively*, especially when the expansion makes the limit of the patent right difficult to define. Congress is far better suited to draw the lines that must be drawn if the export of design information is to be infringement. *See Bayer AG v. Housey Pharms., Inc.*, 340 F.3d 1367, 1376-77 (Fed. Cir. 2003).

Second, this Court has already indicated that § 271(f) should apply only to the export of tangible components. In *Pellegrini*, 375 F.3d 1113, this Court confronted the following question: "whether components that are manufactured outside the United States and never physically shipped to or from the United States" nonetheless can be the basis of infringement under § 271(f) "if those components are designed within the United States and the instructions for their manufacture and disposition are transmitted from within the United States." *Id.* at 1115. This Court concluded that § 271(f) "applies only where components of a patent invention are *physically* present in the United States and then ... exported." *Id.* at 1117 (emphasis added). Put simply, *Pellegrini* held, contrary to the panel here, that § 271(f) liability cannot be based on the export of instructional design

information in any form because no physical parts of the foreign manufactured device were ever present in this country. The panel found that *Pellegrini* is inapplicable, but only because the panel ignored the language quoted above.[5]

*Pellegrini*'s analysis is confirmed by this Court's interpretation of § 271(f)'s companion provision, § 271(g). This Court has made clear that "component" in § 271(g) refers to tangible things, not ideas or information. *Bayer*, 340 F.3d at 1373 ("trivial and nonessential component" in § 271(g) refers to "a physical product," not information). "[I]dentical words used in different parts of the same act are intended to have the same meaning." *Gustafson v. Alloyd Co.*, 513 U.S. 561, 570 (1995).

### B. The Panel Defined A Claim Term That Lacks A Customary Meaning In The Art Without Regard For The Intrinsic Patent Record.

This Court recently reaffirmed that where a claim term has no customary meaning in the relevant art, that term may be construed "only as broadly as provided for by the patent itself." *Irdeto Access*, 383 F.3d at 1300. In such a case, the "heavy presumption" in favor of "ordinary meaning" cannot arise — because there is no ordinary meaning. Thus, the rule that a departure from "ordinary

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[5] The panel never explains what *Pellegrini* might have meant when it predicated § 271(f) liability on "components of a patent invention [being] *physically* present in the United States," *id.* at 1117, if it does not mean that § 271(f) applies only to the export of *physical* components of a patented invention. (Op. 25-26.)

meaning" requires a clear disclaimer likewise cannot apply. *Id.* at 1300, 1302-03. Rather, the scope of the claim term is controlled by the intrinsic evidence. *Id.* at 1300-03. And that evidence will control even where an explicit definition is not provided, for use of a term "in a manner consistent with only a single meaning" defines the term by implication. *Bell Atlantic Network Servs., Inc. v. Covad Comms. Group, Inc.*, 262 F.3d 1258, 1271 (Fed. Cir. 2001); *see also Irdeto Access*, 383 F.3d at 1300, 1301-02.

The panel's construction of "executable application" deviated sharply from these principles. The panel found that "executable application" "does not have a customary meaning in the computer science field." (Op. 18.) According to the panel, the absence of such customary meaning presumptively establishes the broadest possible scope without reference to the intrinsic evidence. (*Id.*) Thus, the panel did not examine the specification and prosecution history for evidence of the claims' meaning[6]; it looked only for evidence of a disclaimer of the presumed, but unsupported, expansive meaning. (Op. 18-20.) The embodiments and description in the specification refer only to standalone applications (Op. 17-18), and the prosecution history shows the applicants' effort to distinguish prior art browsers

[6] The panel concluded that the district court "correctly gleaned the proper definition from the intrinsic evidence" (Op. 20), but that statement followed two pages of analysis in which the panel indicated that the intrinsic evidence should be examined for any clear disclaimer of Eolas's construction.

that invoke DLLs (Op. 19-20). But because these were not deemed "clear disclaimers" by the panel, they were irrelevant to the claim construction.

The panel's approach distorts the claim construction process. It makes no sense to look for an affirmative disclaimer of a meaning that does not emerge from the claim language itself and finds no support in the intrinsic evidence. This Court should grant rehearing to confirm that where, as here, a claim term lacks a customary meaning, the intrinsic evidence should be searched for a definition, not a disclaimer. *See Irdeto Access*, 383 F.3d at 1300-03.[7]

## CONCLUSION

For the foregoing reasons, the panel or *en banc* Court should grant rehearing to reconsider the proper interpretation of § 271(f) and the proper construction of the claim term "executable application."

Respectfully submitted,

Carter G. Phillips
Counsel for Microsoft Corporation

[7] The anticipated *en banc* decision in *Phillips v. AWH Corp.*, 376 F.3d 1382 (Fed. Cir. 2004), may offer guidance on the role of intrinsic evidence which bears on the construction of "executable application."