

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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AT&T CORP., :
 :
Plaintiff, :
 :
-against- :
 :
MICROSOFT CORPORATION, :
 :
Defendant. :
- - - - - X

01 Civ. 4872 (WHP)

MEMORANDUM AND ORDER

WILLIAM H. PAULEY III, District Judge:

On June 4, 2001, plaintiff AT&T Corp. ("AT&T") filed this patent infringement action alleging that certain of defendant Microsoft Corporation's ("Microsoft") products containing speech codecs¹ infringe its United States Reissue Patent No. 32,580 (the "580 patent").² Currently before this

¹ "A speech codec is a software program that is capable of coding - converting a speech signal into a more compact code - and decoding - converting the more compact code back into a signal that sounds like the original speech signal." Amended Complaint ("Am. Compl.") ¶ 14.

² Familiarity with this Court's prior Memoranda and Orders is presumed. See, e.g., AT&T Corp. v. Microsoft Corp., 01 Civ. 4872 (WHP), 2003 WL 21459573 (S.D.N.Y. June 24, 2003) (construing claims in the 580 patent); AT&T Corp. v. Microsoft Corp., 01 Civ. 4872 (WHP) (S.D.N.Y. Sept. 3, 2003) (amending construction of the term "representative"); AT&T Corp. v. Microsoft Corp., 290 F. Supp. 2d 409 (S.D.N.Y. 2003) (granting partial summary judgment limiting damages pursuant to the patent marking statute, 35 U.S.C. § 287(a)); AT&T Corp. v. Microsoft Corp., 01 Civ. 4872 (WHP), 2004 WL 188078 (S.D.N.Y. Feb. 2, 2004) (granting partial summary judgment prohibiting Microsoft from asserting the defenses of equitable estoppel and implied license); AT&T Corp. v. Microsoft Corp., 01 Civ. 4872 (WHP), 2004 WL 232725 (S.D.N.Y. Feb. 9, 2004) (granting partial summary judgment prohibiting Microsoft from asserting the defense and counterclaim of inequitable conduct); AT&T Corp. v. Microsoft Corp., 01 Civ. 4872 (WHP), 2004 WL 292321 (S.D.N.Y. Feb. 17, 2004) (denying partial

Court is Microsoft's motion for partial summary judgment³ to exclude sales of goods incorporating foreign-replicated copies of its infringing Windows software⁴ from any damages award, pursuant to 35 U.S.C. § 271(f). For the reasons set forth below, Microsoft's motion is denied.

This case presents a novel issue regarding the application of Section 271(f) with profound ramifications for Microsoft and other United States software manufacturers. In the end, the issue of liability under Section 271(f) for foreign replication of infringing software supplied from the United States is a question of law ripe for review by the Federal Circuit.

BACKGROUND

The facts underlying this motion are not in dispute, and are drawn from a Stipulated Statement of Facts, dated March 4, 2004, and marked as Court Exhibit 1. (Trial Tr. at 1064.)

summary judgment on invalidity); AT&T Corp. v. Microsoft Corp., 01 Civ. 4872 (WHP), 2004 WL 309150 (S.D.N.Y. Feb. 19, 2004) (amending construction for term "excitation").

³ Microsoft originally styled this motion as one in limine to exclude evidence of foreign sales. On March 4, 2004, the parties stipulated in open court to convert the motion to one for partial summary judgment. (Trial Transcript, dated March 4, 2004 ("Trial Tr.") at 1063-64.)

⁴ For purposes of this motion only, this Court assumes that the object code and software at issue infringe AT&T's 580 patent.

Microsoft conceives, writes, compiles, tests, debugs and creates a master version of its Windows operating system software in Redmond, Washington. Microsoft makes a limited number of "golden master" disks in the United States on which the machine-readable object code⁵ for the Windows operating system software is stored. Some golden master disks are shipped abroad to foreign computer manufacturers, known as foreign "original equipment manufacturers," or "OEMs". Pursuant to licensing agreements with Microsoft, those foreign OEMs use the golden master disks to install foreign-replicated copies of the Windows operating system software onto foreign-assembled computers. While each OEM receives a single golden master disk, that disk is never installed on a computer sold to consumers. Instead, the golden master disk is used by the OEM to obtain and then replicate object code to install on foreign-assembled computers.

Microsoft also ships golden master disks to Microsoft-authorized foreign "replicators" who make copies of the Windows operating system software object code and ship those foreign-replicated copies to foreign computer manufacturers.

⁵ According to Microsoft Corporation, its software engineers develop a source code, which is the "human readable form of the software." The source code is put through a compiler which transforms it into object code. Object code is merely the "machine readable version" of the source code in the form of ones and zeros. The object code is then burned onto the golden master disk by a laser for easier transport abroad. (Transcript of Oral Argument, dated December 12, 2003 ("Tr.") at 5-6.) See also Microsoft Corp. v. Comm'r of Internal Revenue, 311 F.3d 1178, 1181, 1187 (9th Cir. 2002) (describing golden masters).

Additionally, Microsoft supplies its Windows operating system object code from the United States to certain foreign OEMs and authorized foreign replicators by sending them a single encrypted electronic transmission of the object code that was created in the United States. The foreign OEMs and replicators decrypt the transmission and install copies of the object code for the Windows operating system software onto computer hardware to form computer systems, and optionally create CDs or other media containing a foreign-replicated copy of the object code.

During the time relevant to this action, the golden master disks and the encrypted electronic transmissions that Microsoft sends overseas included copies of the accused codecs that infringe AT&T's 580 patent. Microsoft acknowledges that it ships the golden masters and sends the encrypted electronic transmissions containing the infringing object code with the intent and knowledge that the software will be installed on foreign-manufactured computers. Microsoft further acknowledges that it ships the golden masters and encrypted electronic transmissions containing the infringing object code with the intent that the foreign OEMs and authorized replicators will make copies of the object code for the Windows operating system and install those copies onto computer hardware. This computer hardware is manufactured overseas and the completed systems containing the object code created in the United States are then

sold to end-users overseas. The parties agree that, other than the object code contained on the golden master disks and the encrypted electronic transmissions of Windows object code, Microsoft does not supply any other "component" from the United States for assembly abroad. Additionally, Microsoft acknowledges that the copying of the software from the golden master disks and the encrypted electronic transmissions overseas is an essential part of the manufacturing process abroad for computers containing Windows. (Tr. at 9.)

AT&T alleges that Microsoft's foreign sales of its Windows software containing the allegedly infringing codecs constitute acts of infringement under 35 U.S.C. § 271(f) that trigger liability and damages. Microsoft contends that Section 271(f) does not attach liability to foreign-replicated copies of its object code because it falls outside the purview of Section 271(f)'s prohibition on foreign assembly of infringing goods. Specifically, Microsoft argues that the object code or software contained on the golden master disks is merely "intangible information," and thus not a "component" as contemplated by Section 271(f). Additionally, Microsoft argues in its reply brief that Section 271(f) does not attach liability to foreign-replicated copies of the software or object code because the copies themselves are not "supplied from" the United States. Microsoft's arguments are without merit.

I. Summary Judgment Standard

Rule 56(c) of the Federal Rules of Civil Procedure provides that summary judgment "shall be rendered forthwith if the pleadings, depositions, answers to interrogatories and admissions on file, together with the affidavits, if any, show there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c); accord Celotex Corp. v. Catrett, 477 U.S. 317, 322 (1986); Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 247 (1986). The burden of demonstrating the absence of any genuine dispute as to a material fact rests with the moving party. See, e.g., Adickes v. S.H. Kress & Co., 398 U.S. 144, 157 (1970); Grady v. Affiliated Cent., Inc., 130 F.3d 553, 559 (2d Cir. 1997). The movant may meet this burden by demonstrating a lack of evidence to support the nonmovant's case on a material issue on which the nonmovant has the burden of proof. Celotex, 477 U.S. at 323.

To defeat a summary judgment motion, the nonmoving party must do "more than simply show that there is some metaphysical doubt as to the material facts." Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 586 (1986). Indeed, the nonmoving party must "set forth specific facts showing that there is a genuine issue for trial." Fed. R. Civ. P. 56(e); accord Matsushita Elec., 475 U.S. at 587. In

evaluating the record to determine whether there is a genuine issue as to any material fact, the "evidence of the nonmovant is to be believed and all justifiable inferences are to be drawn in his favor." Liberty Lobby, 477 U.S. at 255; accord Schering Corp. v. Geneva Pharms., 339 F. 3d 1373, 1377 (Fed. Cir. 2003).

II. Section 271(f) of the Patent Act

Section 271(f) of the Patent Act was enacted to prevent infringers from escaping liability under United States patent law by manufacturing or supplying a component of a patented invention from the United States and exporting it for combination into an end product overseas. Imagexpo, L.L.C. v. Microsoft Corp., No. Civ. A. 3:02CV751, 2003 WL 23147556, at *1 (E.D. Va. Aug. 19, 2003); accord 35 U.S.C. § 271(f); Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd., 955 F. Supp. 220, 232 (S.D.N.Y. 1997) (citing Windsurfing Int'l, Inc. v. Fred Ostermann GmbH, 668 F. Supp. 812, 820-21 (S.D.N.Y. 1987), aff'd, 1 F.3d 1214 (Fed. Cir. 1993)); H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069 at H10525-6 ("Legislative History") (Section 271(f) "prevent[s] copiers from avoiding U.S. patents by supplying components of a patented product in this country so that the assembly of the components may be completed abroad."). Components supplied from foreign countries and incorporated into foreign-assembled products do not

implicate Section 271(f). Aerogroup Int'l, 955 F. Supp. at 232.

Section 271(f) states:

(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

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

35 U.S.C. § 271(f).

Under paragraph (1) components may be staple articles or commodities of commerce which are also suitable for substantial non-infringing use, but under paragraph (2) the components must be especially made or adapted for use in the invention. See Bristol-Myers Squibb v. Rhone-Poulenc Rorer, Inc., 95 Civ. 8833 (RPP), 2001 WL 1263299, at *4-5 (S.D.N.Y. Oct. 19, 2001). Additionally, paragraph (2) requires the infringer to have an intent that a component "will be combined outside of the

United States in a manner that would infringe if the combination occurred within the United States." 35 U.S.C. § 271(f)(2).

"Actual combination or assembly of the components by the alleged infringer [is] not required" to trigger liability under Section 271(f). Waymark Corp. v. Porta Sys. Corp., 334 F.3d 1358, 1361 (Fed. Cir. 2003). Here, it is undisputed that Microsoft's object code is especially made and supplied from the United States for use in its Windows operating system, that Microsoft intended the components to be combined outside of the United States, and that Microsoft intended that the infringing object code be directly incorporated as an essential part of the foreign-manufactured computers. (Court Ex. 1; Tr. at 9.)

Congress enacted Section 271(f) in response to Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518 (1972), where the Supreme Court recognized a "loophole" in infringement law allowing copiers to escape liability by finalizing assembly of products outside the United States. See H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069, H10525-6. In Deepsouth, the Supreme Court held that manufacturing components of a patented invention in the United States, but assembling those components into the patented invention outside the United States, was not "making," and thus did not constitute infringement under Section 271(a) of the Patent Act. 406 U.S. at 527-28. In the wake of Deepsouth,

Congress enacted Section 271(f) to prevent infringers from exploiting that loophole. See H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069, H10525-6. The legislative history of Section 271(f) reads in pertinent part:

Part of the subcommittee's job is to secure for the owners of intellectual property, including patent holders, a workable, efficient, and vigorous set of laws to protect their creations [W]ithout enactment of these housekeeping-oriented measures, the patent system would not be responsive to the challenges of a changing world and the public would not benefit from the release of creative genius. . . . Section 101 [of the Bill] makes two major changes in the patent law in order to avoid encouraging manufacturing outside the United States [Section 271(f)] will prevent copiers from avoiding U.S. patents by supplying components of a patented product in this country so that the assembly of the components may be completed abroad. This proposal responds to [Deepsouth] concerning the need for a legislative solution to close a loophole in patent law.

H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069, H10525 (emphasis added).

Section 271(f) bridges the Deepsouth synapse by including as infringement under the Patent Act the assembly of any component of a patented invention, supplied from the United States, into a product assembled outside of the United States. 35 U.S.C. § 271(f). Microsoft does not dispute the construction of Section 271(f), but argues that: (1) its object code or

software is not a "component" under Section 271(f); and (2) its foreign-replicated copies are not "supplied from" the United States. Otherwise, Microsoft acknowledges that its actions satisfy the requirements of Section 271(f). (Court Ex. 1.)

III. Software as a Component

Microsoft argues that foreign-replicated copies of its Windows operating system software cannot be statutory "components" supplied from the United States to form foreign-assembled computer systems because "the infringing Windows operating system software stored on the golden master disks [and sent electronically] is intangible information," and the golden master disk is "simply a medium for transmission of the software information," and is never incorporated into an end product abroad. (MS Br. at 1; Court Ex. 1.) The object code or software that is contained on each golden master disk or transmitted electronically, as opposed to the golden master disk or method of encrypted transmission itself, is at the heart of the parties' dispute and this Court's analysis. It is undisputed that the infringing software is intentionally shipped abroad for incorporation into foreign-assembled computers. (Court Ex. 1.) Indeed, the golden master disk simply recognizes the economic efficiencies in shipping Microsoft's software abroad, and does not alone insulate Microsoft from liability under Section 271(f).

See Eolas Techs. Inc. v. Microsoft Corp., 99 C 0626, 2004 WL 170334, at *3-5 (N.D. Ill. Jan. 15, 2004).

Microsoft argues that its infringing software must be a "physical product" to constitute a "component" under Section 271(f). As noted, Section 271(f) precludes exportation of certain "component(s)" of patented inventions. 35 U.S.C. § 271(f). Microsoft contends that infringing software transported by golden master disk or through electronic transmission is merely "intangible information," and thus not a "component" as contemplated by Section 271(f). It is well-established, however, that software can be a component of a patented invention or infringing device. See, e.g., In re Alappat, 33 F.3d 1526, 1545 (Fed. Cir. 1994) ("[A] computer operating pursuant to software may represent patentable subject matter, provided, of course, that the claimed subject matter meets all the other requirements of Title 35."); Imagexpo, L.L.C. v. Microsoft Corp., No. Civ.A 3:02CV751, 2003 WL 23147556 (E.D. Va. Aug. 19, 2003) (in examining Microsoft NetMeeting units exported overseas on golden master disks, holding that Microsoft's "code is a patentable apparatus" and that the golden master and code constitute "components" under Section 271(f)); Eolas Techs. Inc. v. Microsoft Corp., 274 F. Supp. 2d 972, 973 (N.D. Ill. 2003) (holding that the software in a computer product "is, in law, the legal equivalent of a piece of computer hardware and not the

legal equivalent of a chemical formula"); NTP, Inc. v. Research In Motion, Ltd., 261 F. Supp. 2d 423, 431 (E.D. Va. 2002) (noting that defendant supplied "application programs" that are "components combined with [an] Intel processor outside the United States" and especially adapted for use in the infringing product); United States Patent & Trademark Office Manual of Patent Examining Procedure (the "MPEP") § 2106, at 2100-13 (8th ed. 2003) (noting that a computer program has functional and structural elements, can be recited as part of a claim, statutory manufacture or machine, and noting that "[w]hen a computer program is recited in conjunction with a physical structure, such as a computer memory, Office personnel should treat the claim as a product claim.") (emphasis added); see also Southwest Software, Inc. v. Harlequin Inc., 226 F.3d 1280, 1287-88, 1298-99 (Fed. Cir. 2000). Indeed, Microsoft acknowledges that software is patentable (Tr. at 10; MS Reply at 1), and it argued successfully to the Ninth Circuit that its golden master disks that contain the object code at issue here were tangible export property for tax purposes. Microsoft Corp. v. Comm'r of Internal Revenue, 311 F.3d 1178, 1185 (9th Cir. 2002) (holding that the software or object code contained on the golden master disks was "export property," that only contemplates tangible property, and finding "computer software reproductions similar to 'films, tapes, [and] records'") (alteration in original). Tellingly, Microsoft

retreated from this argument in its reply brief and at oral argument.

Microsoft urges this Court to narrowly interpret the term "component" in Section 271(f) to exclude software or object code. However, there is no limitation of the term "components," either in the statutory text or in the legislative history, to machines or other structural combinations. W.R. Grace & Co. v. Intercat, Inc., 60 F. Supp. 2d 316, 320-21 (D. Del. 1999) (finding 271(f) liability for supply of chemical composition from the United States for combination with other materials abroad); see also Moore U.S.A. Inc. v. Standard Register Co., 144 F. Supp. 2d 188, 195 (W.D.N.Y. 2001) (finding paper, glue and blueprints for making envelopes "components" under 271(f)); Lubrizol Corp. v. Exxon Corp., 696 F. Supp. 302, 325 (N.D. Ohio 1988) (same for supply of lubricant additive for combination in a lubricant composition outside the United States). Further, there is nothing in the legislative history of Section 271(f) or in any jurisprudence interpreting it to say that software cannot be a component under Section 271(f). W.R. Grace, 50 F. Supp. 3d at 321 ("A contrary holding . . . would be tantamount to legislating additional language to a statute."). Indeed, excluding protection for inventions using software "would not be responsive to the challenges of a changing world," as software and computers have become an essential part of society and business since the

enactment of Section 271(f). H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069, H10525.

Microsoft cites to several cases in support of its contention that software cannot be a component under Section 271(f). (MS Br. at 9-10.) Those cases are distinguishable, as they all involve design or method patents, which have no components, or instructions for assembly of products abroad, which is not a component. See, e.g., Standard Havens Prods., Inc. v. Gencor Indus., Inc., 953 F.2d 1360, 1374 (Fed. Cir. 1991) (holding 271(f) inapplicable to a method patent for producing asphalt, "not the apparatus for implementing that process"); Enpat, Inc. v. Microsoft Corp., 6 F. Supp. 2d 537, 538-39 (E.D. Va. 1998) (finding no 271(f) liability for a method patent with no components where the patent only described steps required to accomplish a task); Pellegrini v. Analog Devices, Inc., C.A. No. 02-11562-RWZ, 2003 WL 21026797, at *1 (D. Mass. May 7, 2003) (finding no 271(f) liability for exportation of instruction for foreign disposal of computer chips); Aerogroup Int'l, 955 F. Supp. at 231-32 (Section 271(f) inapplicable for a design patent for a shoe sole where the patent claimed no "components" and the soles were manufactured abroad).

Notably, the two other courts that have considered the precise issue before this Court have held that Microsoft's export of its golden master disks containing infringing code constitutes

the supply of a "component" under Section 271(f). Eolas Techs. Inc. v. Microsoft Corp., 274 F. Supp. 2d 972 (N.D. Ill. 2003), reconsideration denied, 2004 WL 170334, at *3-5 (N.D. Ill. Jan. 15, 2004); Imagexpo LLC v. Microsoft Corp., 2003 WL 23147556 (E.D. Va. Aug. 19, 2003). Additionally, in NTP, Inc. v. Research in Motion, Ltd., 261 F. Supp. 2d 423, 436-37 (E.D. Va. 2002), a district court granted summary judgment of infringement pursuant to Section 271(f), finding that the defendant's transmission network for its Blackberry wireless email/paging devices manufactured in Canada fell within Section 271(f) because it incorporated domestically-supplied components, such as Microsoft's Exchange Server software, that the defendant combined outside the United States. Microsoft only distinguishes these cases by noting that they were decided before Bayer AG v. Housey Pharms., Inc., 340 F.3d 1367 (Fed. Cir. 2003). (Tr. at 18; MS Reply Br. at 6.)

Microsoft argues that Bayer compels a finding that it is not liable for infringement and damages for foreign sales of computers containing the infringing software. In Bayer, the Federal Circuit addressed the term "component" in Section 271(g) of the Patent Act. Bayer, 340 F.3d at 1376-77. Section 271(g) prohibits importation into the United States of products produced by "patented manufacturing processes, i.e., methods of actually making or creating a product as opposed to methods of gathering

information about, or identifying a substance worthy of further development." Bayer, 340 F.3d at 1370. In dicta, the Federal Circuit stated that the term "component" in Section 271(g) "appears to contemplate a physical product." Bayer, 340 F.3d at 1376-77. However, Microsoft wrenches the Federal Circuit's comment out of its context; it is not the clear statement of law on Section 271(f) liability that Microsoft would have this Court adopt.

In Bayer, the Federal Circuit held that Section 271(g) does not proscribe the transmission of "information" into the United States. 340 F.3d at 1371. The "information" in Bayer, however, was markedly different than the software or object code at issue here. The information in Bayer was data generated from a patented method to identify whether a given substance had a particular property, namely, whether that substance activated or inhibited protein activity in a cell. Bayer, 340 F.3d at 1369. This data could be used to identify effective drugs for treating diseases. The patentee alleged that Bayer used the patented process outside the United States, subsequently imported into the United States the data generated from that process, identified effective drugs from that data, and manufactured those drugs in the United States. Bayer, 340 F.3d at 1369-70. The Federal Circuit held that importation of the data generated from the patented process did not infringe under Section 271(g) because

that Section is directed towards articles of manufacture, and not data or "information" used to identify those articles. Bayer, 340 F.3d at 1370. Indeed, the data produced from the patented process abroad was not directly used to manufacture the drugs at issue in the United States. Bayer, 340 F.3d at 1369-70.

Bayer's holding does not advance this Section 271(f) analysis because: (1) Bayer only applies to Section 271(g)⁶; and (2) the "information" or "data processing" that resulted from a patented process in Bayer is completely unrelated to the software or object code at issue here. For example, here the software or object code itself is an essential part of the end product and component-assembly abroad. In contrast, in Bayer the resulting data created by a patented process was transferred to the United States from abroad and was ultimately used to identify drugs which were then manufactured in the United States. Bayer, 340 F.3d at 1368-69. Thus, in Bayer, the transmitted "data" at issue was not incorporated into the end-product; it was the result of a patented process, not part of it. In this action, the object code at issue actually contains the patented codecs, which are not derived from a similar method patent, and the infringing code is sent overseas to be incorporated directly into the end-product abroad.

⁶ Indeed, the only mention of Section 271(f) in Bayer is a passing reference to Congress's intent to avoid encouragement of manufacturing infringing goods outside the United States. Bayer, 340 F.3d at 1371.

Citing the dicta in Bayer, Microsoft argues that the object code contained on the golden master is intangible information, and thus cannot trigger liability under Section 271(f). Microsoft's argument, however, relies heavily on the presumption that the object code on the golden master disks and in the encrypted transmissions is the type of intangible information or data from a patented process that did not trigger Section 271(g) liability in Bayer. As noted above, this Court rejects that presumption.

IV. Foreign-Replicated Copy as a Component

In its reply brief, Microsoft advances the argument that a foreign-replicated copy of the infringing software does not constitute a "component" supplied from the United States, and thus cannot trigger Section 271(f) liability. This Court heard AT&T's response at oral argument, and agrees with its position.

Microsoft contends that since the object code eventually incorporated into the foreign computers is replicated abroad, those foreign-replicated copies cannot be considered to be a component "supplied from" the United States. Specifically, Microsoft argues that the foreign-replicated copies cannot "be said to have been 'supplied' from the U.S. even though they never touched U.S. soil." (MS Reply Br. at 1.) Essentially, Microsoft seeks to equate replication of the object code abroad with the

manufacturing or "supply" of it from abroad. Microsoft's argument ignores the undisputed fact that the object code is originally manufactured in the United States, and supplied from the United States to foreign replicators or OEMs with the intention of incorporating such software into foreign-assembled computers. (Court Ex. 1.) The fact that Microsoft ships one golden master disk or sends one electronic transmission with the infringing object code to each foreign OEM, rather than shipping one CD for each computer for efficiency purposes, cannot shield Microsoft from the letter and intent of the statute - to prohibit circumvention of infringement of a United States patent by supplying certain infringing components from the United States, and shipping them abroad for incorporation into a finished product that would infringe if assembled in the United States.⁷ See 35 U.S.C. 271(f); H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069, H10525; Imagexpo, 2003 WL 23147556; Eolas Techs., 2004 WL 170334, at *3-5.

In support of its argument, Microsoft analogizes its software to a "mold" for tires that is exported to a foreign

⁷ Indeed, at oral argument, Microsoft acknowledged that if individual disks with the infringing Windows operating system object code were sent abroad for incorporation into each foreign-assembled computer (rather than one golden master disk), Microsoft would be liable for infringement under Section 271(f). (Tr. at 16, 28.) Under this scenario, Microsoft would be liable for direct infringement under Section 271(f). NTP, 261 F. Supp. 2d at 436-37.

plant to make tires there for combination with foreign-made cars. Microsoft argues that its software, like the foreign-molded tires, cannot be said to be components of the patented combination "supplied" from the United States because Section 271(f) looks to the place from which the "component" in question was made and supplied. Unlike the tires that are manufactured from a mold, however, the software here has already been manufactured in, and supplied from, the United States and is only copied abroad - the software is not a mold for the creation of another separate type of component. Indeed, there is no evidence before this Court that the foreign-incorporated object code or software is being created anew from instructions concerning a process for creating code abroad. See Enpat, 6 F. Supp. 2d at 538-39 (finding no 271(f) liability for a method patent with no components where the patent only described steps required to accomplish a task); Pellegrini, 2003 WL 21026797, at *1 (finding no 271(f) liability for exportation of instruction for foreign disposal of computer chips). Further, Microsoft's tire mold is devoid of any content until rubber is poured into it and a separate and distinct object, a tire, is created. Here, again, the software itself is the component, or the "tire", rather than a mold.

As noted in Imagexpo, the golden master or electronic transmission at issue here contains object code that becomes an

essential component of the finished computer product. "In other words, the overseas replicator [or OEMs] do[] not simply construct the computer product using a plan, design, or recipe supplied by Microsoft. Instead, the functional nucleus of the finished computer product is driven by the code, which is transmitted through the golden master." Imagexpo, 2003 WL 23147556. This Court agrees and finds Microsoft's "tire mold" analogy unpersuasive.

V. Policy Argument

Finally, Microsoft advances a "doomsday" policy argument to buttress its position, namely that if Section 271(f) liability attaches to foreign distribution of its infringing software, it "would 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]." (Tr. at 21-22.) Microsoft asserts that this would be the only option to "reduce by two-thirds our exposure in all of these patent cases" relating to Section 271(f) liability for worldwide sales.⁸ (Tr. at 22.) Additionally, Microsoft complains that, unlike United States-based companies, foreign software companies do not face Section 271(f) liability, and can

⁸ Notably, Microsoft's policy argument does not address distribution of the infringing software through electronic transmission.

sell software world-wide without incurring the same liability in the United States. (Tr. at 22.) While this Court appreciates Microsoft's concerns about a paradigm shift for United States software manufacturers, those concerns are better addressed through manufacture of non-infringing goods or Congressional action, rather than a judicial engraftment on Section 271(f) of the Patent Act.

CONCLUSION

For the reasons set forth above, defendant Microsoft Corporation's motion for partial summary judgment pursuant to 35 U.S.C. § 271(f) is denied.

Dated: March 5, 2004
New York, New York

SO ORDERED:

/S/ WILLIAM H. PAULEY III /S/

WILLIAM H. PAULEY III
U.S.D.J.

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