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U.S. Innovation at Issue in Critical U.S. Supreme Court Oral Arguments Made Today

WASHINGTON, D.C. – The U.S. Supreme Court today heard oral arguments in the case of Microsoft v. AT&T, the fourth in a series of cases the court has heard recently to examine U.S. patent law. The court is considering whether Congress intended for a 1984 amendment to the Patent Act – section 271(f) – to penalize U.S.-based software developers for the overseas reproduction and subsequent distribution of their software.

"This case demonstrates that imbalances in the patent system are actively discouraging U.S. innovation and job growth," said Steve Elmendorf, spokesman for the Coalition for Patent Fairness. "The patent system should protect patent holders while spurring innovation and growth, but many of the Federal Circuit's interpretations of the law do not strike the needed balance."

The Coalition for Patent Fairness promotes four principles of patent reform, including a reversal of the Court of Appeals for the Federal Circuit's erroneous holding concerning section 271(f). The interpretation by the Federal Circuit acts as an unintended, perverse incentive to move some of the most highly skilled U.S. jobs overseas.

"Issues concerning the interpretation of 271(f) are important aspects of patent reform, but the restoration of balance and fairness in other areas of patent law is urgently needed as well," added Oracle Chief Patent Counsel Roger Kennedy. "By passing comprehensive and balanced patent reform legislation, Congress can get our engines of innovation humming again and preserve our global economic leadership."

A diverse group of institutions and individuals filed amicus curiae (friend of the court) briefs critical of the Federal Circuit's interpretations of section 271(f). This group includes the United States government, various patent law scholars, Shell Oil, Yahoo! and the International Federation of Industrial Property Counsels, which is one of only two world organizations to advise the World Intellectual Property Organization.

"It seems that the strongest supporters of preserving the Federal Circuit's interpretation of section 271(f) are the foreign competitors to U.S. companies that enjoy an unfair advantage as a result of the court's efforts to extend patent liabilities solely to United States innovators," continued Mr. Elmendorf. "Within the international patent system, inventors must hold a patent in a given country to enjoy rights in that country. But under the court's current rulings, while foreign-based companies do not need to hold a foreign patent to sue American software developers for infringement overseas, American companies must hold patents in foreign countries to protect themselves from foreign infringement. Today, the only way to level the playing field under current Federal Circuit law is for the American company to move its software development operation overseas. That makes no sense."

Filing on behalf of the United States, Solicitor General Paul Clement wrote that current interpretations of section 271(f) put "United States software companies at a competitive disadvantage vis-à-vis their foreign competitors in foreign markets."

A group of ten patent law scholars from such institutions as Stanford Law School, The George Washington University School of Law, University of Texas at Austin, and Boston University Law School wrote in their brief that the lower court's interpretation of Section 271(f) "unfairly disadvantages software companies having research and development facilities located within the United States. The lower court's ruling has the potential to increase dramatically the patent liability of U.S.-based firms and thereby to encourage firms to relocate their research and development facilities outside of the United States."

Section 271(f) became law when President Ronald Reagan signed the Patent Law Amendments Act of 1984. Inspired by a patent dispute between manufacturers of shrimp deveining machines, the amendment was designed to discourage U.S. companies from manufacturing components of patented products in the U.S. and shipping them overseas for final assembly to circumvent U.S. patent protections. In the 23 years since, though, the prevalence and complexity of software has mushroomed and current interpretations of the law are, in the words of the aforementioned ten patent scholars, "not consistent with either the language of section 271(f)(1) or the congressional purpose in adopting it."

"Current interpretations of patent law appear to veer far from what Congress originally intended," Mr. Elmendorf concluded. "That the court has heard more patent-related cases this term than in recent years indicates that the court recognizes that our patent system is in need of repair. Fortunately, momentum is building in Congress for comprehensive patent reform."

In addition to reversal of the Federal Circuit's rulings as to section 271(f), the Coalition for Patent Fairness is calling on Congress to:

- Modify the standard for calculating damages so that they are based on the value attributable to the patent owner's contribution to a product and not on the value of the entire product;
- Reform the standard for awarding increased damages based on "willfulness" to stop plaintiffs from using the threat of treble damages to coerce settlements in abusive cases; and
- Revise venue rules to prevent forum shopping.

About the Coalition for Patent Fairness
The Coalition for Patent Fairness is committed to the passage of legislation that will foster innovation and economic growth. Representing a broad range of companies and trade associations in the technology, financial services, energy and chemical, manufacturing and media industries, the Coalition's members include Apple, Autodesk, Business Software Alliance, Chevron, Cisco Systems, Comcast, Dell, Electrolux, Hewlett-Packard, Information Technology Industry Council, Intel, Micron Technology, Microsoft, Oracle, TechNet, Time Warner and Visa. For more information, visit www.patentfairness.org.

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