No. 16-1011

IN THE
Supreme Court of the United States

WESTERNGECO LLC,

Petitioner,

v.

ION GEOPHYSICAL CORPORATION,

Respondent.

**On Writ of Certiorari
to the United States Court of Appeals
for the Federal Circuit**

BRIEF OF *AMICUS CURIAE* INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF NEITHER PARTY

HENRY HADAD, *President*
STEVEN W. MILLER, *Chair*,
Amicus Brief Committee
MARK W. LAUROESCH,
Executive Director
INTELLECTUAL PROPERTY
OWNERS ASSOCIATION
1501 M Street, NW
Suite 1150
Washington, D.C. 20005
(202) 507-4500

D. BARTLEY EPPENAUER
Counsel of Record
PATRICK A. LUJIN
KYLE E. FRIESEN
CRAIG M. EDGAR
SHOOK, HARDY & BACON, L.L.P
701 Fifth Avenue
Suite 6800
Seattle, Washington 98104
(206) 344-7600

Counsel for Amicus Curiae Intellectual Property Owners Association

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INTEREST OF AMICUS CURIAE

Amicus curiae Intellectual Property Owners Association (IPO)[1] represents many of the most innovative companies in America. IPO's roughly 200 corporate members develop, manufacture, and sell technology-based products in a wide range of industries. Further, IPO is committed to serving the interests of all intellectual property owners in all industries and all fields of technology. Founded in 1972, IPO represents the interests of its members before Congress and the United States Patent and Trademark Office (USPTO) and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law. The members of IPO's Board of Directors, which approved the filing of this brief, are listed in the Appendix.[2]

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1 Pursuant to Rule 37.6, *amicus* affirms that no counsel for a party authored this brief in whole or in part, nor has any counsel, party, or third person other than *amicus* or its counsel made any monetary contribution intended to fund the preparation or submission of this brief. Pursuant to Rule 37.3, the parties consented to the filing of this brief through blanket consent letters.

2 IPO procedures require approval of positions in briefs by a two-thirds majority of directors present and voting.

INTRODUCTION & STATEMENT

The issue before the Court is:

> Whether the court of appeals erred in holding that lost profits shown to be caused by infringement under 35 U.S.C. § 271(f) are categorically unavailable where they arise from extraterritorial conduct.

The history of § 271(f) is closely entwined with this Court's jurisprudence regarding the extraterritorial effect of the country's patent laws. Section 271(f) was added to the infringement statute by the Patent Law Amendments Act of 1984 in direct response to this Court's decision in *Deepsouth Packing Co., Inc. v. Laitram Corp.*, 406 U.S. 518 (1972). *See* Section-by-Section Analysis: Patent Law Amendments of 1984, 130 Cong. Rec. H 10522, 10525 (1984) ("This proposal [to add § 271(f)] responds to the United States Supreme Court decision in *Deepsouth* . . ., concerning the need for a legislative solution to close a loophole in patent law."); S. Rep. 98-663, 98th Cong., 2d Sess. at 2-3 (1984) (expressing the need for a response to *Deepsouth*); *accord Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 444, n.3 (2007) (acknowledging the Congressional purpose for enacting § 271(f)).

The Court held in *Deepsouth* that manufacturing the unassembled components of a patented invention in the United States did not infringe under § 271(a) because the components were exported before being combined into the invention patented. 406 U.S. at 528-29. The Court noted then that, "what is at stake here is the right of American companies to compete with an American patent holder in foreign markets." *Id.* at 531. And, although it did not speak in terms of a presumption, the Court did "insist on a *clear congressional indication* of intent to extend the patent privilege before we could recognize the monopoly here claimed." *Id.* at 532 (emphasis added).

Since its enactment, the Court has twice construed § 271(f). *See Life Techs. Corp. v. Promega Corp.*, 137 S. Ct. 734, 739 (2017) (addressing whether "a substantial portion," as used in § 271(f)(2) "refers to a quantitative or qualitative measurement); *Microsoft*, 550 U.S. at 447 (addressing whether the software at issue was a "component" and "supplied . . . from the United States," as required by both parts of § 271(f)). In *Microsoft*, the Court expressly "[r]ecogniz[ed] that § 271(f) is an exception to the general rule that our patent law does not apply extraterritorially," but declined to construe it "expansively." 550 U.S. at 442. The presumption against extraterritoriality was cited as support for the Court's narrow construction of the statute, but was relied upon only to "resolve" "[a]ny doubt." *Id.* at 454-55. In its more recent *Life Technologies* decision, the Court again addressed the scope of § 271(f) but did not resort to (or even mention) the presumption against extraterritoriality. *See generally* 137 S. Ct. 734.

This Court has recognized that § 271(f) is an exception to the general territorial limits of United States patent law, enacted by Congress to reverse the decision in *Deepsouth* that denied patent owners any protection against competition "in foreign markets." *Microsoft*, 550 U.S. at 441, 444; *Deepsouth*, 406 U.S. at 531. This Court is now faced with deciding whether to undermine the protection Congress intended by curtailing the remedies available under 35 U.S.C. § 284 for the infringing acts prohibited by § 271(f).

SUMMARY OF ARGUMENT

The purpose of § 284 is to fully compensate patentees for the infringement of their patents, including for infringement defined by § 271(f). The text and history of § 271(f) evidences a clear congressional intent to provide protection for patentees competing in foreign markets, and providing such protection requires a remedy for injuries suffered in those markets. This protection is important to exporting manufacturers, whose business represents a large segment of the United States economy. Construing § 284 as *per se* barring compensation for the lost profits from foreign sales frustrates the congressional intent behind § 271(f) and diminishes the incentive for innovation offered by patent protection.

Moreover, this case is emblematic of particular kinds of technology that are peculiarly at risk of losing meaningful patent protection: technologies intended for use on the high seas. Because the high seas are outside the jurisdiction of every country, infringement of patents on high-seas technologies are uniquely likely to generate damages based on extraterritorial effects. The owners of these patents are as entitled to full compensation as any other patentees.

The Federal Circuit misapplied the presumption against extraterritoriality in this case by categorically barring lost profits under § 284 solely on the basis that some foreign activity was used to prove the injury to the patent owner. This case can be decided at the first step of the analytical framework applied in *Morrison v. Australian National Bank Ltd.* and *RJR Nabisco, Inc. v. European Community*. Section 284 has extraterritorial scope when infringement under § 271(f) is established. Even if § 284 did not have extraterritorial scope, an award of lost foreign profits would be a permissible *domestic* application of the statute where that award compensates a patentee for a *domestic* act of infringement.

The Federal Circuit's error appears to arise from a misapplication of precedent precluding *liability* for extraterritorial acts that would infringe a patent if they occurred in the United States. Allowing extraterritorial acts to establish injuries caused by domestic infringement does not require imposing liability for those extraterritorial acts. Keeping that distinction allows patent owners to be fully compensated for infringement under § 271(f), as Congress provided in § 284, without making the whole world subject to United States patent law.

ARGUMENT

I. Lost Profits May Be Recovered for Infringement Under 35 U.S.C. § 271(f), Including Foreign Lost Profits, When the Patentee Proves the Acts of Domestic Infringement Caused the Foreign Lost Profits

A. Section 284 Embodies the Longstanding Principle of Full Compensation for an Injury Caused by Unlawful Conduct

A patentee who establishes infringement is entitled to "damages *adequate to compensate* for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284 (emphasis added). The principle of compensation has long been central to the determination of patent damages, even before the current statute. *See Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552-53 (1886) ("[T]he difference between [the patentee's] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred . . . is a proper measure of damages."). And "Congress' overriding purpose" in enacting the statute that became § 284 was to "afford[] patent owners *complete compensation*," limited only by what they can prove. *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655 (1983) (italics added); *see* H. R. Rep. No. 1587, 79th Cong., 2d Sess. (1946), at 1 ("The object [of the enacted language] is to make the basis of recovery in patent-infringement suits general damages, that is, any damages the complainant can prove."); S. Rep. No. 1503, 79th Cong., 2d Sess., at 2 (1946) (same).

Of course, a patent owner's legal right to compensation is not without limit. Patent infringement "is essentially a tort." *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931); *see also Aro Mfg. Co. v. Convertible Top Replacement Co.* (*Aro II*), 377 U.S. 476, 500 (1964) ("[A] contributory infringer is a species of joint-tortfeasor, ..."). As such, courts apply tort principles when determining which injuries are compensable. *See Aro II*, 377 U.S. at 501 (applying tort principles governing releases of joint tortfeasors in contributory infringement context); Roger D. Blair & Thomas F. Cotter, *Rethinking Patent Damages*, 10 TEX. INTELL. PROP. L.J. 1, 22 (2001) (describing a gradual incorporation of tort principles into patent damages law); *see also Mentor Graphics Corp. v.*

EVE-USA, Inc., 851 F.3d 1275, 1285 (Fed. Cir. 2017) ("In [their compensatory purpose], lost profit patent damages are no different than . . . general tort damages."). *Compare Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1546 (Fed. Cir. 1995) (*en banc*) (limiting damages for patent infringement to those that are "reasonably foreseeable") *with, e.g., Hampton by Hampton v. Fed. Express Corp.*, 917 F.2d 1119, 1125 (8th Cir. 1990) (denying carrier's liability where cancer patient's death was not a reasonably foreseeable consequence of losing a package containing patient's blood samples).

Applying these principles, courts have found a wide range of injuries compensable under § 284, including: (a) harms resulting from the lost sales of patentees' own products (whether practicing the patent or not) that compete with infringing products, *e.g., Yale Lock Mfg.*, 117 U.S. at 552 (patentee marketed patented product) *Rite-Hite Corp.*, 56 F.3d at 1548-49 (patentee marketed patented and unpatented products); (b) from price erosion due to patentees' loss of their legal monopoly, *e.g., Yale Lock Mfg.*, 117 U.S. at 553; *TWM Mfg. Co., Inc. v. Dura Corp.*, 789 F.2d 895, 902 (Fed. Cir. 1986); *W.R. Grace & Co.—Conn. v. Intercat, Inc.*, 60 F. Supp. 2d 316, 327, 332 (D. Del. 1999); and (c) from the lost sales of convoyed goods, *e.g., Beatrice Foods Co. v. New England Printing & Lithography Co.*, 899 F.2d 1171, 1175 (Fed. Cir. 1990); *see also Am. Seating Co. v. USSC Grp., Inc.*, 514 F.3d 1262, 1268 (Fed. Cir. 2008) (recognizing lost profits on convoyed sales are recoverable). Thus, a patent owner is generally entitled to compensation for an injury proven to be the foreseeable result of a defendant's established infringement.

The language and history of §§ 271(f) and 284 suggest that the full compensation owed to a patentee on the facts presented here should not be denied solely because some of the activity in the chain of causation occurred overseas. As discussed below, § 271(f) has been recognized as having extraterritorial effect. *Microsoft*, 550 U.S. at 441. And § 284 affords full compensation for "infringement" under § 271(f). Where the provision defining infringement has extraterritorial scope, as it does here, it is to be expected that some of the activity leading to the compensable harm will occur outside the United States. Indeed, both parts of § 271(f) anticipate that the components unlawfully supplied "in or from the United States" will be combined "outside the United States" to make the patented invention. Even this conduct would be encompassed by the Federal Circuit's expansive rule that any "'entirely extraterritorial *production*, use, or sale of [the patented] invention . . . cuts off the chain of causation'" between the infringement and the harm. *WesternGeco LLC v. ION Geophysical Corp.* (*WesternGeco I*), 791 F.3d 1340, 1351 (Fed. Cir. 2015) (italics added) (quoting *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013)). The statutes at issue here cannot support a bright line rule as expansive as the one applied by the Federal Circuit.

B. Construing § 284 to Categorically Exclude Lost Foreign Profits Undermines the Policy Established by § 271(f)

1. Section 271(f) Was Enacted to Extend Patent Protection Covering United States Exports

Congress enacted § 271(f) to close what it considered a "loophole" in the infringement statute, which the Court identified in *Deepsouth*. Section-by-Section Analysis: Patent Law Amendments of 1984, 130 Cong. Rec. at H 10525. In doing so, Congress sought to ensure that the patent protection afforded exporting manufacturers was meaningful and could not be circumvented as it was in *Deepsouth*. *See id.* at H 10529 (describing proposed § 271(f) as preventing the avoidance of patent protection); S. Rep. 98-663 at 2-3 (expressing the need for a response to *Deepsouth*). Section 271(f) therefore reflects a policy that "maintaining a climate . . . conducive to invention, innovation, and investment" requires that patents protect United States exporters from competition in markets abroad, protection which earlier-enacted legislation had failed to secure. S. Rep. 98-662 at 3; *see Deepsouth*, 406 U.S. at 531 (interpreting then-existing patent law as requiring inventors to seek foreign patents to obtain any protection in non-U.S. markets).

This policy implicates a substantial segment of the United States economy. The total value of exported goods in the United States during 2017 was just over $1.5 trillion. United States Census Bureau & United States Bureau of Economic Analysis, *U.S. International Trade in Goods and Services*, CB 18-15, BEA 18-06, at 3 (Feb. 6, 2018). Most of that value comes from manufactured goods as opposed to raw materials. Goods classified as "Capital goods" (*e.g.*, semiconductors and aircraft) and "Automotive" account for roughly 45% of the total value, close to $700 billion, of the goods exported. *Id.* at Ex. 7. "Consumer goods," which includes manufactured goods both technological (*e.g.*, cell phones and pharmaceuticals) and not (*e.g.*, books), contributes roughly $200 billion more to the total export of goods. *Id.* All told, the export of manufactured goods accounts for hundreds of billions of dollars of the United States' economy every year, and a large percentage of the value of these goods was added domestically in the United States. *See* Organisation for Economic Co-operation and Development (OECD), *Trade in Value Added, Origin of Value Added in Gross Exports*, https://data.oecd.org/trade/domestic-value-added-in-gross-exports.htm (last visited Feb. 16, 2018) (85% of the value of U.S. exports in 2014 was added domestically). These exported products are often the result of substantial investment in research and development by the companies that make them, and it was this investment Congress sought to encourage when it added § 271(f) to the nation's patent laws. *See, e.g.*, S. Rep. 98-663 at 3.

Categorically prohibiting recovery of lost profits damages for patentees whose patents are infringed under § 271(f) undermines the sound policy set forth by Congress. Patent protection is granted by the United States as an incentive to encourage investment and innovation in technology, which is critical to the health of the United States economy and the progress of science. The remedies available to injured patentees, including lost profits damages, are a fundamental part of that protection. "A right without a remedy . . . may be said not to exist." *Von Hoffman v. City of Quincy*, 71 U.S. 535, 554 (1867); *see also Parden v. Terminal R. Co. of Ala. Docks Dept.*, 377 U.S. 184, 190 (1964) (rejecting a statutory construction that would have the "pointless and frustrating" result of providing "a right without a remedy").

Although the Federal Circuit's holding did not deprive the petitioner in this case of *all* remedy, the consequence of the *per se* rule created by the decision below is to deny an *effective* remedy and therefore to undermine the incentives for innovation Congress created. *See* James J. Anton & Dennis A. Yao, *Finding "Lost" Profits: An Equilibrium Analysis of Patent Infringement Damages*, 23 J.L., ECON., & ORGANIZ. 186, 186 (2006) ("Because it is common for litigation to conclude after an infringer has been in the market for some time, expected damages play an important role in establishing incentives for innovation."). Seen differently, the availability of lost profits not only compensates the patentee but discourages infringement. The behavior of the litigants in this case confirms the importance of an effective remedy. Respondent ION reacted to the Federal Circuit's decision sparing it roughly 90% of the damages awarded by the jury by proclaiming a "complete victory," even though it was still obligated to pay $11 million in damages. PRNewswire, ION Announces Ruling in Appeal on WesternGeco Patent Infringement Lawsuit (July 2, 2015), https://www.prnewswire.com/news-releases/ion-announces-ruling-in-appeal-on-westerngeco-patent-infringement-lawsuit-300108472.html.

2. The Federal Circuit's Ruling Has Singular Impact Where Patented Inventions Are Used on the High Seas

By construing § 284 to incorporate a *per se* rule against considering extraterritorial activity when determining lost profits damages for infringement under § 271(f), the Federal Circuit undermines the manifest purpose of § 271(f). This is never truer than in cases, like this one, where the profitable use of the patented invention at issue will occur only on the high seas. Under the Federal Circuit's approach, patents for such inventions are substantially devalued. No matter how many countries grant patents for such an invention, a patentee could never recover damages to compensate for the profits lost to infringers on the high seas. As with other forms of piracy occurring on the high seas, the presumption against extraterritoriality should not preclude redress here. *Cf. Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. 108, 121 (2013) (recognizing a distinction between acts occurring on the high seas, subject to no country's jurisdiction, and acts within a foreign nation when applying the presumption against extraterritoriality to the Alien Tort Statute).

Numerous innovative technologies are being and have been developed for use on the high seas, not limited to the field of offshore exploration and production of oil and gas resources. For example, researchers are developing technology for reducing greenhouse gas emissions from ocean-going vessels. Paul Gilbert, Alice Bows-Larkin, Sarah Mander & Conor Walsh, *Technologies for the High Seas: Meeting the Climate Challenge*, 5 CARBON MANAGEMENT 447 (2015). Passive acoustic listening stations embedded on the sea floor gather information about sea mammals. National Marine Fisheries Service, *High Tech on the High Seas* (2017), https://www.fisheries.noaa.gov/feature-story/high-tech-high-seas (last visited Feb. 27, 2018). And new research shows that offshore wind turbines generate more power than those located in land-based wind farms. Anna Possner & Ken Caldeira, *Geophysical Potential for Wind Energy*

Over the Open Oceans, 114 PROC. NATL. ACAD. SCI. USA 11338, 11338 (2017).

These developments, like others that have come before, may result in patent-worthy inventions that are entitled to protection under U.S. law. Indeed, a search for United States patents and published patent applications filed within the past 20 years revealed 937 patents and applications with "high seas" and 7,604 with "deep water" in the text. Thus, there may be hundreds if not thousands of patents that could be denied most of their practical value where the infringing activity occurs, as was intended, in international waters. Devaluing these patents only disincentivizes investment in high-seas technologies, exempting many fields of endeavor from the encouragement offered by the patent system.

Congress has not withheld the advantages of patent protection based on the field of technology. Nor did Congress carve out patents on high-seas technologies from those that deserve "damages adequate to compensate for the infringement" under § 284.

II. The Federal Circuit Erred by Applying an Unduly Rigid Rule Barring Recovery of Lost Profits Resulting from Infringement Under 35 U.S.C. § 271(f) on the Sole Basis That Extraterritorial Activity Is Involved

As established above, the language of § 284 neither suggests nor supports a *per se* rule prohibiting compensation for the loss of profits from overseas activity, but the Federal Circuit imposed such a rule on the statute based on the presumption against extraterritoriality. *WesternGeco I*, 791 F.3d at 1349-51. The Federal Circuit erred, however, because the presumption does not require so rigid a rule be read into the statute. This is particularly true for infringement under § 271(f).

A. Correct Application of the Court's Precedent Permits the Use of International Activity to Show Lost Profits Damages from Infringement Under § 271(f)

Although it is presumed that Congress does not intend legislation to apply outside the United States, this presumption is rebutted when Congress gives a clear indication to the contrary. *See Morrison v. Nat'l Australia Bank Ltd.*, 561 U.S. 247, 255 (2010) (recognizing that the presumption is "a canon of construction" that applies in the absence of "a contrary intent" (internal citations and quotation marks omitted)); *Microsoft*, 550 U.S. at 444-45 (recognizing § 271(f) as a response to *Deepsouth*, which insisted on "a clear congressional indication of intent" (internal citations and quotation marks omitted)).

Applying the presumption against extraterritoriality to a statute is a two-step process. *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2101 (2016). The first step is straightforward; if the statute provides a "clear, affirmative indication that it applies extraterritorially," the presumption is rebutted and the analysis ends. *Id.* Even if the presumption is not rebutted, a statute may apply in cases where some conduct occurred abroad, so long as "the conduct relevant to the statute's focus occurred in the United States." *Id.*

Were the Court to focus only on § 271(f), the *RJR Nabisco* analysis would stop after the first step; § 271(f) has extraterritorial scope. *Microsoft*, 550 U.S. at 441. The text confirms this; § 271(f) bars the supply (with the requisite mental state) of certain components for use in combinations "that would infringe the patent if such combination occurred within the United States." 35 U.S.C. § 271(f)(1)–(2). Thus, the statute expressly concerns combinations that do *not* occur within the United States.

Of course, the question in this case pertains to the scope of § 284, but the analysis is not significantly more involved. As noted above, § 284 entitles a patentee to compensation for infringement, but it is § 271(f) that provides the needed definition of infringement in this case. Because it incorporates a statute that has extraterritorial scope, § 284 likewise has extraterritorial applications, at least for infringement under § 271(f). *See RJR Nabisco*, 136 S. Ct. at 2102 ("Congress's incorporation of . . . extraterritorial predicates into RICO gives a clear, affirmative indication" of extraterritorial application). Hence, the presumption against extraterritoriality does not operate as an independent limitation on damages in this case.[3]

Even if the *RJR Nabisco* analysis progresses to the second step, this Court's precedent precludes a *per se* rule, like the one adopted below, that extraterritorial activity cuts off the chain of causation. Statutes without extraterritorial scope may nevertheless apply to a course of conduct that is partly extraterritorial, so long as the activity that is the "focus" of the statute occurred domestically. *See RJR Nabisco*, 136 S. Ct. at 2101; *see also Morrison*, 561 U.S. at 266-67 (relying on the transactions that were the "focus" of the statute to determine whether an application was domestic).

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[3] It should be noted that the question presented to this Court pertains to extraterritoriality, and amicus IPO's brief limits itself to this issue and does not address other doctrines that might have been raised with respect to causation in this case.

As relevant to this case, the focus of § 284 is on compensation for "infringement."[4] Section 284 does not focus on the nature of the injuries for which compensation is due; the focus is on their cause. *See General Motors*, 461 U.S. at 655-56, n.10 (construing § 284 as requiring prejudgment interest be awarded, despite the silence of the statute, to effect statutory purpose of compensation). Nor does the statute dictate particular activity that must be shown to prove causation. *See King Instruments Corp. v. Perego*, 65 F.3d 941, 951 (Fed. Cir. 1995) ("Requiring exploitation of the claimed invention for a recovery of lost profits would cause a systematic failure to award 'damages adequate to compensate for the infringement' in cases where the patent holder could otherwise prove causation."). *Compare Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1156 (6th Cir. 1978) (listing, without discussion of § 284, four factors "a patent owner *must prove*" to obtain lost profits (italics added)) *with Rite-Hite*, 56 F.3d at 1544-45 (analyzing the Court's guidance in *General Motors* and *Aro II* regarding § 284 and concluding the *Panduit* factors were "useful, but non-exclusive").

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[4] Section 284 also mentions the "use made of the invention by the infringer" when discussing the statutory minimum for patent damages—a reasonable royalty—but the damages at issue in this appeal were based on WesternGeco's lost profits, as found by the jury.

The structure of the patent system further confirms that the focus of § 284 for the *RJR Nabisco* analysis is on the prohibited acts of infringement, rather than the location of the injury or the activity that might evidence the injury. Patents grant a right to exclude others from using the patented invention, and liability is attached to prohibited acts within the United States. 35 U.S.C. §§ 154, 271.

Despite the territorial nature of these rights, Congress clearly intended that foreign inventors and companies would benefit from the patent system in much the same way United States citizens and residents do. A patented invention could have been first made and patented abroad. *See* 35 U.S.C. § 104 (2006) (imposing limits on foreign activity that could be used to establish a date of invention) (repealed 2011); 35 U.S.C. § 119(a) (providing for U.S. patent applications to claim priority to earlier filed foreign patent applications). And Congress anticipated that the owner of a patent might not be present in the United States. *See* 35 U.S.C. § 293 (providing for jurisdiction in cases where the patentee does not reside in and has no designated agent in the United States); *see also* 35 U.S.C. § 261 (permitting foreign authorities to certify assignments of U.S. patents).

It is implicit in this structure that there will be cases in which a foreign entity—one that may not have a domestic presence—is injured by a competitor supplying components from the United States in violation of § 271(f). Those components may even be supplied for combination in the foreign entity's home country. Arguably, the injury in such a case would be entirely outside the United States, yet the patent laws provide a claim for infringement because activity that violates § 271(f) occurs domestically. *Cf. Morrison*, 561 U.S. at 267 n.9 (explaining that a domestic application of the statute at issue will still encompass some "transnational frauds").

Because the statutory focus is on the infringement for which compensation is due, the extraterritoriality of the injury or the activity used to prove the injury does not affect whether an award of damages in a given case constitutes a permissible, domestic application of § 284.

B. The Federal Circuit Arrived at Its Erroneous Decision Using Flawed Logic and by Ignoring Binding Precedent

The Federal Circuit erred by ignoring this Court's precedent, by misapplying the authorities it did consider, and by conflating liability with causation. Each of these errors undermines the persuasive weight to be given the Federal Circuit's decision in this case.

First, the Federal Circuit did not engage in the two-step analysis called for by *Morrison* and *RJR Nabisco*. As shown above, an application of that analysis to § 284 and § 271(f) shows that § 284 has extraterritorial reach in this case or, at least, that the damages in this case result from permissible domestic application.

Rather than turning to this Court's most recent guidance, the Federal Circuit relied heavily on certain language in its own decision from *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*. *See WesternGeco I*, 791 F.3d at 1350-51 (discussing *Power Integrations*, 711 F.3d 1348 (Fed. Cir. 2013)). The facts in *Power Integrations*, however, were markedly different from the ones that obtain here. First, the patentee in *Power Integrations* did not claim infringement under § 271(f). *See Power Integrations*, 711 F.3d at 1371-72 (discussing the patentee's theories of infringement and causation). Unlike direct infringement under § 271(a), § 271(f) concerns itself with the export of components of the patented invention bound for foreign markets. *See Microsoft*, 550 U.S. at 444-45.

Perhaps more importantly, the patentee in *Power Integrations* failed to show that its foreign lost profits were compensable because it failed to prove an adequate connection to the infringing activity in the United States, not because all foreign lost profits are prohibited by law. *See Power Integrations*, 711 F.3d at 1372 (finding "neither compelling facts nor a reasonable justification" for awarding "damages based on loss of sales in foreign markets"); *see also id.* at 1371 ("Power Integrations has not cited any case law that supports an award of damages for sales consummated in foreign markets, *regardless of any connection to infringing activity in the United States*." (emphasis added)). The patentee argued that it was entitled to world-wide damages as long as it "established *one* or more acts of direct infringement in the United States." *Id.*

In its decision below in this case, the Federal Circuit acknowledged the weak theory presented in *Power Integrations*:

> There, the patentee, a chip supplier, lost contracts . . . abroad because the accused infringer became a competitor for such contracts as a result of the U.S. infringing sales. . . . The patentee argued that it should recover world-wide lost profits.

WesternGeco I, 791 F.3d at 1350. There was no argument in *Power Integrations* that the particular units of the patented invention that were manufactured in the United States in violation of the patent were subsequently sold or used abroad. *See generally* 711 F.3d 1348. Accordingly, the Federal Circuit, in *Power Integrations*, did not attempt to justify a *per se* rule against damages based on foreign sales in all cases. *See id.* at 1371.

In *WesternGeco I*, the Federal Circuit likewise fails to provide any logical or persuasive reasoning to justify the *per se* rule it announced. Instead, the court below relied on broad pronouncements from

Power Integrations and this Court's decision in *Brown v. Duchesne*, 60 U.S. (19 How.) 183 (1856), which when taken out of context seem to dictate the holding below. But, as shown above, *Power Integrations* does not support the Federal Circuit's decision. Neither does *Duchesne*.

In *Duchesne*, this Court declined to find any infringement of a United States patent on an improved gaff for use on sailing vessels when a French vessel, built in France and manned by a French crew, entered Boston harbor. 60 U.S. at 193. This decision, however, was based on the principle that Congress could not impose the full impact of our national patent system against a foreign vessel during the short period during its international voyage while docked at a U.S. port or sailing within United States jurisdictional boundaries without "embarrass[ing] our commerce and intercourse with foreign nations, or endanger[ing] our amicable relations." *Id.* at 198. Awarding compensation in the present case does not raise Treaty Clause and international relations concerns because domestic infringement under § 271(f) has been established. Indeed, the *Duchesne* Court specifically noted the outcome would have been different if the patented invention "had been manufactured on [the ship's] deck while she was lying in the port of Boston." *Id.* at 196. If that were the case, the patentee would have been entitled to complete compensation. *Id.* Likewise, the infringer here is "justly answerable" to the patentee, even though the "chief and almost only advantage" derived from the invention "was on the high seas, and in other places out of the jurisdiction of the United States." *Id.*

The Federal Circuit erroneously concluded that these and similar authorities barred foreign-based damages because the court conflated proof of damages with liability. *See WesternGeco I*, 791 F.3d at 1351 ("[T]he United States exporter of the component parts cannot be liable for use of the infringing article abroad."). The defendant, ION, was not found liable for anything other than its infringing conduct, the supply of components in violation of § 271(f). Conversely, ION's customers, who won those contracts, are not defendants in the case and have not been found liable of infringement at all. The question at issue is whether the infringing conduct caused compensable harm in the form of lost services contracts. Conflating liability with causation led the Federal Circuit to reach the wrong result. Properly maintaining this distinction between liability and proof of damages resolves any concerns that U.S. patent law would "rule the world." *Microsoft*, 550 U.S. at 454.

Likewise, the Federal Circuit's concern that the award of lost profits in this case would render § 271(f) (covering components) broader than § 271(a) (covering complete inventions) is unfounded. Section 271(f) covers a narrow circumstance that § 271(a) does not cover and was specifically intended to have extraterritorial reach. *Deepsouth*, 406 U.S. at 528-

29; *Microsoft*, 550 U.S. at 444-45. Section 271(f) was intended to protect patent owners from sales abroad in the same way that § 271(a) protects patent owners from domestic sales. Permitting full compensation for the resulting extraterritorial injuries accomplishes this purpose.

CONCLUSION

The presumption against extraterritoriality is a canon of construction, not a limit on Congress's power to legislate. *Morrison*, 561 U.S. at 255. By enacting § 271(f), Congress granted some degree of protection to the owners of U.S. patents in foreign markets. By denying full compensation in any case where foreign activity is at issue, the Federal Circuit eviscerates the protection Congress intended to provide. This is the rare case where Congress has indicated an intent to give the law an extraterritorial application, and this Court's recent guidance has set a clear path for the lower courts to follow in such cases. This case therefore provides an opportunity for this Court to further illuminate the path for future cases. For all the foregoing reasons, IPO respectfully requests this Court to confirm that foreign activity may be used to show otherwise compensable injuries from patent infringement and to correct the Federal Circuit's erroneous application of the presumption against extraterritoriality in the present case.

Respectfully submitted,

D. Bartley Eppenauer
Counsel of Record
SHOOK, HARDY & BACON, L.L.P
701 Fifth Avenue
Suite 6800
Seattle, Washington 98104
(206) 344-7600

Patrick A. Lujin
Craig M. Edgar
SHOOK, HARDY & BACON, L.L.P
2555 Grand Blvd
Kansas City, Missouri 64108
(816) 474-6550

Kyle E. Friesen
SHOOK, HARDY & BACON, L.L.P
600 Travis Street, Suite 3400
Houston, Texas 77002
(713) 227-8008

Henry Hadad, *President*
Steven W. Miller, *Chair*,
Amicus Brief Committee
Mark W. Lauroesch,
Executive Director
INTELLECTUAL PROPERTY
OWNERS ASSOCIATION
1501 M Street, NW
Suite 1150
Washington, DC 20005
(202) 507-4500

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APPENDIX

APPENDIX[1]

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