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SUPREME COURT, U.S.

No. ___

In the Supreme Court of the United States

WESTERNGECO LLC,
Petitioner,

v.

ION GEOPHYSICAL CORPORATION,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Under 35 U.S.C. § 271(f), it is an act of patent infringement to supply "components of a patented invention," "from the United States," knowing or intending that the components be combined "outside of the United States," in a manner that "would infringe the patent if such combination occurred within the United States."

Under 35 U.S.C. § 284, patent owners who prevail in litigation are entitled to "damages adequate to compensate for the infringement."

In this case, despite affirming that Respondent was liable for infringement under § 271(f), the majority of a divided panel of the court of appeals held that Petitioner was not entitled to lost profits caused by the proscribed combination. The court of appeals reasoned that even when Congress has overridden the presumption against extraterritorial application of the law in creating *liability*, the presumption must be applied a second time to restrict *damages*.

The question presented is:

Whether the court of appeals erred in holding that lost profits arising from prohibited combinations occurring outside of the United States are categorically unavailable in cases where patent infringement is proven under 35 U.S.C. § 271(f).

CORPORATE DISCLOSURE

All parties are listed in the caption.

WesternGeco LLC is an indirectly, wholly owned subsidiary of Schlumberger Limited, which is a publicly traded company.

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INTRODUCTION

By statute, patent owners who prove infringement are 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). What damages are "adequate to compensate for the infringement" depends on the application of general tort principles to the facts of each case and can include lost profits in appropriate cases. Section 284 applies to damages for infringement under 35 U.S.C. § 271(f). Congress adopted § 271(f) in response to this Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). Subsection (f) defined new acts of patent infringement: Whoever, with the requisite mental state, exports components of a patented invention from the United States for combination "*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) (emphasis added). In enacting § 271(f), Congress treated a specific action within the United States (exporting from the United States with the intent to combine abroad) as sufficient to impose liability, knowing full well that the combination and ultimate use would occur abroad.

The issue in this case is whether infringers under § 271(f) should be liable for the full scope of damages available under § 284. The answer is plainly yes.

In reaching a contrary conclusion, the Federal Circuit has, once again, erected an artificial edifice nowhere supported by the text of the Patent Act—this time based on a fundamental misapplication of the presumption against extraterritoriality. In so doing,

the panel majority guts the remedies for the rights Congress created in subsection (f), departs from this Court's precedents, and interprets patent law in a manner inconsistent with the regional circuits' treatment of copyright law.

Over vigorous dissents at the panel stage, on petition for rehearing, and again on remand from this Court, the panel majority held that the presumption against extraterritoriality must be applied, not just to determine liability, but reapplied yet again to limit *damages*, even *after* liability is established. The result is to effectively eliminate lost profit damages where infringement is found under § 271(f), limiting patent owners only to a reasonable royalty. In this case, that artificial limit on available remedies made nearly a $100 million difference and allowed Respondent to facilitate the destruction of Petitioner's business model.

Neither this Court nor any other court of appeals has ever applied the presumption against extraterritoriality in such a duplicative manner. The result defeats Congress' intent in enacting § 271(f), as Congress plainly understood this new form of infringement would involve combinations abroad—leading to use and damages from infringement—and just as plainly made the full scope of damages under § 284, not just reasonable royalties, available to victims of such infringement. In addition to being inconsistent with congressional intent and more than a century of this Court's precedents, the panel majority's approach stands in stark contrast to the regional circuits' application of the predicate act doctrine to determine whether damages based on overseas sales are recoverable for acts of copyright infringement. If left unreviewed, the Federal Circuit's decision will substantially

diminish the remedies available to every patentee who would rely on § 271(f) to enforce its patents, effectively nullifying much of Congress' deliberate work in enacting § 271(f) more than thirty years ago. This Court should grant certiorari.

OPINIONS BELOW

The court of appeals' panel opinion and dissent following a GVR order from this Court (136 S. Ct. 2486) are reported at 837 F.3d 1358 (App. 1a-22a). Its previous panel opinion and dissent are reported at 791 F.3d 1340 (App. 23a-75a). And its order denying rehearing en banc, and the dissent of three judges from that order, are at 621 F. App'x 663 (App. 176a-180a).

The district court's opinion deciding post-trial motions is reported at 953 F. Supp. 2d 731 (App. 76a-140a). Its July 16 and June 29, 2012 orders—addressing motions in limine and summary judgment—are unreported and available at 2012 WL 2911968 (App. 141a-154a) and 2012 WL 2568167 (App. 155a-167a).

JURISDICTION

The court of appeals entered judgment on September 21, 2016. On December 13, 2016, the Chief Justice granted an extension to February 17, 2017, to file this petition (Docket No. 16A576). This Court has jurisdiction under 28 U.S.C. § 1254(1).

PERTINENT STATUTORY PROVISIONS

35 U.S.C. § 271(a)-(c) and (f) provide:

Infringement of patent.

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers

to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

* * *

(f)(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. § 284 provides in relevant part:

> **Damages.**
>
> Upon finding for the claimant the court shall award the claimant 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, together with interest and costs as fixed by the court.

STATEMENT OF THE CASE

A. Statutory Background

A patent owner may seek remedies in federal court "by civil action for infringement." 35 U.S.C. § 281. 35 U.S.C. § 271 defines patent infringement, and § 284 provides for damages upon proof of infringement.

1. Infringement (§ 271)

35 U.S.C. § 271 defines several different types of patent infringement. Subsection (a) defines direct in-

fringement as making, using, offering to sell, selling, or importing any patented invention, without a license and during the patent's term. Subsections (b) and (c) define indirect infringement—actively inducing or contributing to another's act of direct infringement. *See generally Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920 (2015); *Global-Tech Appliances v. SEB S.A.*, 563 U.S. 754 (2011).

Congress enacted subsection (f) in 1984, in response to this Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972). In *Deepsouth*, the defendant sold a machine covered by a patent, but never assembled the full machine in the United States. Instead, the defendant shipped components in three boxes to customers abroad, who could assemble the machine within an hour. 406 U.S. at 523-24. By a 5-4 vote, this Court held that the defendant could not be liable for infringement under then-existing 35 U.S.C. § 271. The defendant's customers' acts all took place abroad. *Id.* at 527. And the defendant did not make, use, sell, or offer to sell the entire patented machine in the United States, nor induce or contribute to such acts occurring in the United States. *Id.* at 528.

Congress enacted subsection (f) to 35 U.S.C. § 271 to change that result and close what it viewed as "a loophole in patent law." 130 CONG. REC. H10525 (1984). The Senate Report accompanying the final bill described § 271(f) as a "reversal of *Deepsouth*." S. REP. NO. 98-663, at 2-3 (1984). Section 271(f) makes "liable as an infringer" one who "supplies or causes to be supplied in or from the United States" components "of a patented invention," knowing or intending that the components will be combined "outside of the United

States in a manner that would infringe the patent if such combination occurred within the United States."

In § 271(f), Congress imposed liability on a specific act taking place within the United States (exporting with the requisite intent). Congress did so knowing full well that the combination and use, and thus damages, would occur abroad. Accordingly, this Court has described § 271(f) as an "exception" to "the general rule under United States patent law that no infringement occurs when a patented product is made and sold in another country." *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 441 (2007).

2. Damages (§ 284)

Patent owners who prove infringement are entitled to damages: "the court shall award the claimant 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.

Section 284 is a general damages provision that does not distinguish among types of infringement. This Court examined § 284 in *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983). Section 284's plain text makes clear that the damages remedy is not limited to a reasonable royalty, but such a reasonable royalty serves as an absolute floor to recovery. Rejecting an argument that § 284 did not authorize interest, *General Motors* concluded that the statute entitles a patent owner to "full compensation for 'any damages' he suffered as a result of the infringement," *id.* at 654-55 (citation omitted), and that "[w]hen Congress wished to

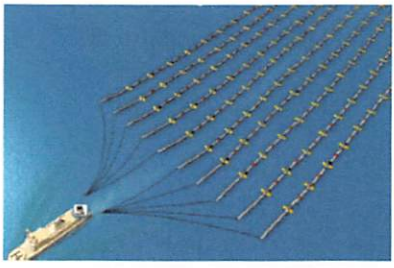
limit an element of recovery in a patent infringement action, it said so explicitly." *Id.* at 653.[1]

B. Factual Background

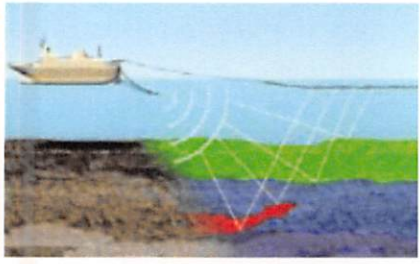
1. WesternGeco's Patents

WesternGeco developed and patented technology used in geological surveys to search for oil and gas under the ocean floor.

Under preexisting technology, a ship tows an array of streamers (miles-long cables filled with sensors) over the area to be surveyed, and an air gun sends soundwaves toward the ocean floor. Sensors in the streamers detect sound waves reflected off the earth's subsurface, and use the reflected soundwaves to map the geology under the ocean. App. 24a-25a.



ship towing streamer array



streamers detecting reflected sound waves

Surveys are expensive and time-consuming, but the resulting data are valuable to oil exploration companies. High-quality data are important because a company stands to lose hundreds of millions of dollars or more when it drills a well and finds no oil. CA App. 3072:1-18.

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[1] Indeed, sections 271(e)(4)(C), (e)(6)(B) carve out limited exceptions to the availability of money damages in circumstances not relevant here.

WesternGeco invented "lateral steering," which allows surveyors to control the movement of the streamers, rather than simply pulling them behind the ship. Lateral steering allows for more efficient surveys, and yields higher-quality data. CA App. 531, 1281:16-1282:6, 1283:10-1288:2, 1293:3-9, 1294:8-1298:3, 1513:14-1514:10.

After nearly a decade of research and nearly a hundred million dollars of investment, WesternGeco created the "Q-Marine," the first surveying system with lateral steering. CA App. 1776:9-22, 2612:18-2613:7, 2622:9-19.

Rather than selling the Q-Marine system or licensing its patents to competitors, WesternGeco used its invention to perform lateral-steering-enabled surveys *itself* for oil companies. Because no one else had lateral steering, WesternGeco could charge a premium over conventional surveys, and could negotiate directly (rather than bidding) with customers that wanted higher-quality surveys. From 2001 until late 2007, WesternGeco had 100% of the lateral steering market. In 2007 alone, it earned more than $500 million from Q-Marine surveys. CA App. 2695:8-12, 3302:11-23.

2. ION's Infringement

ION is based in Houston. In late 2007, ION began selling a competing survey system. ION shipped components of its system—"DigiFIN" streamer positioning devices and a "Lateral Controller"—from its Louisiana warehouse to surveying companies abroad for those companies to combine the components into a surveying system that undisputedly practices WesternGeco's patents.

Equipped with ION's system, ION's customers would compete directly with WesternGeco for survey contracts. App. 40a; CA App. 7000, 7006, 4474:4-8, 1312:3-1313:9, 1491:9-1492:18. Trial evidence showed that ION's infringement generated over $3 billion for ION and its customers. CA App. 3271:11-17, 10185-86, 10244-45.

Using ION's system, competitors of WesternGeco performed 101 lateral-steering-enabled surveys. WesternGeco lost at least ten specific survey contracts (worth $6 to $45 million each) to ION's customers. App. 40a-41a. But for ION's infringement in violation of § 271(f), the jury found, WesternGeco would have obtained at least those ten contracts. App. 175a (jury verdict). And even for contracts that WesternGeco did obtain, WesternGeco was forced to lower prices to compete with ION's customers. CA App. 1314:22-1315:17, 2695:13-16, 7340.

ION developed its competing system as part of a plan "to compete in the market space that WesternGeco has created." CA App. 8052, 7000, 7006. ION undisputedly knew of WesternGeco's patents before it made its first sale. CA App. 3790:11-16, 3996:20-3997:13. Indeed, ION's customers concluded that surveys using ION's system would infringe WesternGeco patents, and requested indemnity from ION. CA App. 8070-74, 7072-73, 7338, 2099:16-2100:9, 7091-99, 8062-68, 5243:6-5244:16, 8069, 5553:17-5554:13.

C. District Court Proceedings

WesternGeco sued ION for infringement under 35 U.S.C. §§ 271(f)(1) and (f)(2). ION "supplie[d]... from the United States" components "of a patented invention" for combination outside the United States by its

customers, and otherwise met all elements of both subsections of § 271(f).[2]

The jury found ION liable for infringement, and awarded damages, with a $12.5 million royalty component and a $93.4 million lost profits component. App. 170a-175a. The jury also concluded that ION's infringement was willful. App. 174a-175a. The district court upheld the verdict, App. 76a-105a, but did not find "objective" willfulness under the Federal Circuit's governing standard before this Court's decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016).

D. Appeals

The court of appeals unanimously affirmed the judgment that ION was liable for infringement and the district court's finding of no objective willfulness. The court rejected ION's challenges to WesternGeco's ownership of some of the patents, App. 28a-35a, and rejected ION's challenge to a pretrial ruling that ION infringed one patent claim under § 271(f). App. 35a-40a (majority decision); App. 54a (dissent, agreeing that ION is liable). The panel, however, divided over the issue of remedies.

1. Reversal of Lost Profits

The panel majority held that the jury's award of lost profits—approximately $93 million of the $106 million award—must be reversed. App. 40a-48a. Relying primarily on the presumption against extraterritoriality and an earlier Federal Circuit decision, *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711

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[2] WesternGeco also sued ION's customer Fugro. Fugro settled during trial.

F.3d 1348 (Fed. Cir. 2013), the majority concluded that profits lost outside of the United States are unavailable as a matter of law despite § 271(f)'s express coverage of combinations abroad arising from U.S. exports. App. 40a-48a.

Power Integrations, however, concerned infringement only under 35 U.S.C. §§ 271(a) and (b)—*not § 271(f)*. The patent covered chips used in electronic power supplies. The patentee sought damages not only for chips made or sold in the United States, but for *worldwide* sales of *all* the defendant's chips—including chips that were entirely manufactured and sold abroad and never entered the United States. *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 589 F. Supp. 2d 505, 510-11 (D. Del. 2008). The foreign sales in *Power Integrations* plainly fell outside of § 271(a). Moreover, those sales did not have the nexus to the United States that § 271(f) requires—namely, export of components from the United States with the requisite intent. Thus, the sales in *Power Integrations*—unlike here—were "not infringement at all" under § 271, and could not be the basis for damages, as the Patent Act provides for "damages adequate to compensate *for the infringement*." 711 F.3d at 1371 (quoting 35 U.S.C. § 284).

Despite these fundamental differences, the panel majority in this case treated *Power Integrations* as legally controlling here. The majority disregarded that infringement under § 271(f) was complete upon ION's export of the components (with the requisite intent that the components be combined abroad). Instead, the majority denied lost profits merely because the survey contracts WesternGeco lost by ION's infringement "were all to be performed on the high seas, outside the

jurisdictional reach of U.S. patent law." App. 41a. The majority found that WesternGeco was "still entitled to a reasonable royalty," App. 45a, but eliminated $93 million of the jury's $105 million damage award. App. 40a-48a, 52a-53a.

Judge Wallach dissented from the reversal of lost profits. App. 54a-75a. In his view, the majority misread *Power Integrations*, conflated damages with liability, failed to account for differences between § 271(a) and § 271(f), and created a "near-absolute bar to the consideration of a patentee's foreign lost profits [that] is contrary to the precedent both of this court and of the Supreme Court." App. 75a.

WesternGeco petitioned for rehearing en banc, which the court denied. App. 176a-177a. Judge Wallach, joined by Judges Newman and Reyna (the author of *Power Integrations*), dissented. App. 178a-180a. The dissent reaffirmed the points made in Judge Wallach's panel dissent, and added that the majority decision was "at odds with the longstanding and analogous 'predicate act' doctrine in the copyright context[, which] holds that a copyright owner 'is entitled to recover damages flowing from the exploitation abroad of ... domestic acts of infringement.'" App. 179a (quoting and citing cases from three circuits).

2. GVR and Remand

WesternGeco petitioned for certiorari, raising two questions:

> 1. Whether the court of appeals erred in holding that damages based on a patentee's so-called "foreign lost profits" are categorically unavailable in cases of patent infringement under 35 U.S.C. § 271(f).

> 2. Whether the Court should hold this petition for *Halo* [*Electronics, Inc. v. Pulse Electronics, Inc.*, No. 14-1513] and *Stryker* [*Corp. v. Zimmer*, No. 14-1520].[3]

Pet. for Cert. at ii, *WesternGeco LLC v. ION Geophysical Corporation*, No 15-1085 (filed Feb. 26, 2016). After this Court decided *Halo* and *Stryker*, it granted WesternGeco's petition and issued a GVR order. 136 S. Ct. 2486 ("Judgment vacated and case remanded to the United States Court of Appeals for the Federal Circuit for further consideration in light of *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, [] 136 S. Ct. 1923 [] (2016).").

On remand, the Federal Circuit panel majority vacated the district court's judgment solely as to the denial of enhanced damages and remanded that limited issue "for further proceedings consistent with this opinion and with the Supreme Court's decision in *Halo*." App. 2a. In all other respects, the Federal Circuit "reinstate[d] [its] earlier opinion and judgment," App. 2a-3a, including as to lost-profit damages. App. 4a-5a & n.1.

Judge Wallach again dissented in part, explaining further why the reinstated portion of the Federal Cir-

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[3] In a clause not at issue in this petition, 35 U.S.C. § 284 provides that "the court may increase the damages up to three times the amount found or assessed." In *Halo* and *Stryker*, this Court overruled the Federal Circuit's legal framework for awarding enhanced damages under 35 U.S.C. § 284. Because the district court and the Federal Circuit had both applied that now-obsolete framework in this case to the question whether to enhance WesternGeco's damages, WesternGeco's petition requested a GVR order on that issue.

cuit's earlier decision established an erroneous rule limiting damages in § 271(f) patent cases. App. 13a-22a. In Judge Wallach's view, ION's challenge to the lost profits portion of the damage award raised "complex factual issues" of proximate cause—i.e., whether there is a sufficient connection between ION's misconduct and WesternGeco's damages. App. 21a-22a. Such factual issues are the province of trial court discretion and jury factfinding, to be reviewed deferentially on appeal. *Id.* Instead, the majority resolved those issues by formulating "[a]n unduly rigid rule barring the district court from considering foreign lost profits even when those lost profits bear a sufficient relationship to domestic infringement." App. 22a. In Judge Wallach's view, the majority's categorical approach—in essence barring lost profits damages in § 271(f) cases—was akin to the "class of unduly rigid rules the Supreme Court has repeatedly cautioned against, including in its [*Halo*] decision that led to the present remand." App. 17a (citations and internal quotation marks omitted).

REASONS TO GRANT THE WRIT

I. The Federal Circuit's Decision is Fundamentally Wrong, Inconsistent With This Court's Precedents, And Misapplies the Presumption Against Extraterritoriality.

A. The Federal Circuit's Decision is Contrary to This Court's Precedent Applying the Presumption Against Extraterritoriality.

The panel majority's decision depends on misconstruction of the Patent Act and a misapplication of the presumption against extraterritorial application of U.S. law. Specifically, the majority relied on a princi-

ple that this Court has never embraced and that is particularly inapposite in the § 271(f) context: that the presumption against extraterritoriality must be applied first to determine what *conduct* subjects a defendant to liability, and then *again* to limit *remedies* once liability is established. App. 41a-48a; *see also Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1306 (Fed. Cir. 2015) (citing the panel's ruling in this case for the proposition that the presumption against extraterritoriality "applies not just to identifying the conduct that will be deemed infringing but also to assessing the damages that are to be imposed for domestic liability-creating conduct.").

The presumption against extraterritoriality is, of course, a well-known canon of statutory construction. *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2100 (2016). The presumption aids courts in "discern[ing] whether an Act of Congress regulating conduct applies abroad." *Kiobel v. Royal Dutch Petroleum Co.*, 133 S. Ct. 1659, 1664 (2013) (emphasis added). Courts presume that statutes regulating conduct do not apply abroad unless traditional tools of statutory interpretation reveal "a clear indication of extraterritorial effect." *RJR Nabisco*, 136 S. Ct. at 2102; *Morrison v. Nat'l Austl. Bank, Ltd.*, 561 U.S. 247, 255 (2010). The presumption is longstanding, *see, e.g.*, *United States v. Palmer*, 16 U.S. (3 Wheat.) 610, 633-34 (1818), and "applies with particular force in patent law." *Microsoft*, 550 U.S. at 453-54.

Section 271(f) provides a "clear indication" that Congress wanted to capture certain conduct with a U.S. nexus and a foreign impact. In particular, Congress treated the export of components from the United States as a sufficient territorial nexus to subject the

exporter to infringement liability for facilitating the combination and sale abroad of those components. To that extent, it is an "exception" to "the general rule under United States patent law that no infringement occurs when a patented product is made and sold in another country." *Microsoft*, 550 U.S. at 441. Of course, the nexus to the United States was critical to Congress' judgment and so the presumption against extraterritoriality is important to determining whether the United States conduct is sufficient to support liability for foreign sales. Thus, in *Microsoft* this Court applied the presumption in concluding that § 271(f)'s reference to "suppl[ying]" "components" of a patented invention did not apply to Microsoft's export of a software master disk for copying abroad. *Id.* at 455-56.

But whatever the scope of *liability* under a statute (given the presumption against extraterritoriality), this Court has not taken the further step of holding that the presumption against extraterritoriality applies yet again to limit *damages*. Rather, this Court's recent cases applying the presumption against extraterritoriality focus on the substantive elements of a statutory cause of action; none purport to apply the presumption again to limit the available damages once liability is established. *See RJR Nabisco*, 136 S. Ct. at 2101-2111 (civil RICO causes of action); *Kiobel*, 133 S. Ct. at 1665-66 (Alien Tort Statute); *Morrison*, 561 U.S. at 262 (conduct prohibited under securities laws); *Microsoft*, 550 U.S. at 454-56 (§ 271(f)); *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 255 (1991) (employment practices).

That double-counting of the presumption against extraterritoriality has no support as a general matter, and it would be particularly inapposite in the context

of § 271(f). Congress was absolutely clear about its intent to reach extraterritorial acts of combination and uses if they followed an export from the United States with the requisite intent. To limit the damages inflicted by those combinations and sales because they occurred abroad is to eviscerate what Congress intended in enacting § 271(f) and overruling *Deepsouth*. If the components were exported from the United States with the requisite intent, then Congress positively wanted to provide a damages remedy for the resulting foreign combinations and sales. While it makes perfect sense to apply the presumption to the condition, it positively frustrates Congress' will to apply it to limit damages where, as here, the condition is satisfied.

The Federal Circuit's approach would allow the presumption against extraterritoriality to swallow most of § 271(f), largely negating the exception created by the statute's plain language. Both subsections of § 271(f) refer to the intended or actively induced "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" as part of the definition of infringement. The presumption against extraterritoriality appropriately applies to resolve questions about what actions incur infringement liability under § 271(f). Once infringement liability is established, however, there is no reason to apply the presumption against extraterritoriality *again* to impose artificial limits on the remedies available. It is counterintuitive, to say the least, that such a "combination outside the United States" is part of the definition of infringement, yet the presumption against extraterritoriality forbids *damages* flowing directly from that combination. The court of appeals cited no authority for that proposition other than its own *Power*

Integrations decision. But *Power Integrations* dealt with infringement under § 271(a), which reflects no comparable congressional judgment to target certain extraterritorial conduct as long as a specified nexus to the United States is satisfied.

The panel majority's application of the presumption against extraterritoriality would also swallow the rule of § 284 and *General Motors* that patentees are entitled to "full compensation," and that "element[s] of recovery" should not be limited unless Congress has "said so explicitly." 461 U.S. at 653. *See* § I.B, *infra*. The decision below uses the presumption against extraterritoriality to turn § 284 on its head: if Congress wished to *permit* an element of recovery (such as lost profits) in a § 271(f) case, it must say so explicitly.

Such a rule amounts to a presumption that not only does Congress not legislate extraterritorially—but when it does, it does so as ineffectively as possible. This Court has never endorsed any such principle, and has consistently rejected arguments for a presumption that Congress enacts ineffective or self-defeating laws. *Am. Broad. Cos. v. Aereo, Inc.*, 134 S. Ct. 2498, 2511 (2014); *The Emily*, 22 U.S. 381, 388, 390 (1824); App. 64a n.2 (dissent, noting "the majority's statement ignores the critical distinction between *whether* a defendant is liable and *the amount for which* a defendant is liable").

That is not to say that there are no meaningful limits on damages in patent cases, either generally or in § 271(f) cases in particular. Patent infringement is a tort. *Carbice Corp. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33, *supplemented* 283 U.S. 420 (1931); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 500-01 (1964). And common-law tort principles such as

proximate cause and foreseeability appropriately cabin damages in patent cases. *See* RESTATEMENT (2D) OF TORTS § 912 (1979); *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1393-94 (2014) (discussing proximate cause). As Judge Wallach's dissenting opinions in this case note, those principles—rather than artificial rules with no statutory basis—should have driven the damages analysis here. App. 17a-22a; App. 66a ("*Power Integrations* ... merely applies the sensible requirement that there be an appropriate connection between the infringing activity and the resulting lost sales.").

B. The Federal Circuit's Decision is Contrary to This Court's Precedents Regarding Damages for Patent Infringement.

The Federal Circuit's categorical bar to lost-profits damages in § 271(f) cases is contrary to the text of § 284 and to this Court's decision in *General Motors*. In *General Motors*, this Court construed § 284 and rejected the argument that interest should only be awarded in exceptional circumstances. 461 U.S. at 656-57. The Court explained that § 284 ensures that a "patent owner would in fact receive *full compensation* for 'any damages' he suffered as a result of the infringement." *Id.* at at 654-55 (emphasis added)). That explanation is consistent with the text of § 284, which makes plain that reasonable royalties are a floor, not a ceiling. That explanation is likewise consistent with the principle that damages for patent infringement—as with most torts—should put the patentee in the position he would have been but for the infringement. *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552 (1886) ("the difference between his pecuniary condition after the

infringement, and what his condition would have been if the infringement had not occurred"); *see also Coupe v. Royer*, 155 U.S. 565, 582 (1895); *Aro*, 377 U.S. at 507. And it is inconsistent with the notion that, in adopting § 271(f), Congress contemplated that something less than the full panoply of patent damages would be available.

Indeed, *General Motors* could not be clearer: "When Congress wished to limit an element of recovery in a patent infringement action," *General Motors* explained, "it said so explicitly." 461 U.S. at 653. It did nothing of the sort here. By contrast, in adopting 35 U.S.C. §§ 271(e) (4)(C), (e)(6)(B), Congress did exactly that. The panel majority's approach here is, thus, neither sanctioned by the text of § 284 nor this Court's decision in *General Motors*.

The court of appeals' decision is also contrary to *Goulds Manufacturing Co. v. Cowing*, 105 U.S. 253 (1881), and *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915). *Goulds* holds that transactions abroad *can* be the basis of an award of lost profits damages for patent infringement. *Goulds* relied in part on gas pumps sold in Canada to calculate an award of lost profits. *Gould* explained that the appellant proved that the profits were, in fact, lost because of the infringement—it could easily, and with reasonable promptness, [have filled] every order that was made" by the defendant. App. 57a-58a (dissent, internally quoting *Goulds*, 105 U.S. at 256). Likewise, *Dowagiac* reaffirmed the rule of *Goulds* by implication, though it rejected a portion of the damages award. Some of the defendants were wholesalers who purchased drills in Canada and resold them in Canada. 235 U.S. at 643, 650. *Dowagiac* distinguished *Goulds*

by noting that in *Goulds* "the defendant made the infringing articles in the United States. Here, while they were made in the United States, they were not made by the defendants." *Id.* at 650; *see also* App. 58a (dissent, discussing *Dowagiac*).

Consistent with the "full compensation" principle articulated in *General Motors*, *Goulds* holds—and *Dowagiac* reaffirms—that so-called "foreign" sales can be the basis of an award of lost profits, *so long as they are tied to infringing activity in the United States.* The law does not require more. The panel majority's holding that "lost profits cannot be awarded" for "lost contracts for services to be performed abroad," App. 40a, is directly contrary to *Goulds* and these basic principles of damages law.

II. The Federal Circuit's Decision Creates a Patent-Specific Rule in Tension With Copyright Law's Predicate Act Doctrine.

As three judges noted in dissenting from denial of rehearing en banc, the decision below conflicts with the longstanding "predicate act" doctrine of copyright law adopted by the regional courts of appeals. App. 178a-179a. This Court should, thus, grant review to resolve this split in approach to closely related areas of law.

Patent law and copyright law have a "historic kinship." *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984). They come from the same clause of the Constitution. *Accord* U.S. Const. Art. I, § 8; *see Fox Film Corp. v. Doyal*, 286 U.S. 123, 131 (1932). And this Court has historically construed both statutes with reference to the same background principles. *See, e.g., Global-Tech*, 563 U.S. at 763 ("Our decision in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S.

913 (2005) ... looked to the law of contributory patent infringement for guidance in determining the standard to be applied in a case claiming contributory copyright infringement."); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006) (addressing injunctions under the Patent Act and noting "[t]his approach is consistent with our treatment of injunctions under the Copyright Act."); *Eldred v. Ashcroft*, 537 U.S. 186, 201-02, 215-17 & n.22 (2003) (examining patent law to inform copyright law question and recognizing that reasoning from one body of law may apply with particular force to the other); *Fox Film*, 286 U.S. at 131 ("[I]n this aspect royalties from copyrights stand in the same position as royalties from the use of patent rights, and what we have said as to ... copyrights applies as well, mutatis mutandis, to patents ....").

In contrast to the rule the panel majority invented for patents in this case, at least three circuits have held that a copyright owner can obtain damages based on foreign sales so long as the initial infringement occurred in the United States and the foreign sales are directly linked to that infringement. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939) (L. Hand, J.), *aff'd* 309 U.S. 390 (1940); *Tire Eng'g & Distrib., LLC v. Shandong Linglong Rubber Co.*, 682 F.3d 292, 307-08 (4th Cir. 2012); *Los Angeles News Serv. v. Reuters Television Int'l, Ltd.*, 149 F.3d 987, 992 (9th Cir. 1998).[4] No circuits hold otherwise, and dis-

[4] The Federal Circuit has also acknowledged copyright law's predicate act doctrine. *Halo Creative & Design Ltd. v. Comptoir Des Indes Inc.*, 816 F.3d 1366, 1371 (Fed. Cir. 2016). Two other Circuits have also either acknowledged the doctrine in dictum or applied the same principle without explicitly calling it the "predicate act doctrine." *See Liberty Toy Co. v. Fred Silber Co.*, 149 F.3d 1183 (table), 1998 WL 385469, at *3 (6th Cir. 1998) (unpublished)

trict courts in three other circuits have acknowledged or applied the doctrine.[5]

Tellingly, Judge Hand's opinion in *Sheldon* relied explicitly on *Goulds* and *Dowagiac*—cases from this Court addressing *patent infringement* damages for the operative principle. 106 F.2d at 52. The *Sheldon* defendant produced a movie using copyrighted material, made negatives in the United States, and showed the film abroad. *Id.* Copying the negatives was forbidden by copyright law. *Id.* Thus, *Sheldon* reasoned, "[t]he plaintiffs acquired an equitable interest in [the copies] as soon as they were made, which attached to any profits from their exploitation." *Id.* And because the exhibition abroad was based on copying in the United States, the court "need not decide whether the law of those countries" recognized the plaintiff's copyright. *Id.* (citing *Goulds* and *Dowagiac*). This Court affirmed (albeit without directly addressing the predicate act doctrine). 309 U.S. 390 (1940).

("[A]s long as some act of infringement occurred in the United States, the Copyright Act applies."); *Palmer v. Braun*, 376 F.3d 1254, 1258 (11th Cir. 2004) (per curiam) (citing *Sheldon*)). Over a dissent, the Ninth Circuit in *Los Angeles News Service v. Reuters Television International, Ltd.* recognized the predicate act doctrine, but limited the plaintiff's damages to the infringer's profits. 340 F.3d 926, 931 (9th Cir. 2003); *see also id.* at 932-33 (Silverman, J., dissenting).

[5] *See ICONICS, Inc. v. Massaro*, 192 F. Supp. 3d 254, 262-63 (D. Mass. 2016); *Palmer/Kane LLC v. Houghton Mifflin Harcourt Publ'g Co.*, No. 13-CV-11030, 2014 WL 183774, at *3 (D. Mass. Jan. 16, 2014); *Bavendam v. Pearson Educ., Inc.*, No. 13-CV-3096, 2013 WL 5530008, at *5-*6 (D.N.J. Oct. 3, 2013); *Geophysical Serv. Inc. v. ConocoPhillips Co.*, No. 15-CV-2766, 2016 WL 2839286, at *3-*5 (S.D. Tex. May 13, 2016).

Following *Sheldon*, the Second Circuit has repeatedly reaffirmed the predicate act doctrine, *Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988). Other circuits have have also adopted the doctrine, and no circuit to Petitioners' knowledge has rejected it. *See Tire Eng'g*, 682 F.3d at 306 (describing the doctrine as "fundamental"). Each circuit has given due regard to the presumption against extraterritoriality and concluded that that presumption is not violated because the predicate act doctrine is rooted in domestic wrongful conduct and cabined by safeguards such as proximate cause and statutes of limitations. *See, e.g.*, *Tire Eng'g*, 682 F.3d at 306-08; *Palmer*, 376 F.3d at 1258.

To be sure, copyright law and patent law "are not identical twins," doctrine from one area should not be imported unthinkingly into the other, and differences between the statutes must be respected. *Sony*, 464 U.S. at 439 n.19. But nothing in the Patent Act's text or history is incompatible with the principles underlying the predicate act doctrine. Quite the opposite: as noted, Judge Hand's opinion in *Sheldon* relied on two of this Court's patent cases (*Goulds* and *Dowagiac*). Further, Congress' enactment of § 271(f) is an explicit recognition that patentees should have recourse where domestic conduct causes injury abroad. More fundamentally, the Federal Circuit's ruling in this case was not based on any text in the Patent Act, but instead on a judicial assessment that—contrary to the Second, Fourth, Ninth, and Eleventh Circuits in copyright cases—it follows from the presumption against extraterritoriality that damages for so-called "foreign lost profits" cannot lie. There is no principled basis for patent and copyright law to take different approaches, and

this Court should grant certiorari to decide which is correct.

III. The Question Presented Is Important To The Enforcement of Section 271(f).

Section 271(f) is an important provision of the Nation's patent laws, which Congress adopted in response to what was, in its view, an unduly narrow approach to the rights and remedies of patent owners. However, in its decision below, the panel majority has effectively eviscerated one of the principal remedies that Congress provided for infringement under § 271(f). The gap Congress closed by enacting § 271(f) involved combinations and sales abroad. As the dissenting judge explained, by establishing a "near-absolute bar to the consideration of a patentee's foreign lost profits," App. 75a, the panel majority eviscerated Congress' intent to prohibit such acts and provide damages as a remedy.

Here, as in all other patent cases, a patent owner should be able to recover its full measure of damages where the evidence supports it under basic tort-law principles. Indeed, Congress made clear in §284 that reasonable royalties are a floor, not a ceiling. Nothing in the text nor structure of the patent laws supports a § 271(f) exception to those time-tested principles. And it would be particularly anomalous to limit damages for infringement under § 271(f) due to the foreign locus of the combination, because Congress expressly aimed to reach foreign combinations that follow an export from the United States with the requisite intent.

The ability of patentees to collect profits lost due to competition caused by infringement is important to the patent system, and grounded in the Constitution. Under Article I, Section 8, Congress is empowered to offer

limited property rights to inventors as an incentive to innovate: "[F]or limited Times," inventors receive "*the exclusive Right*" to their inventions, after which those inventions become part of the public domain. U.S. Const. Art. I, § 8 (emphasis added).

That exchange (innovation and disclosure in exchange for exclusive property rights) is particularly important where—as it often is, and was here—the cost of inventing is high and the cost of copying is low. *See, e.g.*, Mark A. Lemley, *IP in a World Without Scarcity*, 90 N.Y.U. L. Rev. 460, 482 (2015). A company that recoups its research and development costs by charging $10 for a patented product during the patent term is not made whole by "royalties" from an infringing competitor who can sell essentially at cost, for $1 per product. *See* Fed. Trade Comm'n, GENERIC DRUG ENTRY PRIOR TO PATENT EXPIRATION: AN FTC STUDY at viii (July 2002) ("[A] generic applicant's potential liability for lost profits on the brand-name drug will usually vastly exceed its own potential profits after market entry."). The basic patent bargain promises a monopoly for a reason, and the lost-profits remedy is necessary *ex ante* to induce innovators to undertake the investment necessary to invent. The promised monopoly is dramatically diluted if others can practice the invention right away in exchange for only royalties.

By categorically denying lost profits to patentees whose businesses involve exports, the Federal Circuit creates perverse incentives that are readily apparent. Innovators in WesternGeco's situation considering whether to invest in inventions that are readily broken down into component parts for export and assembly (including on the high seas) will know, *ex ante*, that the patent laws will offer them relatively little protection

even against adjudged infringers under § 271(f). Potential infringers such as ION will know *ex ante* that, for patents whose owners rely on § 271(f), they risk little from infringing those patents other than a potential tax on their profits, in the form of royalty damages. This lowers the risk associated with infringement and thereby discourages fundamental innovations.

Moreover, the Federal Circuit's rule invites domestic manufacturers seeking to avoid or minimize patent liability *to do exactly what was done in Deepsouth*, and engage in the precise conduct that § 271(f) was adopted to deter—avoid assembling infringing products in the U.S. and instead ship U.S.-made components overseas for final assembly. Under the decision below, doing so effectively eliminates the risk of lost-profit damages, leaving only the potential for "royalties" based on the cost of transferring components, rather than "make-whole" damages based on the value of the fully assembled system. Such a pathway to what might be called "efficient infringement" from the infringer's perspective could make even willful infringement palatable, by reducing the threat posed by treble damages. Needless to say, that cannot be what Congress intended when it adopted § 271(f) to close the "loophole" created by *Deepsouth*. 130 CONG. REC. H10525.

Those concerns are not hypothetical; this case vividly illustrates them. WesternGeco developed an invention at substantial cost, and proved to the jury's satisfaction that ION's infringement caused it more than $100 million in lost surveys. WesternGeco is not made whole by "royalties" from a competitor like ION who can profit by selling the competing system for little more than the cost of manufacturing and shipping it. Meanwhile, the evidence showed that ION made a *calculated decision*

to infringe WesternGeco's patents and to structure its business in a way to try to minimize its damages risk. To be clear, ION knew of WesternGeco's patents, ION's customers requested indemnities for these specific patents, and the jury found that ION's infringement was willful. *See Statement of the Case § B.2, supra.* Removing any doubt that the Federal Circuit rendered WesternGeco's victory Pyrrhic at best—and that ION's choice to infringe paid off—ION issued a press release the day the court of appeals' opinion issued upholding the royalty damages but reversing lost profits, hailing the result as "a total victory for our Company."[6]

There can be no doubt that the Federal Circuit's approach substantially undoes Congress' work in enacting § 271(f). Yet, Congress thought this Court's decision in *Deepsouth* significant enough that it enacted § 271(f) in direct response.[7] Legislative history indicates that Congress thought that a legislative solution was necessary to prevent precisely the sorts of perverse incentives the Federal Circuit's decision creates. *See* S. REP. NO. 98-663, at 3 (§ 271(f) is "needed to help maintain a climate in the United States conducive to invention, innovation, and investment."); *Id.* ("Permitting the subterfuge which is allowed under the *Deepsouth* interpretation of the patent law," the Senate Report

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[6] *ION Announces Ruling in Appeal on WesternGeco Patent Infringement Lawsuit* (July 2, 2015) (quoting ION's CEO), *at* http://www.iongeo.com/News_and_Events/Press_Releases/Press_Release/?id=2064596 (last visited Feb. 15, 2017).

[7] *See Microsoft*, 550 U.S. at 442-43; *see also* 130 CONG. REC. H10525 (daily ed. Oct. 1, 1984) (§ 271(f) "responds to ... *Deepsouth*") (Rep. Kastenmeier); S. REP. NO. 98-663, at 2-3 (1984) ("reversal of *Deepsouth*"); 130 CONG. REC. H10525 (§ 271(f) is "a legislative solution to close a loophole in patent law.").

accompanying the final bill explained, "weakens confidence in patents among businesses and investors."). Given this history, it is no surprise that three times in the past decade this Court has requested the Solicitor General's views in cases involving § 271(f). *Microsoft Corp. v. AT&T Corp.*, 547 U.S. 1096 (2006) (CVSG order); *Maersk Drilling USA, Inc. v. TransOcean Offshore Deepwater Drilling, Inc.*, 134 S. Ct. 381 (2013) (CVSG order); *Life Techs. Corp. v. Promega Corp.*, 136 S. Ct. 290 (2015) (CVSG order). In two cases, the Solicitor General urged the Court to grant certiorari, while the third settled before the Solicitor General filed a brief. In both briefs, the Solicitor General emphasized the importance of § 271(f) and the serious consequences of the Federal Circuit tampering with the balance of incentives Congress struck in that statute. Br. of United States as Amicus Curiae at 17-19, *Microsoft Corp. v. AT&T Corp.*, No. 05-1056 (filed Sept. 29, 2006); Br. of United States as Amicus Curiae at 20-21, *Life Technologies Corp. v. Promega Corp.*, No. 14-1538 (filed May 11, 2016).

The Federal Circuit's ruling in this case is much more far-reaching than *Microsoft* or *Life Technologies*. In contrast to those cases, the ruling here is categorical. It affects the *scope of remedies* available in virtually all § 271(f) cases. What Congress gave patentees with § 271(f), the court of appeals largely took away by sharply limiting the remedies available to patentees who might rely on it. Whereas § 284 provides patentees with reasonable royalties as a floor —"in no event *less* than a reasonable royalty for the use of the invention made by the infringer"—the court of appeals has effectively converted that floor into a ceiling for victims of § 271(f) infringement. *See* App. 45a. When Congress wants to limit a patent owner to reasonable roy-

alty damages, it knows exactly how to do so. *See, e.g.*, 35 U.S.C. § 271(e)(6)(B) . It did nothing of the sort here, and neither the text of § 271(f) nor § 284 supports the curtailment of patent damages adopted by the panel majority. Thirty years after Congress legislated to overrule *Deepsouth*, it should not be forced to pass new legislation to say "we really mean it."

CONCLUSION

The petition for a writ of certiorari should be granted.

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