No. 14-1538

IN THE

# Supreme Court of the United States

LIFE TECHNOLOGIES CORPORATION; INVITROGEN IP HOLDINGS, INC.; APPLIED BIOSYSTEMS, LLC,

*Petitioners,*

v.

PROMEGA CORPORATION,

*Respondent.*

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

## SUPPLEMENTAL BRIEF OF PETITIONERS

CARTER G. PHILLIPS*
ROBERT N. HOCHMAN
ERIKA L. MALEY
SIDLEY AUSTIN LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000
cphillips@sidley.com

*Counsel for Petitioners*

* Counsel of Record

May 27, 2016

TABLE OF CONTENTS

## TABLE OF AUTHORITIES

CASES Page



STATUTE



SCHOLARLY AUTHORITIES

TABLE OF AUTHORITIES

## INTRODUCTION

As the United States recommends, the "petition for a writ of certiorari should be granted." Br. for the United States as Amicus Curiae (Br.) 1. The United States agrees that the Federal Circuit's interpretation of 35 U.S.C. § 271(f)(1) is incorrect in a way that both "impinges on legitimate foreign sovereign interests," Br. 18 (alterations omitted), and threatens "far-reaching implications for U.S. export trade," *id.* at 19. This Court's review of the second question presented—concerning the interpretation of the phrase "all or a substantial portion of the components of a patented invention"—is therefore urgently needed.

Respectfully, petitioner submits that this Court should also review the first question presented—concerning whether a party can "actively induce" itself to engage in conduct abroad—even though the United States recommends declining review of that issue. This issue involves the meaning of the same statutory subsection the United States recommends considering, and reviewing both questions together would enable this Court to consider the statute as a whole in light of its overarching purpose when giving meaning to its terms. This more robust approach is particularly valuable here because, as this Court recognized in *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437 (2007), section 271(f) is intended to be a narrow exception to the fundamental "presumption that United States law governs domestically but does not rule the world." *Id.* at 454–55. The combined effect of the Federal Circuit's erroneous holdings on both questions vastly increases the extraterritorial reach of the statute.

## I. THE COURT SHOULD FOLLOW THE UNITED STATES' RECOMMENDATION TO GRANT REVIEW OF THE FEDERAL CIRCUIT'S HOLDING THAT A DEFENDANT MAY BE LIABLE UNDER SECTION 271(f)(1) FOR SUPPLYING A SINGLE COMMODITY COMPONENT.

As the United States recommends, "this Court should review the Federal Circuit's holding that a defendant may be held liable under Section 271(f)(1) for supplying a single component of a patented invention." Br. 15 (capitalization omitted). The United States' analysis confirms that the Federal Circuit's ruling is both erroneous and highly important, warranting this Court's review.

1. First, as the United States explains, the context of the phrase "substantial portion of the components" in § 271(f)(1) "makes clear that the provision uses the term 'substantial' in its quantitative sense," to refer to the *number* of components exported, rather than their qualitative importance. Br. 16. "[A] word is known by the company it keeps," *Yates* v. *United States*, 135 S. Ct. 1074, 1085 (2015), and the surrounding words in section 271(f)(1), including "all" and "portion," are plainly quantitative in nature. Br. 16–17. The Federal Circuit therefore erred in construing "substantial" to mean "'important' or 'essential,'" and ruling that it could encompass "a single important or essential component." Pet. App. 28a–29a.

As the United States also observes, further context from the companion provision of section 271(f)(1) supports petitioners' (and the United States') view that a "substantial portion of the components" of an invention cannot be just one component. Section 271(f)(2) "specifies the circumstances in which the export of a single component from the United States can give rise to infringement liability," Br. 17: liability can be imposed for such conduct *only* if the component 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." 35 U.S.C. 271(f)(2). The Federal Circuit's construction of section 271(f)(1) to nonetheless "permit liability based on the supply of a single staple article would give that provision the broad sweep that Congress purposely avoided in Section 271(f)(2)," Br. 18, exposing exporters of staple articles of commerce to potentially massive worldwide lost profits damages on sales of multi-component products. See also 35 U.S.C. § 271(c) (similarly limiting liability for contributory infringement to components that are "not a staple article or commodity of commerce suitable for substantial noninfringing use").

The contextual indications of meaning by themselves demonstrate the Federal Circuit's error. But, as the United States correctly notes, this Court's prior decisions provide still more reason to reject the Federal Circuit's interpretation. This Court has instructed lower courts to resolve "any doubt" about the interpretation of section 271(f)(1) by applying the presumption against extraterritoriality, and to "resist giving the language in which Congress cast § 271(f)(1) an expansive interpretation." *Microsoft*, 550 U.S. at 442. As the United States correctly recognizes, the Federal Circuit here did the opposite, giving the statute's terms an expansive reading. Br. 18. The result is precisely what the presumption against extraterritoriality is designed to prevent: liability for "conduct that plays a relatively minor role in the transaction, in derogation of foreign states' legitimate sovereign interest in permitting their citizens to use imported staple articles to assemble and sell inventions that are not patented abroad." *Id.* at 19.

2. The United States also rightly observes the importance of correcting the Federal Circuit's misinterpretation of section 271(f)(1). Indeed, the expansion of the statute's extraterritorial reach itself raises important concerns; it infringes on the legitimate sovereign interests of foreign nations, and could create international friction, or even lead to a retaliatory broadening of the reach of foreign patent law over conduct occurring in the United States. See Bernard Chao, *Patent Imperialism*, 109 Nw. U. L. Rev. Online 77, 88 (2014).

The Federal Circuit's ruling also has, as the United States remarks, "far-reaching implications for U.S. export trade," because it "threaten[s] liability for the many U.S. exporters who supply single commodity components to foreign purchasers," potentially including damages for all lost profits on the entirety of the multi-component invention. Br. 19–20. This problem is particularly acute because the Federal Circuit interpreted "substantial" to mean nothing more than that the invention "would be inoperable" without the component at issue, Pet. App. 34a, which could cover "even minor constituent parts, like the spark plug of a car." Br. 19. This sweeping expansion of liability will operate as "one more incentive for U.S. companies who compete in foreign markets to move their manufacturing facilities abroad," resulting in a loss of U.S. manufacturing jobs that could not have been Congress' intention. Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 Va. J. Int'l L. 603, 607 (1997); Br. Amicus Curiae of Agilent Technologies, Inc., at 16 ("[T]he Federal Circuit's message to U.S. manufacturers, especially in industries in which patent liability is a prevalent concern, is to not use U.S.-made components unless absolutely necessary"). And the issue is likely to arise with increasing frequency, as companies seek to hold exporters liable for the supply of single components; indeed, the question has already recurred since the Federal Circuit's ruling. *Nomadix, Inc.* v. *Hospitality Core Servs. LLC*, No. CV 14-08256, 2015 WL 1525537, at *5 (C.D. Cal. Apr. 3, 2015) ("[T]he Federal Circuit has held that 'liability under § 271(f)(1) may attach for export of a single component.'").

Finally, the United States correctly notes that this case is a "suitable vehicle," because the "legal issue is cleanly presented" and there is no obstacle to this Court's review. Br. 21. The Federal Circuit cleanly held that "a party may be liable under § 271(f)(1) for supplying or causing to be supplied a single component," and reversed the district court's judgment on that ground. Pet. App. 28a. And the interlocutory posture of the case, which was remanded for resolution of damages issues, presents no reason to decline review now. Br. 22. In addition to the reasons provided by the United States, the interlocutory posture is unproblematic because, had the Federal Circuit correctly interpreted section 271(f)(1) in line with the trial court's ruling, the appropriate disposition would have been *affirmance* of the judgment in petitioners' favor that the district court had entered on the non-U.S. sales. Pet. App. 49a–65a. Thus, this Court's review could render the remand proceedings (which have been stayed) largely unnecessary. Reply 11.

This Court should grant review of the second question presented, as the United States recommends.

## II. THE COURT SHOULD ALSO REVIEW THE QUESTION WHETHER THE FEDERAL CIRCUIT ERRED IN HOLDING THAT A SINGLE ENTITY CAN "ACTIVELY INDUCE" ITSELF TO ENGAGE IN CONDUCT UNDER SECTION 271(f)(1).

The United States recommends that review be limited to the question discussed above, but granting review of both questions presented in the petition would not increase the resources required for this Court's review, and would enable the Court to address more comprehensively the proper interpretation of the statute, and the problems created by the Federal Circuit's expansion of its extraterritorial application.

1. Both questions presented involve the interpretation of the same subsection of the same statute, 35 U.S.C. § 271(f)(1), and both implicate the presumption against extraterritoriality that applies to its interpretation. Granting review of both questions will thus ensure that the Court interprets the statute holistically rather than piecemeal. And review of both questions will also provide the best opportunity to consider the Congressional purpose of section 271(f)(1), how the provision was intended to operate within the broader context of the Patent Act, and the extent to which the provision "clearly" expresses "'the affirmative intention of the Congress' . . . to give a statute extraterritorial effect." *Morrision* v. *Nat'l Austl. Bank Ltd.*, 561 U.S. 247, 255 (2010). Thus, the two questions presented are best evaluated in tandem.

For instance, both questions require an evaluation of Congress' intent to close the "loophole" identified in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972). As the United States notes, the classic

*Deepsouth* situation involves an attempt to "circumvent[ ] U.S. patent law," Br. 19, by manufacturing all components of a patented invention in the U.S. and then shipping them to third-party foreign customers to combine, thus avoiding patent protection for what would otherwise be a clear U.S. sale of a U.S.-manufactured product to a foreign customer. *Deepsouth*, 406 U.S. at 523–26. The case of a multinational company that supposedly "induces itself" to infringe raises a different and potentially countervailing set of concerns that there is no reason to believe Congress has considered and weighed. When a domestic company supplies all components to a foreign customer, there is a "U.S. sale" that is being disguised as foreign. But when a multinational company sources components internationally, including from the U.S., and establishes manufacturing facilities and sales operations abroad from which it both makes and ships products to countries beyond U.S. borders, there is no "U.S. sale" involved at all; the situation involved in *Deepsouth* is simply not present.

Whether U.S. law ought to reach such foreign sales involves sensitive issues of foreign trading relations and could invite retaliatory application of foreign law to corresponding U.S.-based sales. That is why this Court has emphasized that the presumption against extraterritoriality should produce narrow interpretations of 271(f), not expansive ones. Any "alteration should be made after focused legislative consideration, and not by the Judiciary forecasting Congress' likely disposition." *Microsoft*, 550 U.S. at 459.

Respectfully, the United States is incorrect when it asserts that this issue does not implicate the presumption against extraterritoriality. According to the United States, "construing Section 271(f)(1) to reach cases where the domestic supplier and foreign manufacturer are the same legal entity does not expand the provision's reach in a manner that implicates the presumption," because "the nexus between the prohibited course of conduct and the United States is closer" than when two separate entities are involved. Br. 11 (emphasis omitted). But there is no doubt that the Federal Circuit's interpretation of "actively induce" is expansive; even the United States agrees that the Federal Circuit has understood the term in a broader sense than it is used in § 271(b), from which it was drawn. *Id.* at 10–11. And as the United States' brief elsewhere explains, an expansive interpretation of section 271(f)(1) implicates the presumption because "it imposes liability for domestic conduct (shipping components from the United States) that induces particular foreign conduct (the manufacture in a foreign country of an invention that is patented in the United States)," and such liability "will affect the foreign conduct of the recipients of the components." *Id.* at 18. Expanding the reach of § 271(f) implicates the extraterritorial application of U.S. patent law no matter what words are read expansively.

Indeed, the concern about intrusion into foreign markets of U.S. patent regulation is particularly acute when a single, multi-national corporation sources components for its products across the world, including from the U.S., then compiles and assembles the products in overseas facilities it has established and sells them to foreign customers from those overseas facilities. Such sales have highly attenuated ties to the United States. The Federal Circuit thus erred in refusing to apply the presumption against extraterritoriality. Pet. App. 27a n.10.

The United States brushes aside the fact that the phrase "actively induce" was drawn from a statute that plainly does not cover conduct of one entity causing itself to do something. The United States argues that § 271(b) is "premised on the existence of another party that is liable for direct infringement" under section 271(a). Br. 10. It then ignores the strong presumption that "identical words and phrases within the same statute should normally be given the same meaning." *Powerex Corp.* v. *Reliant Energy Servs., Inc.*, 551 U.S. 224, 232 (2007). That presumption has "special force here," because "the term 'actively induce' in § 271(f)(1) was expressly 'drawn from existing subsection 271(b).'" Pet. App. 41a (Prost, C.J., dissenting) (quoting 130 Cong. Rec. 28,069). There is no reason to believe that Congress intended the same language in the two subsections to have such starkly different meanings.

The fact that § 271(f)(1) talks of inducing "the combination," rather than inducing "infringement" as in § 271(b), is no reason to understand the phrase "actively induce" differently. See Br. 8. In both provisions, what matters is that some action is being induced. The United States concedes that that phrase would require inducing another "if the object of the verb 'induce' were a word like 'person.'" *Id.* But § 271(b) does not make the object of inducement some person; it too makes the object "a result," *id.*, specifically "infringement." The point is that in *both* provisions Congress reasonably expected that the inducer would be inducing a result achieved by another person. As this Court has previously observed, "actively induce" in section 271(b) means "to lead on; to influence; to prevail on; to move by persuasion or influence." *Global-Tech Appliances, Inc.* v. *SEB S.A.*, 131 S. Ct. 2060, 2065 (2011). The object of inducement is always some other person, no matter what result the inducer intends that person to produce.

2. Furthermore, the first question presented is also highly important. The United States argues that its importance is limited because "[m]ultinational corporations generally act through locally incorporated subsidiaries or affiliates rather than as single legal entities," and the issue will therefore not frequently arise. Br. 12. But it has already arisen in other cases, and will continue to do so. Reply 6. While there is no way to know exactly how many companies will be affected, it is clear that some will be erroneously held liable for violating the statute under the Federal Circuit's misinterpretation.

Further, even if most cases will involve legally distinct entities, the Federal Circuit's erroneous holding that "induce" means "cause" has broader ramifications. For instance, this interpretation could change or even eliminate the intent element of section 271(f)(1). This Court inferred that section 271(b) contains an intent element from its holding that "induce" means "move by persuasion"; if "induce" in section 271(f) instead means "cause," it is unclear whether that subsection requires proof of intent. *Global-Tech*, 131 S. Ct. at 2065 ("Although the text of § 271(b) makes no mention of intent, we infer that at least some intent is required. The term 'induce' means '[t]o lead on; to influence; to prevail on; to move by persuasion or influence' . . . . When a person actively induces another to take some action, the inducer obviously knows the action that he or she wishes to bring about."). In addition, the Federal Circuit's ruling will significantly reduce plaintiffs' burden of proof, allowing them to seek damages for *worldwide* sales with no showing of which legal entities were involved in which transactions. The issue is important, and this Court's review is needed.

3. Finally, there are no vehicle issues. The United States' concern that the Court may not be able to resolve the meaning of "a substantial portion of the components" if it grants both questions presented is misplaced. Br. 15. The district court entered judgment as a matter of law on *both* grounds independently. Pet. App. 51a–64a. The Federal Circuit therefore had to reverse on both issues to vacate the district court's judgment in petitioner's favor. *Id.* at 23a. In reviewing the Federal Circuit's ruling, it would be a matter for this Court's discretion which issue to review first. See *id.* at 51a (considering the "substantial portion" issue first). If this Court disagreed with the Federal Circuit's interpretation on either ground, then the Federal Circuit's ruling would be reversed, and the trial court's judgment in petitioner's favor on non-U.S. sales should be affirmed. In short, there is no bar to this Court taking *both* questions presented, but considering first the question that the United States believes is of greater importance. Indeed, there would be no obstacle to this Court's resolving both questions presented if it should choose to do so. 13B Wright & Miller, *Federal Practice and Procedure* § 3533 n.21 (3d ed. 2016) ("Courts often decide multiple, independently sufficient grounds in the same case.").

Only this Court can correct the Federal Circuit's misinterpretation of 35 U.S.C. § 271(f)(1), and rein in its creation of sweeping and unpredictable liability for component manufacturers nationwide. Both questions presented should be granted.

## CONCLUSION

For these reasons and those stated in the petition, both questions presented in the petition for a writ of certiorari should be granted.

Respectfully submitted,

CARTER G. PHILLIPS*
ROBERT N. HOCHMAN
ERIKA L. MALEY
SIDLEY AUSTIN LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000
cphillips@sidley.com

*Counsel for Petitioners*

May 27, 2016 * Counsel of Record