No. 16-1011

IN THE

Supreme Court of the United States

WESTERNGECO L.L.C.,

Petitioner,

v.

ION GEOPHYSICAL CORPORATION,

Respondent.

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

BRIEF IN OPPOSITION

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QUESTION PRESENTED REPHRASED

1.

> Whether this Court should overrule *Microsoft v. AT&T* and eliminate the presumption against extraterritoriality so that infringers are subject to damages under § 284 based on non-infringing foreign use by third parties.

In *Microsoft v. AT&T*, 550 U.S. 437, 454-445 (2007), this Court held that the presumption against territoriality applied to all laws, and especially the patent laws, including the interpretation of 35 U.S.C. § 271(f). This statute was enacted to "plug a hole" in liability in the statute governing direct infringement (§ 271(a)); it was enacted after a defendant successfully avoided infringement by exporting non-infringing components of an infringing device in three sub-assemblies that could be easily connected upon receipt. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 526-528 (1972). Since § 271(a) defines direct infringement as "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…," shipping non-infringing components to a foreign customer who assembles them overseas was outside of the statute. Section 271(f) puts the exporter of non-infringing components that can be combined into an infringing device on the same footing as an exporter of the infringing device itself. However, unlike other indirect infringement statutes, it eliminates the requirement of direct infringement: that is, proof of assembly or use abroad is not part of the cause of action. *See generally*

Limelight Networks, Inc. v. Akamai Techs., Inc., 134 S. Ct. 2111, 2118 (2014) (Proof of assembly or use is not required for 271(f) liability). Instead, infringement under § 271(f) is complete upon export from the United States. *See, e.g., id; see also Waymark Corp. v. Porta Systems Corp.*, 245 F.3d 1364, 1368 (Fed. Cir. 2001) (holding that 271(f)(2) does not even require actual assembly abroad of the components).

Section 284 is the damages statute for infringement under all sections of 271. Section 284 provides in pertinent part "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 (emphasis added). See also *VirnetX v. Cisco Systems, Inc.*, 767 F.3d 1308, 1326 (Fed. Cir. 2014) (explaining that damages for a multi-function device must be apportioned among its features and limited to the infringement). Since for § 271(f) the act of infringement is complete upon export, damages must be based on the export from the United States (e.g., the act of infringement). By virtue of § 271(f), ION is the infringer and the use of the invention by ION is export of the otherwise non-infringing components. Moreover, the presumption against extraterritoriality limits infringement and damages for use by the infringer to acts in the United States; it does not allow for liability based on downstream uses by foreign third parties overseas, because foreign use is not an act of infringement. The Federal Circuit's opinion below properly so held.

WesternGeco's "question presented" is better rephrased as whether the well-established presumption against extraterritoriality should be eliminated, so that any damages worldwide traceable in any way back to infringement in the United States are also recoverable under § 284. WesternGeco is in fact asking this Court to overrule its prior decision in *Microsoft v. AT&T*, and to eliminate the presumption against extraterritorial application of United States patent law as to both § 271(f) and § 284. Such a change in the law would not be the narrow change WesternGeco implies, nor would it be consistent with the wording of Section 284, which limits damages to the act of infringement. Instead, it would transform United States patents into worldwide patents.

CORPORATE DISCLOSURE STATEMENT

All parties are listed in the caption.

ION Geophysical Corporation does not have a parent corporation and no publicly traded company owns 10% or more of its stock.

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INTRODUCTION

This is WesternGeco's second certiorari petition in this same litigation based on the issue of damages for overseas use by foreign entities. The Federal Circuit vacated the district court's award of lost profits based on ION's overseas customers' use of WesternGeco's United States patent. The Federal Circuit held that there can be no damages for foreign entities' extraterritorial use of an invention because United States patents do not apply world-wide. In both its first, and now its second, petition for certiorari from this same holding by the Federal Circuit, WesternGeco seeks to reinstate the lost profits portion of damages for use abroad by foreign actors.

ION appealed from the district court's award of lost profits. Those lost profits were based on its foreign customers combining components abroad, including those ION exported from the United States, to configure seismic survey vessels, and then using those vessels to perform surveys on the high seas. It was undisputed that ION's component, a "DigiFIN," did not itself infringe any asserted patent. However, the jury found the DigiFIN had no substantial non-infringing use other than to be combined with marine streamers, a vessel, software, and survey equipment, where that combination would have infringed if assembled in the United States. The jury awarded reasonable royalties for the DigiFINs exported, and then lost profits based on several marine surveys WesternGeco lost in competition with an ION customer. ION, among other issues, challenged (on two separate and independent grounds) the award of lost profits. The first ground was based on the extraterritorial limits of United States patents, the issue WesternGeco challenges here.

The second ground was based on the lack of any "competition" between the parties as that term was explicitly described in the jury instructions. ION's foreign customers compete abroad with WesternGeco's marine survey business. Since ION does not sell surveys, and WesternGeco does not sell components, they are not competitors as described in the jury instructions. Accordingly, there is insufficient evidence as a matter of law to support the jury's verdict for lost profits on the basis of lost sales between competitors.

In its July 2, 2015 opinion, Pet. App. 23a, the Federal Circuit reversed and vacated the lost profits award, holding use abroad of a patented invention is not infringement of a United States patent. Pet. App. 45a. Because the Federal Circuit reversed on extraterritoriality, it did not reach ION's second argument, that no lost profits could be awarded under the jury charge because the charge (and law) only permits lost profits damages when the parties are competing in the same market.

WesternGeco petitioned for rehearing *en banc*, which was denied. On March 3, 2015, WesternGeco then filed a petition for certiorari in this Court, seeking review of the Federal Circuit's decisions on foreign lost profits and also for a "G.V.R." order on enhanced damages based on the pending *Halo Electronics v. Pulse Electronics*, 136 S.Ct. 1923 (2016). No. 15-1085. This Court issued a G.V.R. order as to the enhanced damages on June 20, 2016. 136 S. Ct. 2486 (2016). The judgment of this Court, however, did not mention the foreign lost profits question. Neither party sought any further relief from this Court. Neither party filed a brief or motion with the Federal Circuit after remand from this Court.

On remand from this Court, the Federal Circuit held that "…the issue of lost profits is not properly before us," Pet. App. 4a, because "[t]he general rule is that, when the Supreme Court remands in a civil case, the court of appeals should confine its ensuing inquiry to matters coming within the specified scope of the remand." Pet. App. 5a, fn. 1 (citations omitted). Accordingly, the Federal Circuit's original July 2, 2015 opinion remains unchanged regarding lost profits. This Court should decline WesternGeco's request to re-litigate foreign lost profits.

Separately, the case is not suitable for review for factual and legal reasons. Factually, WesternGeco has conceded it does not compete with ION. WesternGeco asked for a jury instruction that lost profits could be awarded if WesternGeco competed with ION's customers (all of which were foreign companies, assembling and using their systems abroad), which the district court refused, and which WesternGeco did not appeal. ION raised this argument challenging lost profits on appeal for lack of competition, but the Federal Circuit did not reach this second argument because it reversed lost profits based on extraterritoriality. As a factual matter, this distinction makes the petition unsuitable for review since a reversal would require a remand to resolve the factual sufficiency issues on lost profits under existing damages law.

Moreover, the panel opinion pointed out that the cases the dissent relied upon in arguing for extraterritoriality were fact-specific, and none of those fact patterns applied here. The panel did expressly consider the factual basis in this case as distinguished from that in the cases relied upon by Judge Wallach in his dissent. Pet. App. 46a-47a. Notably, Judge Wallach in his (procedurally inappropriate) dissent from the opinion following remand attempted to craft a test for extraterritorial lost profits on a case specific basis, weighing the proximity between the United States infringement and the injury alleged, as well as the relationship between "the volume of infringing activity in the United States" and the "volume of lost sales." Pet. App. 20a-22a. Because Judge Wallach's theory requires a fact-intensive analysis on "proximity" and the quantifiable relationship between United States infringement the volume of lost sales overseas, which was not presented below, there is no fact finding to support the dissent's proposed test. *Id*. And since these issues were not raised in the district court or in WesternGeco's direct appeal to the Federal Circuit, this is the wrong case in which to consider them.

Further, this case is also complicated by the fact that the Patent Trial and Appeal Board ("PTAB") has declared four of the five claims in the patents in suit on which lost profits were awarded to be unpatentable and ordered them cancelled. WesternGeco appealed the PTAB orders to the Federal Circuit; that appeal has been fully briefed, and will be argued in due course. Should the Federal Circuit affirm cancellation of the claims, then any relief based on those claims will be vacated under established law. The facts here could, and likely will, change once the Federal Circuit rules on WesternGeco's appeals from the PTAB Orders.

There is also another procedural problem with WesternGeco's petition: WesternGeco raises arguments in its second petition that it never raised in the district court or the Federal Circuit, such as the supposed need to reconcile copyright and patent law in this area. WesternGeco never argued in any lower court for importation of the predicate act doctrine from copyright law into patent law. Because WesternGeco is relying on arguments it initially raised in its first petition for writ of certiorari, and then again in this second petition—but never in the district court or Federal Circuit—the question is not ripe, and also the record below is not complete enough to consider the question in the petition.

Finally, WesternGeco's argument on the merits is wrong. First, in pertinent part, the Federal Circuit in its July 2, 2015 opinion focused on the nature and purpose of 271(f). The Federal Circuit expressly found that 271(f) was never intended to create ***more*** exposure for the exporter of components than existed for the exporter of finished goods under 271(a): that is, Congress intended to plug the hole left by *Deepsouth*, so that an exporter of components could not escape the same responsibility for infringement as the exporter of the finished product. Pet. App. 44a-45a. The panel observed that just as there can be no direct infringement for foreign use of an exported article, so too there could not be damages flowing from such use under 271(f). Pet. App. 44a. Indeed, to do so, the panel observed, "would confer a worldwide exclusive right to a U.S. patent holder…" –-contrary to law and any notion of international comity. *Id.*

Section 284 provides for damages sufficient to compensate ***for the infringement***. Section 271(f) in effect puts on the exporter of components the same exposure for infringement as the exporter of the finished product under 271(a). The infringement in both instances is limited to export, and in neither situation does it go beyond acts in the United States. *Id.* It makes no sense that the exporter of a component should have more liability under 271(f) than the exporter of the finished product that directly infringes the patent under 271(a).

The panel decision faithfully applied this Court's guidance in *Microsoft v. AT&T* and the Federal Circuit's own precedent on extraterritoriality. Contrary to WesternGeco's arguments, in responding to the dissent, the panel neither ruled on nor questioned the predicate act doctrine, since it had never been raised below. (The predicate act doctrine was first raised in an amicus brief in support of WesternGeco's motion for rehearing of the panel decision.)

Likewise, the "proximity/relationship" test advocated by Judge Wallach, in his dissent from the opinion on remand, was not considered because the question had not before been put in issue by WesternGeco. Indeed, it has never been put in issue by any party, and was first raised by Judge Wallach after this Court's judgment on WesternGeco's petition for certiorari. There is no record or jury finding or lower court opinion addressing Judge Wallach's newly proposed test.

For all of these reasons, the petition should be denied.

FACTUAL STATEMENT

ION is a small company based in Houston, Texas. The accused product under § 271(f)(2) was the DigiFIN, and this was the basis on which liability was affirmed by the Federal Circuit. Pet App. 16a. The DigiFIN is a device used in the process of lateral steering marine streamers during a marine survey.[1]

1. The district court found that a "back off" algorithm, which corrects the angle of an individual wing, provided vertical movement.

A series of DigiFINs are placed on marine streamers, attached to a vessel, together with survey equipment, as well as "birds" for depth control (vertical movement), and a shipboard master computer system that controls various functions of the devices on the streamer, including the DigiFINs. The DigiFINs are used to help steer the streamer from side-to-side. ION has long sold a separate device, which predated the patents in suit, called a DigiBIRD. The DigiFINs are deployed along a streamer to assist in horizontal or lateral steering. The DigiBIRDs are deployed along a streamer to assist in vertical positioning of the streamer. The DigiBIRD, like the DigiFIN, is comprised of a "wing" connected to a small body. Parts used in the DigiBIRD overlap with those used in the DigiFIN. The DigiFIN itself does not infringe, but is one component in the apparatus claimed in the patents-in-suit.

WesternGeco and ION do not compete in the same market. Pet. at 9. ION sells equipment for marine oil field exploration. WesternGeco, a wholly owned subsidiary of Schlumberger, sells marine seismic surveys overseas using its foreign fleet of vessels. *Id*. at 8. ION did not sell the surveys (or even the completed infringing system); WesternGeco did not sell the components or the systems.

In 2009, WesternGeco sued ION and ION's customer Fugro on over 100 claims from several patents, most of which claimed priority to an original Great Britain Application. ION counterclaimed based on its own patent related to "birds", and also asserted other counterclaims and defenses, including invalidity. Fugro settled with WesternGeco. By the time of trial, WesternGeco went forward against ION on only six of the scores of original claims. After lengthy discovery, a long trial, and post-trial motions, judgment was entered in May 2014 against ION for WesternGeco's lost profits from foreign competition overseas, and a reasonable royalty on DigiFINs exported from the United States, as well as an injunction prohibiting further exports of DigiFINs. Pet. App. 146a. ION appealed on several bases, among them: (1) liability under 271(f)(1)[2] ; (2) liability under 271(f)(2)[3]; and (3) the District Court's award of foreign lost profits. Pet. App. 2a. WesternGeco cross-appealed the denial of enhanced damages.

ION appealed lost profits on two separate bases. ION's Opening Br. at 47, CAFC Case: 13-1527, D65-1. One basis was that damages could not be awarded for foreign use by ION's overseas customers. *Id.* Specifically, ION alleged that a royalty for the export of components was proper, but that it was legally impermissible for WesternGeco to receive lost profits from surveys performed by foreign third parties overseas that used ION's components as part of a complete survey system. *Id.* at 50-55. ION separately appealed the jury's verdict on an independent ground: lost profits could not be upheld under jury instructions explicitly requiring, under well-established precedent, a finding that ION and WesternGeco were competitors. CA. App. 11098-11099. WesternGeco requested an instruction that would have skewed this rule by asking that the jury need only find ION's ***customers'*** services competed in

2. 271(f)(1) addresses supplying multiple components from the United States that form a substantial portion of an invention claimed in a United States patent.

3. 271(f)(2) addresses supplying a component that has no substantial use other than in a combination that would infringe if assembled in the United States.

the same market as WesternGeco's survey services. CA. App. 11005. The district court correctly rejected WesternGeco's instruction, and WesternGeco did not appeal the instruction as given. CA. App. 11098-11099. As shown by WesternGeco's own petition, the parties did not compete in either the same product market or the same service market. Pet. 8-9.

On July 2, 2015, the Federal Circuit issued an opinion that, among other things, held WesternGeco could not get lost profits damages for use abroad by ION's foreign customers. In that same opinion, the Court affirmed ION's liability under 271(f)(2), and affirmed the District Court's denial of enhanced damages under the former *Seagate* standard. It is undisputed that ION's components do not themselves directly infringe WesternGeco's patents under 271(a), and there was no challenge to the district court's dismissal of WesternGeco's claims against ION based on inducement to infringe (271(b)) or contributory infringement (271(c)). The Federal Circuit did not address ION's challenge to the district court's judgment on § 271(f)(1) liability on procedural grounds, and also did not address ION's second ground for challenging the award of lost profits—that ION and WesternGeco are not competitors. Pet App. 40a-48a. Judge Wallach dissented from the panel opinion, arguing that lost profits should be affirmed as they were ultimately traceable to ION's sale of components in the United States.

In its first petition for certiorari in early 2016, WesternGeco challenged the Federal Circuit's denial of lost profits for foreign use. It was here that WesternGeco first raised the predicate act doctrine under copyright law. WesternGeco never raised copyright law's predicate act doctrine in the district court, and never raised it in the Federal Circuit either. In fact, the issue was first injected into the case by an amicus brief filed by Carnegie Mellon in support of WesternGeco's Motion for Rehearing *en banc*, and then was discussed in the dissent from denial of rehearing. Pet. App. 178a-179a.

In that first petition for certiorari, WesternGeco also asked the Court to hold its first petition pending issue of the decision in *Halo Electronics v. Pulse Electronics*, 136 S.Ct. 1923 (2016). In view of the opinion in *Halo*, the Court granted the writ on enhanced damages, vacated on that issue and remanded for further proceedings on enhanced damages. This Court's judgment (G.V.R order) made no mention of the foreign lost profits issue. On remand, the Federal Circuit reformed and adopted its prior opinion on all issues except enhanced damages (Pet. App. 2a) which the court of appeals remanded to the district court. The Federal Circuit specifically noted on remand that it could not review the lost profits issue since this Court did not change or comment on that ruling. Pet. App.4a, fn 1. Despite this, the dissent again raised the predicate act doctrine, and also argued for the first time its "proximity/relationship" test.

When the mandate issued remanding the enhanced damages to the district court, WesternGeco filed this second petition for certiorari on the same subject as question 1 in its first certiorari petition—recovery of the jury's award of lost profits for extraterritorial use—which this Court already declined to grant. Simultaneously, WesternGeco went forward in the district court, obtaining an order that the royalties be paid promptly despite lack of a final judgment. ION paid the reasonable royalties with interests and costs, as offset by a settlement credit with another party. WesternGeco then moved for approximately $20 – 40 million in enhanced damages based on the approximately $20 million reasonable royalty award (including interests, costs, and settlement credit). The district court awarded $5,000,000 in enhanced damages. A revised final judgment has not yet been entered.

There is another factual speedbump as well. During the pendency of the case below, WesternGeco also sued ION customers, all foreign companies performing surveys on the high seas, including Petroleum Geo-Services, Inc. ("PGS"). Since PGS was sued after the America Invents Act created the *inter partes* review procedure ("IPR"), PGS was able to use the new IPR procedure to file petitions in the PTAB to cancel the claims of the patents-in-suit as invalid over the prior art. When the PTAB instituted those proceedings on five of the six claims on which relief was based (including the original verdict for lost profits), ION was able to join those proceedings. The PTAB issued final written decisions on December 15, 2015, that the principal four claims driving the suit were not patentable. *Petroleum Geo-Services, Inc., v. WesternGeco L.L.C.*, Case IPR2014-00687, Paper No. 100 (PTAB 2015); *Petroleum Geo-Services, Inc., v. WesternGeco L.L.C.*, Case IPR2014-00688, Paper No. 101 (PTAB 2015); *Petroleum Geo-Services, Inc., v. WesternGeco L.L.C.*, Case IPR2014-00689, Paper No. 101 (PTAB 2015).[4] WesternGeco filed motions for rehearing, which were denied. These cases are now on appeal before the Federal Circuit. If the Federal

4. The Court can take judicial notice of subsequent PTAB proceedings, even if not in the record on appeal. *VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307, 1312-1313 (Fed. Cir. 2014).

Circuit affirms the PTAB decisions, the U.S.P.T.O. will then cancel the claims.

The sole surviving claim of those asserted as a basis for lost profits for lateral steering, claim 23 of the '520 patent, relates to turning a vessel towing streamers. Pet. App. 76a. The PTAB found that another prior method for turning vessels towing streamers did not invalidate WesternGeco's specific way of doing the same operation.[5] The PTAB's findings that WesternGeco did not invent lateral steering, and its finding that claim 23 of the '520 patent only applied to one type of turning, not all turning, shows that the "legal monopoly" WesternGeco complains that it lost, never should have existed at all. The Federal Circuit's July 2, 2015 opinion shows that to the extent WesternGeco's United States patents gave it a legal monopoly, that monopoly existed only within the United States.

REASONS TO DENY THE PETITION

I. The Second Certiorari Petition Is Improper

The Federal Circuit on remand specifically held lost profits were not before it on remand. Pet. App. 4a, fn 1. The grant-vacate-remand Order from this Court was "granted" as to the petition as a whole, as nothing in this Court's Order indicated that the petition was granted only as to the enhanced damages issue, with the foreign lost profits issue being held in abeyance.[6] Accordingly,

5. This shows that there are non-infringing substitutes for this claim, so it cannot support lost profits.

6. Indeed, as a practical matter, it would have made no sense for this Court to split the enhanced damages issue from the lost

when the grant-vacate-remand order was issued, and no mention was made of the lost profits issue, that judgment ended litigation over foreign lost profits.

The case law from numerous Circuits is consistent that a remand from this Court on a single issue shows that all other issues raised in a petition have been denied. *Hermann v. Brownell*, 274 F.2d 842, 843 (9th Cir. 1960) (declaring that the appellate court's jurisdiction "is rigidly limited to those points, and those points only, specifically consigned to our consideration by the Supreme Court"), *cert. denied*, 364 U.S. 821 (1960); *see also Clark v. Chrysler Corp.*, 436 F.3d 594, 598 (6th Cir. 2006); *Kotler v. Am. Tobacco Co.*, 981 F.2d 7, 13 (1st Cir. 1992); *Escalera v. Coombe*, 852 F.2d 45, 47 (2d Cir. 1988); *Hyatt v. Heckler*, 807 F.2d 376, 381 (4th Cir. 1986). The Federal Circuit cited many of these same cases in holding that the issue of lost profits was no longer pending. Pet. App. 4a, fn 1.[7]

WesternGeco ***does not discuss***, let alone challenge, the effect of the Federal Circuit's procedural ruling. WesternGeco was obligated in its petition to address

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profits issue. Since enhanced damages relates to damages as a whole (i.e., reasonable royalty plus any lost profits), the fact that this Court remanded for analysis of enhanced damages—without addressing lost profits—is effectively a denial of the applicability of lost profits as "damages" to be considered for enhancement. To put it another way, if this Court had been inclined to reverse or vacate the lost profits issue—and thus potentially change the underlying damages—it would have done that as part of the same proceeding as the enhanced damages remand.

7. Notably, there was no *en banc* opinion, or *en banc* dissent, from the Federal Circuit's opinion remanding the case on enhanced damages, as there had been for the first Federal Circuit opinion.

this procedural issue, as the jurisdictional ruling by the Federal Circuit presented a separate, alternative ground for denial of the relief that WesternGeco now seeks. Failure to address this alternative ground is fatal to WesternGeco's petition and even if this Court were to agree with WesternGeco on the substantive issues, WesternGeco has not identified any error with the Federal Circuit's procedural finding.

While WesternGeco has recast its arguments, it cannot escape the fact that both its first and second petitions for certiorari ask for the same relief on the same issue. Indeed, in both petitions, WesternGeco raises the same argument about porting copyright law's predicate act doctrine into patent law, as well as its arguments about what it says is full compensation for infringement. WesternGeco has already had its day in this Court in its first petition for writ of certiorari.

Finally, WesternGeco fails to address why it is proper for it to file this second petition on the same ground as the first. The Court issued a judgment on the first petition, which contained a G.V.R. Order on enhanced damages, and in due course the case was remanded. The judgment granted no relief on the lost profits question. The judgment and mandate were, however, on the entire petition. It was not labeled a partial judgment nor did it say the first question could be pursued a second time without prejudice. Indeed, question 1 dealt with compensatory damages and question 2 dealt with enhancement of compensatory damages, which in normal course are dealt with in that order. On remand, the Federal Circuit simply adopted its first opinion on lost profits, no changes were made. If this Court were to deal with compensatory damages, it would have done so expressly, not by silence. WesternGeco's attempt to re-litigate a second petition is improper and the writ should be so denied.

This Court should deny WesternGeco's petition for certiorari because it is an improper effort to re-litigate a matter within the scope of this Court's June 2016 judgment on WesternGeco's first petition.

II. The Federal Circuit's Opinion Is Consistent with Both This Court's and Its Own Precedent

In *Microsoft v. AT&T*, this Court held that the presumption against extraterritoriality applies with "particular force" to the patent laws, including § 271(f). 550 U.S. at 454-455. AT&T tried to avoid the presumption by arguing that it was attacking Microsoft's act of making and distributing "golden masters" of Windows in the United States and then exporting them to foreign computer makers. *Id.* at 456. The Court held that the presumption against extraterritoriality required the Court to adhere carefully to the words of the statute, and that making and distributing a golden master was not the same as replicating software on the disks or drives shipped overseas, which would be the component actually used in the allegedly infringing computer systems. *Id.* at 458. In *Cardiac Pacemakers v. St. Jude*, 576 F.2d at 1348, 1362 (Fed. Cir. 2009) (en banc), *cert. denied*, 558 U.S. 1115 (2010), the Federal Circuit wrote that in *Microsoft*, "The Court sent a clear message that the territorial limits of patents should not be lightly breached." Likewise, in *Cardiac Pacemakers*, the Federal Circuit used the presumption against extraterritoriality to interpret § 271(f) to overrule its own past precedent and hold that method claims were not within the meaning of "component" in the statute:

> Congress was clearly focused on closing the loophole presented in *Deepsouth, viz.,* that shipping an unassembled patented product abroad for later assembly avoids patent infringement. Congress's focus on patented products is apparent from an examination of the legislative history. *See, e.g.,* S.Rep. No. 98-663 at 6 (1984) (stating that § 271(f) will "prevent copiers from avoiding U.S. patents by shipping overseas the components of a *product* patented in this country so that assembly of the components will be completed abroad." (emphasis added)); 130 Cong. Rec. H10,525 (daily ed. Oct. 1 1984) (same).

576 F.2d at 1364. There is nothing in § 271(f) that states damages are any different than for infringement under § 271(a) or that § 271(f) applies to overseas use by foreign customers. Indeed, under § 271(f) proof of infringement does not require proof that the components were actually assembled or used, rather the act of infringement is complete upon export from the United States. *Limelight*, 134 S. Ct. at 2118. Just as *Cardiac Pacemakers* relied on the presumption against territoriality to construe the statute according to its explicit wording (overruling the Federal Circuit's own precedent), so too the Federal Circuit here limited the infringement and damages to the acts in the United States of supplying the components for export. This matched the scope of the injunction granted by the district court, which does not prohibit supply of DigiFINs that are made and sold abroad. Pet. App. 115a. It is undisputed that WesternGeco does not sell components and that it lost no sales of components. Pet. App. 3a. Finally, most recently, in *Life Technologies*

v. Promega, 137 S. Ct. 734 (2017), this Court rejected the Federal Circuit's panel decision giving 271(f)(1) an expansive reading, instead strictly confining the scope of that statute to the narrower interpretation, as was done in *Microsoft* and by the Federal Circuit in *Cardiac Pacemakers*.

The damages for infringement are governed by 35 U.S.C. § 284. The panel's treatment of damages for infringement under § 271(f) is the same as for other acts of infringement under §§ 271(a), (b), or (c). There are no damages for foreign use since that is not an infringement of a United States patent. Indeed, ION made this exact argument in its briefing, providing an example of how damages under § 271(f) for components shipped from the U.S. to the Bahamas and used in foreign waters should be exactly the same as damages under § 271(c) for components shipped within the U.S. to Miami and used in those same foreign waters. ION's Reply Br. at 36 n.17, CAFC Case: 13-1527, D79.

ION's argument was supported by *Power Integrations, Inc. v. Fairchild Semiconductor, Inc.*, 711 F.3d 1348, 1371 (2013), *cert. denied*, 134 S. Ct. 900 (2014), where the Federal Circuit explained:

> Our patent laws allow specifically "damages adequate to compensate *for the infringement.*" 35 U.S.C. § 284 (emphasis added). They *do not thereby provide compensation for a defendant's foreign exploitation of a patented invention*, which is not infringement at all. *Brown,* 60 U.S. at 195 ("And the use of it outside of the jurisdiction of the United States is not an infringement of his

> rights, and he has no claim to any compensation for the profit or advantage the party may derive from it."). (Emphasis added)

The Federal Circuit's holding here is even one step removed from *Power Integrations*, because it is not ION that was exploiting the invention overseas, but rather it was ION's foreign customers who combined the components with ships, marine streamers, computer systems, seismic survey software and equipment, and other equipment to make and use the invention overseas to perform marine surveys. Just as WesternGeco argued foreseeability and relied on *General Motors v. Devex*, 461 U.S. 648, 657 (1983) (holding district court could in its discretion award prejudgment interest on patent damages), the Federal Circuit considered and rejected those same arguments in *Power Integrations*:

> Power Integrations' "foreseeability" theory of worldwide damages sets the presumption against extraterritoriality in interesting juxtaposition with the principle of full compensation. Nevertheless, Power Integrations' argument is not novel, and in the end, it is not persuasive. Regardless of how the argument is framed under the facts of this case, the underlying question here remains whether Power Integrations is entitled to compensatory damages for injury caused by infringing activity that occurred outside the territory of the United States. The answer is no.[8]

8. As the panel below wrote: "It is clear that under § 271(a) the export of a finished product cannot create liability for extraterritorial

Power Integrations, 711 F.2d at 1371. This Court denied certiorari in 2014 in that case, and it should similarly do so here.

Shortly after the panel decision in this case, the Federal Circuit relied on the decision to deny infringement damages under ***§ 271(a)*** based on extraterritorial acts, writing:

> In *Goulds' Manufacturing Co. v. Cowing*, 105 U.S. 253, 26 L.Ed. 987 (1881), the Supreme Court approved an award, based on an accounting of the defendant's profits, reaching units made in the United States though some were to be used only abroad. *Id*. at 256. In *Railroad Dynamics, Inc. v. A. Stucki Co*., 727 F.2d 1506 (Fed. Cir. 1984), this court held that a royalty award could reach units made in the United States—valued at their sale price—regardless of whether they were sold abroad. *Id.* at 1519. On the other hand, in *Power Integrations*, we rejected a claim to lost-profits damages based on the defendant's "entirely extraterritorial production, use, or sale of an invention patented in the United States," pointing to § 271(a). 711 F.3d at 1371-72; *see also WesternGeco*, 791 F.3d at 1348-52 (rejecting foreign *use* as basis for lost-profits damages).

Carnegie Mellon University v. Marvell Technology Group Ltd., 807 F.3d 1283, 1307 (Fed. Cir. 2015) (emphasis in

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use of that product. The leading case on lost profits for foreign conduct is *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc*., 711 F.3d 1348 (Fed. Cir. 2013)." Pet. App. 20a-21a.

original). This illustrates the point that there is a single damages statute for all infringers and such damages must be for infringement (that is, acts in the United States). Damages under § 284 are the same for a direct infringer under § 271(a) as for someone now deemed an infringer under § 271(f).

The panel's decision itself rebuts Judge Wallach's reading of cases in his dissent, as well as that of WesternGeco, which they argue permit damages for foreign use outside of the United States:

> First, the dissent identifies Supreme Court cases it believes approved awards of lost profits for foreign sales, citing *Gould's Manufacturing Co. v. Cowing*, 105 U.S. 253, 26 L.Ed. 987 (1881), *Dowagic Manufacturing Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915), and *Duchesne*, 60 U.S. 183. None of these cases is remotely similar to this one. To be sure, they suggest that profits for foreign sales of the patented items in question were manufactured in the United States and sold to foreign buyers by the U.S. manufacturer. *See Goulds' Mfg.*, 105 U.S. at 254; *Dowagiac Mfg.*, 235 U.S. at 642-43; *Duchesne*, 60 U.S. at 196. There is no such claim here. Rather the claim is for use abroad of the items in question. The dissent's own authority, *Dowagiac Manufacturing*, makes clear that absent sales to foreign buyers by the U.S. manufacturer, there can be no recovery of lost profits for foreign sales. 235 U.S. at 650.

Pet. App. 24a-25a (quotation omitted).

There is no split of decisions within the Federal Circuit, and it has faithfully applied this Court's decision in *Microsoft v. AT&T* in interpreting § 271(f) and § 284, limiting damages to the infringement–here for supplying components from the United States. This is not a case for certiorari.

III. Allowing Damages for Wholly Extraterritorial Acts under § 271(f) Would Open the Door for Worldwide Damages under Other Sections of § 271.

As shown by *Power Integrations* and *Carnegie-Mellon*, the scope of damages under § 284 is limited to the infringing conduct. Although both of these cases relied on § 271(a), they ultimately rely on the presumption against extraterritoriality that this Court spoke of in *Microsoft* and the Federal Circuit's decision in *Cardiac Pacemakers. Power Integrations* and *Carnegie-Mellon* show that damages for infringement are limited to infringing acts ***in the United States*** under 35 U.S.C. § 284. Nothing in § 271(f) or § 284 permits for damages based on subsequent use overseas, especially in light of the presumption against extraterritorial application of the patent laws.

WesternGeco is asking this Court to abandon the presumption against territoriality as it applies to § 271(f), effectively overruling *Microsoft v. AT&T* and the cases that have relied on it under both § 271(f) and § 271(a). If this presumption were overruled, all infringers could be liable for claims of damages anywhere in the world where the patent owner can trace some connection between acts in the United States and claims for damages in other countries. Neither § 271 nor § 284 should now be construed broadly to permit for damages for foreign use, which is not infringement at all. The Federal Circuit observed as much in its July 2, 2015 opinion when it wrote that if WesternGeco's view were adopted, a United States patent would effectively become a world-wide patent, contrary to law. This Court should deny certiorari as it did in *Power Integrations* in 2014.

IV. This Fact-Driven Case Is Not a Good Vehicle for the Court to Review on Lost Profits

Lost profits are based on lost sales from the infringer selling competing products that the patentee otherwise would have sold. Here, the facts show there is no competition between ION (selling components) and WesternGeco (selling marine survey services). The factual disconnect provides an additional reason why this Court should not grant certiorari.

There is no split of authority as argued by WesternGeco and Judge Wallach in his dissent, and the panel's opinion clearly illustrates this point. Pet. App. 46a-47a. Even to the extent Judge Wallach's dissent suggests there is a split among the Federal Circuit's past opinions, that split is based on his distinction of ***the facts*** in prior cases. As shown above, the panel debunked the factual distinctions the dissent made and that WesternGeco relied on in its petition. One case relied upon by Judge Wallach in his dissent was *Promega Corp. v. Life Technologies Corp.*, 773 F.3d 1338, 1344 (Fed. Cir. 2014), *reversed*, 137 S.Ct. 734 (2017); Pet. App. 34a. But *Life Technologies* is not to the contrary, and does not even speak to damages for foreign use: indeed, liability was foreclosed in *Life Technologies* by this Court's rejection of the Federal Circuit's broad reading of 271(f)(1) in favor of a strict construction and narrower application of the statute. Moreover, Judge Wallach's own dissent here and his joinder in the majority in *Carnegie Mellon* shows his views turn on the facts of the cases. Pet. App. 32a.

Moreover, in his most recent dissent, Judge Wallach hypothesized about a possible test for damages for foreign use based on a factual analysis of proximity and connection to the United States. Even if Judge Wallach's theory were to be accepted, these factual issues make this case inappropriate for certiorari. This is especially so since they were raised for the first time after resolution of the first petition for certiorari and the jury was never asked to decide proximity or connection to the United States.

V. There Is No Circuit Split on the Predicate Act Doctrine and It Has Been Waived in any Event

As shown by pages 26-29, especially footnote 2, of the first petition, those Circuit Courts that have considered whether the predicate act doctrine under copyright law is viable have not disputed its existence. The Federal Circuit has acknowledged the viability of the predicate act doctrine in copyright law. There is no split to be resolved.

Moreover, any argument about importing the predicate act doctrine from copyright law into patent law has been waived. WesternGeco never raised this issue in the district court or the Federal Circuit. There was no trial on the issue and no briefing or argument on appeal from either party on it. The predicate act doctrine was not mentioned in the panel decision or dissent in the panel opinion. Rather, the first time this issue was raised was in an amicus brief filed by Carnegie-Mellon on

WesternGeco's Motion for Rehearing. The dissent from the Motion for Rehearing relied in part on the predicate act doctrine, but it was never raised by WesternGeco prior to its first petition and never mentioned in the case prior to rehearing by anyone. WesternGeco has waived this argument.

Further, this Court should not take up this question because no record was made on it in any lower court by either party, and neither the district court nor the Federal Circuit panel had an opportunity to consider it. *See Wood v. Milyard*, 132 S. Ct. 1826, 1834 (2012) ("[A]ppellate courts ordinarily abstain from entertaining issues that have not been raised and preserved in the court of first instance."). The petition should be denied.

VI. Lost Profits Were Unavailable Here for Additional Reasons Regardless of Extraterritoriality, So This Case Would Not Be Resolved in This Court

WesternGeco's unprecedented damages theory and the absence of sufficient supporting facts gave rise to a second, independent basis for reversing lost profits. ION raised this issue on appeal, but it was never reached by the panel because of its ruling on extraterritoriality. Even if the Court were to reverse the panel opinion on extraterritoriality, this second basis would then have to be decided by the Federal Circuit, and it would invariably lead to the same result. The courts have long held that to recover lost profits, a patentee must prove that, but for the infringement, it would have made the sales the infringer made. *E.g., Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1156 (6th Cir. 1978); *BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc.*, 1 F.3d 1214, 1218 (Fed. Cir.

1993); *Crystal Semiconductor v. Tritech Microelectronics*, 246 F.3d 1336, 1360 (Fed. Cir. 2001).

The jury was so instructed here: "The burden is on WesternGeco to show that ***its product competed in the same market with ION's product*** and that it would have made the alleged lost sales if the infringement had not occurred." CA. App. 11074 (emphasis added). It was impossible for WesternGeco to meet this charge because the parties did not compete at all. ION sold only components from the U.S., not overseas marine survey services. WesternGeco sold only overseas marine survey services, not components. Cognizant of this defect in its lost profits claim, WesternGeco proposed an alternative instruction changing its burden from showing "its product competed in the same market with ION's product" to "its surveys competed in the same market ***with the surveys using*** ION's product" to eliminate this crucial distinction. CA. App. 11113 (emphasis added).

The district court correctly rejected WesternGeco's alternative instruction, and critically WesternGeco did not appeal the jury instruction. Instead, WesternGeco attempted a sleight of hand, stating below that "ION concedes the jury was properly instructed on damages." (Pet. at 8 n.3). But the jury's award of lost profits was fundamentally inconsistent with that instruction, as ION argued both to the district court and on appeal. ION's Opening Br. at 56-58, CAFC Case: 13-1527, D65-1.

Were this Court to reverse on extraterritoriality, it would not resolve the case because the second ground for elimination of lost profits would be considered on remand to the Federal Circuit and would bring about the same result. This fact-bound issue will prevent the Court from resolving the case, or perhaps even reaching the merits of the extraterritoriality issue.

VII. The Lost Profits Issue Could Be Rendered Moot by PTAB Findings of Invalidity

Four of the five patent claims that support lost profits, including the broadest claim (claim 18 of the '520 patent, which WesternGeco asserted at trial gave it "ownership" of the concept of lateral steering), have been held unpatentable in final written decisions by the PTAB. The PTAB denied WesternGeco's motions for rehearing. Final Written Decision, Case IPR2014-0068 (Dec. 15, 2015); Final Written Decision Case IPR2014-00687 (Dec. 15, 2015); Final Written Decision Case IPR2014-00689 (Dec. 15, 2015). These final decisions from the PTAB are now on appeal before the Federal Circuit (briefing is complete, oral argument has not been set). Courts can take judicial notice of subsequent actions in the PTAB. *VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307, 1312-1313 (Fed. Cir. 2014), *citing Genentech, Inc. v. Chiron Corp.*, 112 F.3d 495, 497 n. 1 (Fed.Cir.1997) (noting that, because the "record before the Board is a public record . . . and thus capable of accurate and ready determination by resort to unquestionable sources," judicial notice was appropriate). Here, the issues of invalidity turn on whether the claims would not be novel to one of ordinary skill in the art (that is they would be obvious). "Obviousness is a question of law based on underlying findings of fact." *In re Kubin*, 561 F.3d 1351, 1355 (Fed. Cir. 2009). The Federal Circuit "reviews the Board's fact findings for substantial evidence." *Leo Pharma. Prods. Ltd. v. Rea*, 726 F.3d 1346, 1353 (Fed. Cir. 2013). If the PTAB decisions are affirmed and the claims cancelled by the U.S.P.T.O. before the litigation is completely over, then any relief based on the cancelled claims is void. *Fresenius USA, Inc. v. Baxter Intern., Inc.*, 721 F.3d 1330, 1347 (2013).

The petition for certiorari could be rendered largely moot by the Federal Circuit's ruling on WesternGeco's appeal from the adverse PTAB decisions. Again, this is yet one more reason to deny WesternGeco's petition.

VIII. The Federal Circuit Opinion Serves the Need for Comity in International Law

The Court of Appeals vacated damages based on foreign use, following this Court's presumption against extraterritoriality and its own precedent. This petition effectively asks for reconsideration of *Microsoft* and overruling of that decision and the Federal Circuit decisions that have applied it. WesternGeco complains that it is left without a remedy if U.S. patents do not apply on the high seas. But in *Brown v. Duchesne*, 60 U.S. 183, 195 (1857), this Court held use of a patented invention on the high seas as "out of the jurisdiction of the United States." Further, the vast majority of developed countries have their own patent systems. In fact, as shown on the face of each patent-in-suit, WesternGeco's original patent application on the lateral steering claims that supported lost profits was filed in Great Britain, not the United States. The Federal Circuit noted that even on the high seas the law of the country that flagged the vessel might apply or the law where the contract for the survey was entered into or negotiated might apply. Pet. App. 46a-47a. WesternGeco knows it needs foreign patents to circumscribe foreign use. This Court should reject

WesternGeco's efforts to revisit the scope of United States patents under § 271(f) or remedies under § 284, because United States patents do not rule the world.

CONCLUSION

WesternGeco's second petition is literally the "same song second verse". While WesternGeco cries foul and tries to derogate ION, as well as re-claim its lost "monopoly," the most likely future is that the Federal Circuit will affirm the PTAB's ruling, and ION will be the last entity to ever be forced to pay WesternGeco on its unpatentable claims. Moreover, WesternGeco's re-urging of issues which this Court previously declined to review, especially in light of the reasons why review should be refused, is unfair to this Court, to ION, and to other litigants. WesternGeco's petition for writ of certiorari should be denied.

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