

No. 15-1085

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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QUESTIONS PRESENTED REPHRASED

In *Microsoft v. AT&T*, 550 U.S. 437, 454-445 (2007), this Court held that the presumption against territoriality applied to all laws, 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), after a defendant successfully avoided infringement by shipping 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 on the same footing as an exporter of an infringing device, but unlike other indirect infringement statutes, it eliminates the requirement of direct infringement: that is, proof of assembly or use is not part of the cause of action. *See generally Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111, 2118 (2014). Rather, infringement under § 271(f) is complete upon export from the United States.

Section 284 is the damages statute for infringement under all sections of 271. Section 284 provides, “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); *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). Since foreign use is not an act of infringement, the presumption against extraterritoriality allows for damages for export but not for downstream non-infringing uses by foreign third parties overseas. The Federal Circuit’s opinion properly so held.

WesternGeco’s first 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 recoverable under § 284. Indeed, WesternGeco is in fact asking this Court to overrule its prior decision in *Microsoft v. AT&T* to eliminate the presumption against extraterritorial application of United States patent law as to both § 271(f) and § 284. WesternGeco wants this Court to allow damages for ION’s customers’ foreign use, which is not an infringement at all. But such a change in the law would not be the narrow change WesternGeco implies, since it would impact §§ 271(a), (b) & (c) as well since all damages are in a single statute, § 284. This said, the first question should be rephrased in these terms.

As for the second question, even though WesternGeco filed its opening brief on appeal after *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) and *Highmark Inc. v. Allcare Health Management*

System, Inc., 134 S. Ct. 1744 (2014) were decided, it never raised the arguments or issues now being considered in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, No. 14-1513 and *Stryker Corp. v. Zimmer, Inc.*, No. 14-1520, and accordingly this issue has been waived. *Sprietsma v. Mercury Marine*, 537 U.S. 51, 56, n.4 (2002). In the six months between the decisions in *Octane Fitness* and *Highmark Inc.*, there were published writings that the *Octane Fitness-Highmark* standard under § 285 should be applied to § 284, so much so that shortly before WesternGeco filed its brief, Judges O'Malley and Hughes filed a concurring opinion in *Halo* explicitly arguing for a revision to the willfulness standard based on this new Supreme Court precedent. *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 769 F.3d 1371, 1385-1386 (Fed. Cir. 2014).

Had WesternGeco wanted to make the arguments to harmonize willfulness with exceptional case, it certainly could have done so in its October 28, 2014 Opening Brief on its Cross-Appeal. A G.V.R. order is not appropriate in light of WesternGeco's failure to raise the issues under consideration in *Halo* and *Stryker* on direct appeal.

I.

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 their foreign customers' non-infringing foreign use?

iv

II.

Whether a party that never previously raised a known issue on appeal may for the first time request an order to grant certiorari, vacate and remand based on that waived issue?

v

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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RESPONDENT'S STATEMENT OF THE CASE

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 looks like a long wing with a small body, and is commonly among the type of products known as “birds”, which are used to control the lateral or horizontal position of a streamer that is pulled behind ships in the ocean. The DigiFIN receives commands from a central computer system on the ship.

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 DigiFIN is 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” and connected to a small body. Parts used in the DigiBIRD overlap with those used in the DigiFIN. ION invited WesternGeco to an early showing of the DigiFIN product as a prospective customer for its new product.

WesternGeco and ION do not compete in the same market. Pet. at 9. ION, based in Houston, sells equipment

for marine oil field exploration. WesternGeco sells marine seismic surveys overseas using its foreign fleet of vessels. *Id.* at 8. Like many of the cases Judge Wallach relied on or distinguished on their facts, (Pet. App. 32a-53a), so too this one will turn on the facts, since ION did not sell the surveys (or even the completed infringing system), WesternGeco did not sell the components or the systems, lost profits are generally only available between competitors, and the jury was so instructed here.

In 2009, WesternGeco sued ION and its 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. By the time of trial, WesternGeco went forward on six claims of the dozens originally asserted. After lengthy discovery, a long trial, and post-trial motions, ultimately judgment was entered in May 2014 against ION for lost profits and a reasonable royalty as well as an injunction. Pet. App. 146a. ION appealed. Pet. App. 2a.

As it was not feasible to appeal all rulings, ION limited its appeal to three primary errors that were based on questions of law. Pet. App. 2a. For this reason, ION did not appeal the jury’s fact findings against its invalidity defenses despite its strong belief the claims were invalid, but did challenge infringement. The Federal Circuit bypassed ION’s challenge to § 271(f)(1) liability on procedural grounds, but held the verdict on § 271(f)(2) “forms an adequate basis to affirm liability.” Pet App. 16a.

ION also appealed lost profits on two separate bases. ION's Opening Br. at 47. 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 also receive lost profits from surveys performed by third parties overseas that used ION's components as part of a complete survey system. *Id.* at 50-55. ION also appealed the jury's verdict on lost profits because it was directly contrary to jury instructions explicitly requiring a finding that ION and WesternGeco were competitors. Ct. App. JA. 11098-11099. WesternGeco had asked for an instruction that skewed this rule by asking that the jury need only find ION's customers' services competed in the same market for its survey services. Ct. App. JA 11005. The district court rejected WesternGeco's instruction, and WesternGeco did not appeal. Ct. App. JA 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. App. 18a. The Court of Appeals reversed on the first ground and never reached the second. Pet. App. 18a-26a.

WesternGeco never raised the predicate act doctrine under copyright law in the district court or in the Federal Circuit. Rather this issue was first raised by WesternGeco in its petition in this Court. Pet. at 26. The issue was first injected into the case by an amicus brief filed by Carnegie Mellon in support of WesternGeco's Motion for Rehearing, and then was mentioned in the dissent from denial of rehearing. Pet. App. 156a-157a.

WesternGeco cross-appealed (Pet. App. 2a) on the district court's ruling that ION was not a willful infringer under the second, objective prong, of *In re Seagate*, 497 F.3d 1960 (Fed. Cir. 2007) (en banc). Even though WesternGeco cited *Octane Fitness* in its October 2014 brief, it did so only to argue that the district court should have applied a "reasonable litigant" standard to the objective prong for each asserted claim, rather than "no reasonable litigant" standard it used for some claims. WesternGeco's Opening Br. at 84-86. As to each claim, the district court reviewed ION's defenses and found them to be objectively reasonable under the *Seagate* test calling some "not objectively unreasonable" and others "reasonable." Pet. App. 29a-30a. The Federal Circuit affirmed the district court on willfulness finding no error whether on *de novo* or deferential review. Pet. App. 30a. WesternGeco did not ask for the Federal Circuit to consider adopting the same *Octane Fitness-Highmark* standard for the district court or adopt what would have been its less favorable deferential standard of review.

WesternGeco sued ION customers, including Petroleum Geo-Services, Inc. ("PGS"). Since PGS was sued after the America Invents Act created the *inter partes* review procedure ("IPR"), it was able to use the new IPR procedure to file petitions in the Patent Trial and Appeal Board ("PTAB") to cancel the claims of the patents-in-suit as invalid over the prior art. This provided ION, otherwise unable to use the IPR process, with a thirty day window to join PGS' IPRs after institution, which it did. The PTAB found that two of the six claims were patentable, but issued final written decisions on December 15, 2015, that the other four claims were not patentable as they were invalid over prior art. *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).¹ WesternGeco filed motions for rehearing, which were denied. It must file notices of appeal by mid-May. The Federal Circuit affirms PTAB decisions roughly 90% of the time, and assuming they do affirm here, the U.S. P.T.O. will then cancel the claims.

One of the two claims that survived was not a basis for lost profits at all (claim 14 of the '038 patent), while the other surviving claim (claim 23 of the '520 patent) depended from another claim (claim 19 of the '520 patent), which in turn depended from the claim which WesternGeco asserted at trial gave it ownership of lateral steering (claim 18 of the '520 patent). Claim 18, as well as dependent claim 19, and the asserted claims of its other two patents on lateral steering, were all found invalid by the PTAB. *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). The sole surviving claim of those asserted as a basis for lost profits for lateral steering, claim 23, relates to turning a vessel towing streamers. Pet. App. 76a. The PTAB found that another prior method for turning vessels towing

1. 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).

streamers did not invalidate WesternGeco's specific way of doing the same operation.² Ultimately, lost profits could become a moot issue because if the Federal Circuit affirms, then the P.T.O. will cancel the claims, and so long as the present litigation is not fully and finally concluded, WesternGeco's claims are void *ab initio* and any relief granted is nullified.

WesternGeco's claim on page 8 of its petition that it invented lateral steering is contradicted by the PTAB's final determinations that four of six claims – including the broadest, claim 18 of the '520 patent – are invalid based on prior inventions for lateral steering. WesternGeco's assertion that only the lateral steering technology it patented prevents streamers from tangling or otherwise responds to conditions buffeting the streamers on the high seas ignores both the prior art (as found by the PTAB) and the role of vertical positioning by such devices as the DigiBIRD, which is important in preventing tangles during storms and also regulating the positioning of the streamer in the ocean during towing and surveys.

REASONS TO DENY THE PETITION

I. 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

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

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 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*, 135 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. Pet. App. 115a. It is undisputed that WesternGeco does not sell components and that it lost no sales of components. Pet. App. 3a.

The damages for infringement are governed by 35 U.S.C. § 284, and 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.

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.”).

The Federal Circuit’s holding here is one step removed from *Power Integrations*, because it is not ION that was performing the acts overseas, but rather it was ION’s foreign customers who combined the components with ships, marine streamers, computer systems, and seismic survey 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.³

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 it 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-

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

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). 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), *Dowagiac 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 as it did here for supplying components from the United States. This is not a case for certiorari.

II. Allowing Damages for Wholly Extraterritorial Acts under § 271(f) Would Open the Door for Worldwide Damages under § 271(a).

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 relied on in *Cardiac Pacemakers* in examining § 271(f). *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 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 any damages anywhere in the world where the patent owner can trace some connection between acts in the United States and claim for damages in other countries. Neither § 271 nor § 284 should be now construed broadly to permit for damages for foreign use of an invention patented in the United States worldwide. This Court should deny certiorari as it did in *Power Integrations* in 2014.

III. 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 will ultimately prevent the Court from fully resolving the extraterritoriality issues. As shown above, the panel addressed the supposed split of authority relied on by WesternGeco and Judge Wallach in his dissent, showing there is no split, but if Judge Wallach's dissent seems to show one it is based on his distinction of the facts in prior cases. As shown above, the panel debunked the factual distinctions the dissent made and 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), *petition for cert. filed*, (June 26, 2015); Pet. App. 34a. But *Promega* is not to the contrary as it does not speak to extraterritorial damages, rather it deals with liability under § 271(f) when the infringer exports from the United States components to itself. *Promega*, 773 F.3d at 1344. 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. This is not an appropriate case for certiorari.

IV. There Is No Circuit Split on the Predicate Act Doctrine and It Has Been Waived

As shown by pages 26-29, especially footnote 2, of the Petition for Certiorari, each Circuit Court that has considered the issue, including 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 Petition for Certiorari, and never mentioned in the case prior to rehearing by anyone. WesternGeco 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.”).

V. 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 in light 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, 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." Ct. App. A006139 (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. Ct. App. A011113 (emphasis added).

The district court rejected WesternGeco’s alternative instruction, and critically WesternGeco did not appeal the jury instruction. Instead, WesternGeco attempted a sleight of hand, stating below, “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.

Were this Court to reverse on extraterritoriality, it would not resolve the case because the second ground for elimination of lost profits 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.

VI. 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 claimed at trial gave it “ownership” of the concept of lateral steering), have been held invalid in final decisions by the Patent Trial and Appeal Board, and WesternGeco’s motions for rehearing were denied. *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). 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). No doubt WesternGeco will appeal the PTAB rulings to the Federal Circuit, but the Federal Circuit affirms PTAB rulings in about 90% of cases appealed, often with a summary disposition under FRAP 36. C. Countryman, “Lessons from Fed. Circ.’s 1st Wave of Post-Grant Appeals”, Law360 (Dec. 16, 2015). If the PTAB decisions are affirmed and the claims cancelled by the U.S. P.T.O., before the litigation is completely concluded, then any causes of action or damages based on the cancelled claims are void. *Fresenius USA, Inc. v. Baxter Intern., Inc.*, 721 F.3d 1330, 1347 (2013).

If there is a remand to consider lost profits, the Federal Circuit will have to deal with ION’s argument that the jury instructions do not permit lost profits here. If the law on willfulness changes, and a G.V.R. order is issued, the district court and then the Federal Circuit will have to review willfulness under the new standard, extending this litigation and making it more likely that if the Petition is granted it will be rendered moot by the PTAB decisions.

VII. There Is No Need for a G.V.R. Procedure Because WesternGeco Waived the *Halo-Stryker* Issue on Willfulness

Halo and Stryker argued that this Court should overrule the two-prong test of *In re Seagate* for willfulness under § 284 and as it did in *Octane Fitness* and *Highmark* for exceptional case under 35 U.S.C. § 285, and adopt a more flexible single test along the lines of “recklessness.” They also argued the standard of review should be changed from “*de novo*” to “abuse of discretion.” WesternGeco did not raise either issue on appeal.

WesternGeco did not challenge the two-part test but rather argued the district court applied the wrong standard to the second prong. Citing *Octane Fitness*, WesternGeco did not argue for elimination of the two prong test or more flexibility for district courts in examining willfulness. Rather WesternGeco argued that the standard for the second prong should be if ION’s defenses were “reasonable,” instead of what WesternGeco argued was an incorrect “no reasonable litigant standard.” WesternGeco’s Opening Br. at 84-86. (The district court in fact characterized different defenses to different claims in different ways). Ct. App. JA 26-28. WesternGeco avoided specifying a standard of review, but instead said the district court erred under any standard. WesternGeco’s Opening Br. at 87. Likewise, the Federal Circuit held under either the *de novo* or deferential standard, there was no error in the district court’s findings on willfulness. Pet. App. 30a.

After *Octane Fitness* and *Halo* were decided in late April 2014, there was speculation and commentary in the

patent bar that the same analysis and standards they applied to “exceptional case” under 35 U.S.C. § 285 might be applicable to 35 U.S.C. § 284 for “willfulness.” *See, e.g.*, S. Kinashi, “Exceptional Case for Attorneys’ Fees is Decided with Simple Equitable Discretion by District Court Using Preponderance of the Evidence Standard” CAFC Alert (May 23, 2014) (last accessed October 21, 2016) <http://cafc.whda.com/2014/05/exceptional-case-for-attorney-fees-under-%C2%A7285-is-determined-with-simple-equitable-discretion-by-district-court-applying-preponderance-of-evidence-standard/> (“Although the decision says nothing about § 284 for triple damages, doesn’t the same logic apply?”); Jones Day, “Ten New Supreme Court Opinions Reshaping the Intellectual Property Landscape” (August 2014) last pulled from <http://www.jonesday.com/ten-new-supreme-court-opinions-reshaping-the-intellectual-property-landscape-08-25-2014/> (October 16, 2014); C. Hu, Some Observations on the Patent Troll Litigation Problem, 8 Intellectual Property and Technology Law Journal at 6 (August 2014).

In fact, a concurring opinion by Judges O’Malley and Hughes in *Halo* explicitly called for consideration of whether the *Octane Fitness-Highmark* test should apply to “willfulness” under § 284. *Halo* issued on October 22, 2014, and immediately received press in the patent bar. R. Davis, “Fed. Circ. Judges’ Bid To Revisit Willfulness May Aid Patentees”, Law360 (October 23, 2014). A few days later, WesternGeco filed its opening brief on October 28, relying on *Octane Fitness* to argue the district court applied the wrong standard to the second prong of the *In re Seagate* willfulness test. WesternGeco’s Opening Br. at 85-86. Had WesternGeco wanted to make the arguments to harmonize willfulness with exceptional case, it certainly

could have done so in its Cross-Appeal. Since WesternGeco did not raise the issues on willfulness in *Halo* and *Stryker* in its own appeal, it cannot raise them for the first time now in a G.V.R. request.

VIII. Damages and Willfulness Were Correctly Decided by the Court of Appeals

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, many 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 the 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 would 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 petition for writ of certiorari should be denied.

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