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WesternGeco v. ION Geophysical Corp. and Lost Profit Damages under § 271(f)

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An introduction to § 271

Section 271 of Title 35 of the United States Code is the statute that codifies unlawful acts of patent infringement. The most commonly asserted provisions are § 271(a) (direct infringement), § 271(b) (induced infringement), and § 271(c) (contributory infringement). However, other less frequently asserted provisions must also be considered when enforcing United States patents. For example, § 271(e) pertains to the infringement of patents on pharmaceuticals, specifically barring certain acts, while explicitly permitting others. Additionally, § 271(f) covers infringement by a party who supplies components of a patented invention to recipients outside of the United States with the knowledge the components will be combined "in a manner that would infringe the patent if such combination occurred within the United States." And, finally, § 271(g) covers importation infringement, making liable a party that imports into the United States or offers to sell, sell or uses within the United States a product which is made by a patented process during the term of such a patent. While possibly the least often litigated, § 271(f) is now before the Supreme Court, in a case examining the applicability of foreign lost profits damages to § 271(f) infringement.

A brief history of § 271(f)

Congress enacted § 271(f) in 1984 as a result of the Court's holding in *Deepsouth Packing Co. v. Laitram Corp*, 406 U.S. 518 (1972). In *Deepsouth*, the defendant sold a machine covered by a patent, but never assembled the full machine in the United States. Instead, the defendant shipped components to customers abroad, who would there assemble the machine. By a 5-4 vote, the U.S. Supreme Court held that the defendant could not be liable for infringement under then-existing 35 U.S.C. § 271 because the defendant's customers' acts all took place abroad and that the defendant did not make, use, sell, or offer to sell the entire patented machine in the United States, nor induce or contribute to such acts occurring in the United States. In what amounted to a reversal of *Deepsouth*, Congress enacted § 271(f) to close this loophole in patent law.

WesternGeco v. ION Geophysical Corp.

Several decades after the enactment of this provision, a case examining the applicability of foreign lost profits damages to § 271(f) is currently pending before the Court: ***WesternGeco v. ION Geophysical Corp***. WesternGeco owns four patents on technology used in geological surveys to search for oil and gas under the ocean floor. WesternGeco developed this technology for its own commercial use; rather than sell the technology or license its patents to competitors, WesternGeco used its invention to perform surveys for oil companies. ION, a Houston-based surveying equipment company, shipped components of a competing survey system to surveying companies abroad for those companies to combine the components into a surveying system. WesternGeco sued ION for infringement under § 271(f) in U.S. District Court; a jury found ION liable for infringement and awarded $12.5 million in royalty damages and $93.4 million in lost profits damages.

On appeal, however, the Federal Circuit reversed the jury's lost damages award, relying on the presumption against territoriality and an earlier Federal Circuit decision, *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), to find that profits lost outside the United States are categorically unavailable as a matter of law. Dissenting from the panel majority, Judge Wallach argued that the majority used an incorrect damages analysis and instead applied common-law damages principles to conclude that extraterritorial lost-profits damages should be recoverable. In doing so, Judge Wallach interpreted the Federal Circuit's existing precedent as requiring only a proximate causal connection between the domestic infringement and lost profits. Judge Wallach reiterated this position in his dissent to the court's decision denying WesternGeco's petition of rehearing en banc. WesternGeco then sought review in the Supreme Court; the Court issued a GVR order for the Federal Circuit to reconsider in light of the Court's decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016). On remand, the Federal Circuit declined to reconsider its lost-profits analysis, and Judge Wallach renewed his dissent, criticizing the panel for its categorical exclusion of foreign activity when measuring damages. WesternGeco then petitioned the Supreme Court once more for a writ of *certiorari*.

WesternGeco's petition principally focused on an argument that the Federal Circuit misapplied the presumption against territoriality in its case against ION. More specifically, it argued in part that the Federal Circuit's reliance on *Power Integrations* was improper, as infringement in that case was asserted under §§ 271(a) and (b), not § 271(f) as is at issue here. This distinction is critical because, in WesternGeco's view, § 271(f) is an exception to the general rule that no patent infringement occurs when a patented product is made and sold abroad. WesternGeco further argued that once infringement liability is established under § 271(f), there is no reason to apply the presumption against extraterritoriality again to pose limits on available remedies. In its brief in opposition, ION argued that the acts at issue were wholly extraterritorial and that allowing damages for such acts would encourage courts to award damages for worldwide conduct under other sections of § 271.

The Court then asked the Solicitor General's Office to submit an *amicus curiae* brief, in which the government took the position that an award of foreign lost profits damages to WesternGeco would not violate the presumption against extraterritoriality and that WesternGeco may recover all lost profits proximately caused by ION's domestic infringement activities. Shortly thereafter, the Court granted *certiorari* to address the question of:

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

This case will potentially have a broad impact across many industries wherein product components are made in the United States and sent abroad for combination and subsequent use, as it will shed light on whether a victorious patent owner can expect to receive damages stemming from foreign lost profits. Oral argument in this case is set for April 16, 2018, with a decision expected later this term.

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