WesternGeco LLC v. ION Geophysical Corp. 138 S. Ct. 2129 (2018)

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BACKGROUND

WesternGeco LLC ("WesternGeco") obtained four United States patents for a system to survey the ocean floor. The system used lateral-steering technology to produce data at a higher quality than previous survey systems. WesternGeco was the only company using lateral-steering technology. ION Geophysical Corporation ("ION") began selling a competing survey system in 2007. ION manufactured the components for their system and then sent the components abroad to be assembled. Once assembled, ION's final product was indistinguishable from WesternGeco's lateral-steering survey system. This process of manufacturing components of an invention domestically, shipping them abroad for assembly, and then selling them on the market is known as "extraterritorial infringement." As a result of ION's extraterritorial infringement, WesternGeco lost ten survey contracts.

PROCEDURAL HISTORY

WesternGeco sued ION for patent infringement under 35 U.S.C. §271(f)(1) and §271(f)(2) which provide that whoever manufactures components of a patented invention in the United States and sends the components abroad for assembly is liable as an infringer.[1] The jury found WesternGeco had lost ten foreign survey contracts due to ION's infringement and awarded WesternGeco $12.5 million in royalties and $93.4 million in lost profits under §284 of the Patent Act which grants damages for lost profits for general infringement.[2] On appeal, the Federal Circuit found that "the general infringement provision does not allow patent owners to recover for lost foreign sales."[3] WesternGeco petitioned for review and the Supreme Court granted certiorari and vacated the Federal Circuit's verdict and remanded. On remand, the Federal Circuit's decision was unchanged. The Supreme Court granted certiorari again and ended the matter by reversing the Federal Circuit's decision.

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1. 35 U.S.C. §271.
2. 35 U.S.C. §284.
3. WesternGeco LLC v. ION Geophysical Corp., 138 S. Ct. 2129, 2135 (2018).

ISSUE

The issue is whether § 271(f) allows a United States patent owner to recover damages for lost foreign profits. That is, whether WesternGeco can recover the $93.4 million in lost profits from ION when ION manufactured the components for the infringing invention and then shipped the components abroad for assembly.

DECISION

The Court found for WesternGeco, holding that §271(f) applies extraterritorially and permits a United States patent holder to recover damages for lost foreign profits because §271(f)(2) deems one who manufactures components domestically and exports them for assembly liable as an infringer.

REASONING

Under §271(f)(2), a company is liable for infringing a patent if it sends components of the invention abroad to be assembled. Section 284 states that a patent owner whose patent has been infringed is entitled to damages.4 The principle against extraterritoriality presumes, however, that federal statutes only apply within the United States. This presumption, ION argues, bars WesternGeco from recovering lost foreign profits. The Court found that this presumption can be overcome by applying a two-step analysis. The first step is determining whether the presumption against extraterritoriality has been rebutted by a clear indication in the text of the statute. If it has not, the next step is to determine if the case involves a domestic application of the statute.

In order to determine whether there is a domestic application of a statute, the Court examines the statute's focus and determines "whether the conduct relevant to that focus occurred in the United States territory."5 If the relevant conduct of the focus occurred within the U.S., then the case involves a "permissible domestic application of the statute."6 The Court reasons that if there is a permissible domestic application of §271(f)(2), then WesternGeco can recover lost foreign profits.

Courts can ignore the first step of the analysis if it would "require resolving difficult questions that do not change the outcome of the case but could have far-reaching effects in future cases."7 The Supreme Court exercised this discretion here and reasoned that analyzing step one would implicate a number of other statutes besides the Patent Act and so proceeded to analyze step two.

The Court recognized that when determining a statute's focus, it must not be done in a vacuum and that the provision must be analyzed with other

4. 35 U.S.C. §284.
5. *WesternGeco*, 138 S. Ct. at 2136.
6. *Id.*
7. *Id.*

provisions that work in tandem with it.8 Accordingly, the Court held that §284 works in tandem with §271(f)(2) because §284 states, "the court shall award the claimant damages adequate to compensate for infringement" - the infringement barred under § 271(f)(2).9 Thus, the Court must analyze the focus of §284 and determine whether §284 is domestic. With that in mind, the Court found the focus of §284 is compensation for infringement and consequently found §284 to be domestic because it pertains to United States patents and requires "complete compensation for infringements."

Next, the Court looked to §271(f)(2) and found it "focuses on domestic conduct"10 because it regulates "the domestic act of 'supplying in or from the United States' and reaches components that are manufactured in the United States but assembled overseas."11 Thus, the Court held the focus of § 271(f)(2) is domestic.

Therefore, because both §271(f)(2) and §284 are domestic, they allow a patent holder to recover damages for lost foreign profits. Applying the rule, the Court held that WesternGeco could recover lost foreign profits from ION under §271(f)(2) because its ION's acts were domestic.

DISSENT: JUSTICE GORSUCH

Justice Gorsuch, joined by Justice Breyer, dissented. The text of the Patent Act, precedent, history, and policy are the reasons Gorsuch dissents and agrees with the Federal Circuit that a patent holder should not be able to receive lost foreign profits as damages for a United States patent.

Gorsuch writes that throughout the Patent Act, there is language that precludes extraterritoriality. A patent excludes others from "making, using, offering for sale, or selling an invention throughout the United States" and infringement occurs "within the United States."12 Additionally, Gorsuch reasons that because the Patent Act uses this language, patent infringement must occur inside the United States, but those acts done outside the United States do not infringe a United States patent.

Next Gorsuch reasons that precedent confirms that one must make, use, or sell within the United States to infringe a patent. Gorsuch cites cases like Brown v. Duchesne, 60 U.S. 183 (1857), which stated that "the use of an invention outside of the jurisdiction of the United States is not an infringement of the patent owner's rights, and so the patent owner has no claim to any compensation for that foreign use."

Gorsuch then rebutted the notion that §271(f)(2) creates an exception because it states one who exports a specialized component intending for it to be combined abroad is liable for infringement. Gorsuch explained that this section does not change "the bedrock rule that foreign uses of an invention…

8. *Id.* at 2137.
9. 35 U.S.C. §284.
10. *WesternGeco*, 138 S. Ct. at 2137.
11. *Id.* at 2138.
12. *Id.* at 2139.

do not infringe a U.S. patent."13 Therefore, WesternGeco cannot recover damages from lost foreign profits.

History, according to Gorsuch, does not show that patents protect against uses abroad. Gorsuch cited Deepsouth Packing Co. V. Laitram Corp., 406 U.S. 518 (1972), which held that defendant did not infringe when he made the invention's components and sold them to buyers abroad for final assembly. Because the invention was not made in the United States, there was no infringement.

Lastly, Gorsuch argues that policy requires the Court to find that lost foreign profits cannot be awarded for infringement. Gorsuch asserts that granting lost foreign profits would unfairly force infringers to be liable for damages that a United States patent doesn't protect, "effectively giving the patent owner a monopoly over foreign markets through its United States patent."14 Moreover, foreign countries may in retaliation hold a United States company liable for infringing foreign patents in the United States.

13. *Id* at 2141.

14. *Id* at 2142.