

ALERT

# Federal Circuit Patent Bulletin: *WesternGeco L.L.C. v. ION Geophysical Corp.*

July 6, 2015

*“Just as the United States seller or exporter of a final product cannot be liable for use abroad, so too the United States exporter of the component parts cannot be liable for use of the infringing article abroad.”*

On July 2, 2015, in *WesternGeco L.L.C. v. ION Geophysical Corp.*, the U.S. Court of Appeals for the Federal Circuit (Dyk,\* Wallach, Hughes) affirmed-in-part, reversed-in-part, and remanded the district court’s judgment entering the jury verdict that ION infringed U.S. Patents No. 6,691,038, No. 7,080,607, No. 7,162,967, and No. 7,293,520, which related to systems for oil and gas searching beneath the ocean floor, as well as the award of \$93.4 million in lost profits and \$12.5 million in reasonable royalties. The Federal Circuit stated:

The presumption against extraterritoriality is well-established and undisputed. “The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law. The traditional understanding that our patent law operates only domestically and does not extend to foreign activities is embedded in the Patent Act itself, which provides that a patent confers exclusive rights in an invention within the United States.”

Here, the enactment of § 271(f) expanded the territorial scope of the patent laws to treat the export of components of patented systems abroad (with the requisite intent) just like the export of the finished systems abroad. . . . There is no indication that in doing so, Congress intended to extend the United States patent law to cover uses abroad of the articles created from the exported components. It is clear that under § 271(a) the export of a finished product cannot create liability for extraterritorial use of that product. . . .

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WesternGeco cannot recover lost profits resulting from its failure to win foreign service contracts, the failure of which allegedly resulted from ION's supplying infringing products to WesternGeco's competitors. . . . Section 271(f) does not eliminate the presumption against extraterritoriality. Instead, it creates a limited exception. [B]y its terms, § 271(f) operates to attach liability to domestic entities who export components they know and intend to be combined in a would-be infringing manner abroad. But the liability attaches in the United States. It is the act of exporting the components from the United States which creates the liability. A construction that would allow recovery of foreign profits would make § 271(f), relating to components, broader than § 271(a), which covers finished products. In fact, § 271(f) was designed to put domestic entities who export components to be assembled into a final product in a similar position to domestic manufacturers who sell the final product domestically or export the final product. Just as the United States seller or exporter of a final product cannot be liable for use abroad, so too the United States exporter of the component parts cannot be liable for use of the infringing article abroad.

Of course, the fact that WesternGeco is not entitled under United States patent law to lost profits from the foreign uses of its patented invention does not mean that it is entitled to no compensation. Patentees are still entitled to a reasonable royalty, and WesternGeco received such a royalty here. . . .

Because we reverse the district court's lost profits decision, we turn next to WesternGeco's conditional cross-appeal. WesternGeco first challenges the district court's grant of ION's motion to exclude WesternGeco's expert from testifying as to a reasonable royalty. WesternGeco's damages expert, Raymond Sims, submitted an expert report in which he determined that the reasonable royalty rate for ION's alleged infringement was 10% of the revenue of ION's customers. In support of this, he explained that ION's customers had received \$3.3 billion in revenue for performing surveys with the DigiFINs, and that they would not have been able to receive that revenue without the DigiFINs.

The district court excluded Sims from testifying as to a reasonable royalty. The district court reasoned "that ION, in a hypothetical negotiation with [WesternGeco], would [not] have . . . agreed to a huge, profit-eliminating (and even revenue eliminating) royalty obligation for itself. As a matter of law, no such risk can be taken in a hypothetical negotiation in which infringement is deemed known. With knowledge of validity and infringement, such a financially catastrophic agreement would have been totally unreasonable." [W]e see no error in the district court exercising its discretion to exclude the expert from testifying as to a reasonable royalty.

[There is] a two-prong test for willfulness: [T]o establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. . . . The state of mind of the accused infringer is not relevant to this objective inquiry. If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer. [T]he objective inquiry is a legal question, to be answered by the judge and reviewed de novo.

The jury determined that WesternGeco demonstrated, “by clear and convincing evidence[,] that ION actually knew, or it was so obvious that ION should have known, that its actions constituted infringement of a valid patent claim[.]” WesternGeco subsequently sought enhanced damages in light of the jury’s finding. The district court denied WesternGeco’s motion. The court noted that the jury already determined that the subjective prong was satisfied, but that it was the responsibility of the court to determine if the objective prong had been satisfied. After carefully reviewing ION’s non-infringement and invalidity defenses, the district court concluded that they were “not unreasonable by clear and convincing evidence,” “not objectively baseless,” and “reasonable.” . . .

WesternGeco also argues that ION’s customers brought the patents to ION’s attention and voiced their concerns regarding possible infringement, and that ION was so concerned about the possibility of infringement that it hesitated to enter into indemnity agreements with its customers. These arguments bear on the subjective inquiry, not the objective inquiry—whether WesternGeco had objectively reasonable defenses. Whether our review is *de novo* or deferential, we see no error in the district court’s determination.