WESTERNGECO L.L.C. v. ION GEOPHYSICAL CORP., Appeal No. 2013-1527 (Fed. Cir. July 2, 2015). Before Dyk, Wallach, and Hughes. Appealed from S.D. Tex. (Judge Ellison).

Background:

WesternGeco ("Western") sued ION for infringement of four of its patents under 35 U.S.C. §271(f)(1) ("(f)(1)") and §271(f)(2) ("(f)(2)"). (f)(1) prohibits supplying a substantial portion of the components of a patented system in a manner that actively induces their combination abroad, and (f)(2) prohibits supplying components that are especially adapted to work in a patented invention and with the intention that the components be combined abroad in a manner that would infringe if combined domestically.

In a summary judgment ruling, the District Court found that ION infringed one patent under (f)(1). Then, at trial, the jury determined that ION also infringed the patent under (f)(2), and that the remaining three patents were infringed under (f)(1) and (f)(2). Damages were awarded for lost profits and for a reasonable royalty.

ION appealed, alleging, among other things, that the lost profits were impermissibly awarded for conduct abroad.

Issue/Holding:

Were lost profits impermissibly awarded for conduct abroad? Yes, reversed and remanded.

Discussion:

Regarding lost profits, the Federal Circuit found that lost profits were impermissibly awarded because the service contracts that Western lost were all performed outside the U.S. In reaching its decision, the Federal Circuit noted that §271(f) was enacted to cover a gap in §271(a) (§271(a) covers an infringing product, whereas §271(f) covers components to be assembled as a finished product outside the U.S.), and previous decisions under §271(a) excluded damages resulting from an extraterritorial use of an infringing product. The Federal Circuit found that Congress, when enacting §271(f), did not intend to expand the scope of §271(f) to cover uses of the infringing product. Therefore, lost profits were impermissibly awarded to Western.

In dissent, Judge Wallach argued that under the doctrine of "convoyed sales," it is permissible to consider the lost service contracts because they are "sufficiently related" to the patented product.