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Supreme Court Opens the Door for the Recovery of Foreign Lost Profits for Patent Infringement Under 35 U.S.C. § 271(f)(2)

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A FREEBORN & PETERS LLP CLIENT ALERT

ABOUT THIS CLIENT ALERT:

This Client Alert addresses the U.S. Supreme Court's decision in *WesternGeco LLC v. ION Geophysical Corp.*, which found that it was not an impermissible extraterritorial application of U.S. law to award damages in the form of lost profits from foreign sales in a case involving infringement under Section 271(f)(2). The decision narrowly addressed damages for infringement -- the exportation of components of a patented invention; however, patentees will likely use this argument as a springboard to seek broader damages for other forms of patent infringement. The overall impact of this decision remains to be seen, as the decision does not address the issue of proximate cause, which in many cases will be a significant hurdle to patentees seeking to recover lost foreign sales.

On June 22, 2018, the Supreme Court ruled that a patent owner's recovery of foreign lost profits under 35 U.S.C. §§ 271(f)(2) and 284 was not an extraterritorial application of the Patent Act. *WesternGeco LLC v. ION Geophysical, Corp.*, No. 16-1011, (U.S. June 22, 2018), was a 7-2 decision authored by Justice Thomas, with an unlikely dissenting pair of Justices, Gorsuch and Breyer.

In short, the majority ruled that because the conduct relevant to Section 271(f)(2)– i.e., exporting components from the United States – is domestic, the recovery of lost profits resulting from the infringement is a domestic application of the statute, regardless of where the profits were lost. The dissenters argued that the majority opinion conflated damages from the act of infringement (exporting components) with lost profits from the extraterritorial use of the patented invention and cautioned that the opinion may enable U.S. patent owners to extend their patent monopolies worldwide.

Background

WesternGeco owns four patents relating to a system that it developed to survey the ocean floor. WesternGeco uses "lateral-steering technology" to produce higher quality data than previous surveying systems, and, for several years, it was the only surveyor using this technology. WesternGeco

does not sell or license its technology to any of its competitors. Instead, it uses its own technology to perform survey work for oil and gas companies.

ION manufactured the components for a system that would compete with WesternGeco's system in the United States, and shipped those components for assembly from the United States to companies outside of the United States. The end result was a surveying system that was indistinguishable from WesternGeco's, which the foreign customers used to compete with WesternGeco. WesternGeco was able to prove that it had lost 10 specific survey contracts due to ION's acts.

The trial court found that ION's acts infringed on WesternGeco's patents under 35 U.S.C. § 271(f)(2), which provides:

> Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention … knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

WesternGeco was awarded damages of $12.5 million for reasonable royalties and $93.4 million in lost profits.

On appeal, the Federal Circuit reversed the award of lost profits, citing precedent holding that the recovery of foreign lost profits is not permissible for general patent infringement under § 271(a), and thus patent owners whose patents were infringed under Section 271(f) also should not be able to recover foreign lost profits. After a prior petition to the Supreme Court and remand, WesternGeco's damages award of foreign lost profits was reinstated, leading to the current appeal. The issue before the Supreme Court was whether awarding WesternGeco foreign lost profits pursuant to Section 284 was an extraterritorial application of the Patent Act.

The Supreme Court's Decision

Writing for the majority, Justice Thomas found that, despite the presumption that federal statutes "apply only in the territorial jurisdiction of the United States," recovery of foreign lost profits for infringement under 35 U.S.C. § 271(f)(2) was not impermissible. Specifically, the presumption against extraterritoriality can be rebutted if (1) the statutory text provides a "clear indication of an extraterritorial application" or (2) the "case involves a domestic application of the statute." Skipping straight to step 2, the Court found that the focus of § 284 – which provides that the court shall award damages "adequate to account for the infringement, but no less than a reasonable royalty" – is the infringement itself. Considering Section 271(f)(2), the statutory provision that governed the infringement, the Court found that it had a domestic focus, to regulate the domestic act of "supply[ing] in or from the United States." As such, "the [foreign] lost-profits damages that were awarded to WesternGeco were a domestic application of § 284" and, as such, recoverable. In a footnote, the Court stated that the opinion did

not address the extent to which proximate cause (and other legal doctrines) could limit or preclude damages in particular cases.

Justice Gorsuch, in dissent, opined that he agreed with the majority that "WesternGeco's lost profits claim does not offend the judicially created presumption against the extraterritorial application of statutes," but he believed that lost profits were wrongly awarded in this case. Section 284 provides for damages "adequate to account for the infringement, but no less than a reasonable royalty," and under Section 271(f)(2), the infringing activity is the exportation of the components from the United States (which was performed by ION) and not the use of the patented system by ION's customers in competition with WesternGeco. The concern expressed by the dissent was that, by awarding damages caused by the extraterritorial use of the system, the majority opinion enabled the U.S. patent owner to enjoy a worldwide monopoly over the use of its system. The dissent argued that such a result would have the perverse effects of (i) making potential damages under § 271(f)(2) greater than for making the patented machine in violation of § 271(a) and (ii) allowing U.S. courts to regulate worldwide commerce.

Implications

The ruling in *WesternGeco* is narrowly limited to damages for infringement under Section 271(f)(2); however, it remains to be seen whether it will have a broader impact. Patentees will push the boundaries of *WesternGeco*, arguing that recovery of foreign lost profits for infringement under Section 271(a) - making, using, offering to sell, selling or importing a patented invention - is likewise a domestic application of the Patent Act. Moreover, even if limited strictly to Section 271(f)(2), this ruling may create perverse incentives, expanding potential liability for exporters of components beyond those available for manufacturers or sellers. Will we see a shift in patent infringement strategy to focus on U.S.-based component suppliers, rather than the manufacturer of the finished product?

The temptation is to imagine, as Justice Gorsuch did, nightmare scenarios where the WesternGeco decision distorts patent litigation as we know it. But it is just as (if not more) likely that this decision will have a negligible impact. The significance of the majority opinion's footnote should not be understated. *WesternGeco* holds only that 35 U.S.C. §§ 271(f)(2) and 284 allow for recovery of lost foreign profits, not that awards of foreign profits should be awarded in such cases. Alleged infringers should continue to fight overreaching lost-profit claims by challenging, among other things, proximate causation, which will be a point of vulnerability in many claims for foreign lost profit damages.

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