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Intellectual Property Litigation Group Client Alert: Supreme Court Allows Patent Owners to Recover Lost Foreign Profits

On June 22, 2018, the U.S. Supreme Court in *WesternGeco LLC v. ION Geophysical Corp.* ruled that a patent owner can recover lost foreign profits under certain circumstances.[1]

WesternGeco may substantially expand the scope of potential damages for patent infringement under 35 U.S.C. § 271(f)(2) when an infringer ships U.S.-made components of an invention for assembly abroad. *WesternGeco* is viewed as a win for patent owners who prove Section 271(f)(2) infringement. It remains to be seen whether courts will interpret *WesternGeco* as a signal that the scope of damages permitted for other types of patent infringement should be more expansive.

THE *WESTERNGECO* DECISION

WesternGeco LLC, a subsidiary of Schlumberger Corporation, owns patents for a system used to survey the ocean floor. WesternGeco uses its patented technology to perform surveys for oil and gas companies. ION Geophysical Corp. sold a competing system built from components manufactured in the U.S. that were shipped to companies abroad. ION's customers assembled the components into a system like WesternGeco's and used it to compete with WesternGeco.

WesternGeco sued ION for patent infringement under 35 U.S.C. §§ 271(f)(1) and (f)(2). The jury found ION liable and awarded lost profits under 35 U.S.C. § 284, the Patent Act's damages provision. ION moved to set aside the verdict, arguing that WesternGeco could not recover damages for lost profits because § 271(f) does not apply extraterritorially. The district court denied ION's motion. But the Federal Circuit later agreed with ION and reversed the lost-profits award on appeal. WesternGeco petitioned to the Supreme Court, which vacated the Federal Circuit's judgment and remanded for further consideration on a separate issue. On remand, the Federal

[1] *WesternGeco LLC v. ION Geophysical Corp.*, No. 16-1011, slip op., at 1 (June 22, 2018).

Circuit addressed the issue decided by the Supreme Court and reinstated the lost-profits award. WesternGeco appealed again and the Supreme Court again granted certiorari.

The Supreme Court first noted that § 271(f) expands the definition of infringement to include supplying from the United States a patented invention's components. Section 271(f)(1) addresses the act of exporting a substantial portion of a patented invention's components, and Section 271(f)(2) addresses the act of exporting a component specially adapted for use in an invention that is not suitable for substantial non-infringing use. The Court explained that patent owners who prove infringement under any provision of § 271 are entitled to "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer."[2]

The Court began by recognizing that federal statutes are presumed to apply only within the territorial jurisdiction of the United States, a principle called the "presumption against extraterritoriality." The Court explained that it uses a two-step framework for addressing concerns of extraterritoriality. Under the first step, the question is whether the statutory text rebuts the presumption against extraterritoriality by providing a clear indication of extraterritorial application. Under the second step, the issue is whether the case involves a permissible domestic application of the statute. Courts make this determination by identifying the focus of the statute and considering whether the conduct relevant to that focus occurred in the United States. If so, the case involves a permissible domestic application of the statute.

In applying the "presumption against extraterritoriality," the Court exercised its judicial discretion and skipped the first step of the extraterritoriality analysis. The Court noted that since the step-one analysis here would involve difficult questions that do not change the outcome of the case, but could have far-reaching effects in other cases, it would forgo step one and resolve the question at step two.

Under the second step of the extraterritoriality analysis, the Court found that the conduct relevant to the statutory focus here is domestic. The focus of a statute is "the object of its solicitude," which may include the conduct it seeks to regulate, and the parties and interests it seeks to protect.[3] Where a statutory section works in tandem with other provisions, it must be assessed in connection with those provisions. Here, the Court analyzed § 284 in concert with § 271(f)(2). The Court stated that § 284 provides a general damages remedy for the various types of patent infringement under the Patent Act and was intended to afford patent owners complete compensation for

[2] 35 U.S.C. § 284.

[3] *WesternGeco*, No. 16-1011, slip op., at 6 (quoting *Morrison v. Nat. Australia Bank Ltd.*, 561 U.S. 247, 267 (2010) (alterations omitted).

infringements. The Court concluded that the focus of § 284 is infringement, which in this case was infringement under § 271(f)(2).

The Court found that infringement under § 271(f)(2) focuses on domestic conduct. The act of "suppl[ying] [components] in or from the United States" to be combined outside of the United States in a manner that would infringe if such combination occurred within the United States is domestic conduct designed to protect domestic interests.[4] ION's act of supplying components was deemed to have occurred in the United States. Accordingly, the Court held the award of lost-profits damages was a domestic application of § 284 and thus the presumption against extraterritoriality did not apply.

In reaching this conclusion, the Court dismissed ION's contention that the statutory focus is the award of damages, not the infringement.[5] The Court also disagreed with ION's assertion that the case involved an extraterritorial application of the statute. The Court found that the legal injury occurred in the United States and the subsequent foreign conduct was secondary to the infringement.

IMPLICATIONS

WesternGeco clarifies to some extent the scope of available remedies for patent infringement: damages attributable to foreign sales *are* available in certain circumstances. Patent holders are likely to look more closely for U.S.-made components exported for combination abroad to provide support for a damages calculation based on worldwide sales. Where components of accused products sold abroad are made in the United States, patent owners will likely seek broader discovery about both the shipment of such components that are incorporated into products, and the foreign-sales activity relating to such products.

It remains to be seen whether courts will interpret *WesternGeco* as authority for awarding lost foreign profits for other forms of patent infringement. For example, the *WesternGeco* rationale might be offered as an argument in favor of lost-foreign-profits damages where an infringer uses a patented method in the United States and is thus liable for direct infringement under § 271(a), but the output of that method is sold or used outside of the United States. Accordingly, patent owners may begin to seek damages for *any* foreign sales that can be connected to an act of domestic infringement.

[4] 35 U.S.C. § 271(f)(2).

[5] *WesternGeco*, No. 16-1011, slip op., at 8.

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Please feel free to discuss any aspects of this Alert with your regular Milbank contacts or any of the members of our Litigation and Arbitration Group.

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