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Legal Sidebar

Patent Owners May Recover Foreign-Based Damages in Certain Infringement Cases

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In *WesternGeco LLC v. ION Geophysical Corp*., the U.S. Supreme Court held that patent owners prevailing in infringement suits involving unauthorized foreign uses of their patented inventions may be entitled to damages based on lost foreign profits. This decision opens the possibility that infringers may be required to pay increased damages in patent cases involving international supply chains. Moreover, the decision could prompt foreign courts to adopt a similar approach in determining the extraterritorial force of their patent laws. However, it remains to be seen whether the Court's holding is limited to damages associated with the type of infringement in this case (arising under § 271(f)(2) of the Patent Act, which prohibits the unauthorized exportation of a patented invention's components with the intent that the parts be assembled abroad), or whether the reasoning of the opinion could potentially be applied in calculating damages flowing from other types of patent infringement. This Sidebar discusses the case's background, the Court's decision, and its implications for patent litigation and for Congress.

Extraterritoriality of U.S. Patent Law

Extraterritorial application of U.S. law refers to the extension of federal law to activity outside the territorial confines of the United States. The question of the extent to which a particular statute applies to foreign activities has generally been considered a matter of statutory construction. In interpreting statutory provisions to determine their extraterritorial effect, courts often apply a "canon of statutory construction" known as the "presumption against extraterritoriality," under which courts presume that, "absent a clear statement from Congress . . . federal statutes do not apply outside the United States." In the context of patent law, the Supreme Court has recognized that the "traditional understanding" of U.S. patent rights is that they apply only within the nation's borders. As the Court proclaimed in its 2007 opinion in *Microsoft Corp. v. AT&T*, "[t]he presumption that United States law governs domestically but does not rule the world applies with particular force in patent law."

The Patent Act provides patent holders with an exclusive right to exclude others from (1) making, (2) using, (3) offering for sale, or (4) selling their invention throughout the United States, or (5) importing the invention into the United States, for a limited period of time, during which they may try to recoup their investments through use of the invention, sale of licenses, and collection of royalty payments. Whoever performs any of these five acts during the term of a patent, without the patent holder's

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authorization, is liable for infringement under § 271 of the Patent Act. A patent holder may file a civil action to prevent an alleged infringer from committing further infringing acts (by securing an injunction). Section 284 of the Patent Act also provides that a federal court shall award a prevailing patent holder damages that are "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." (In practice, a patent holder often seeks to obtain damages based on its lost profits by showing a "reasonable probability" that "but for" the infringement, the patent holder "would have made the infringer's sales.") Section 284 is silent as to its territorial scope, although it does refer to "damages . . . for the infringement," which appears to incorporate by reference the forms of infringement defined in § 271. Section 271(a) is the general provision that includes territorial limitation language: infringing acts occurring "within the United States" or in connection with importation "into the United States."

In 1972, the Supreme Court in *Deepsouth Packing Co. v. Laitram Corp*. held that, under the Patent Act as it was written at that time, it was *not* an act of patent infringement to manufacture the components of a patented invention in the United States and then ship them abroad for assembly into an end product. In reaching this conclusion, the *Deepsouth* Court observed that "[o]ur patent system makes no claim to extraterritorial effect; 'these acts of Congress do not, and were not intended to, operate beyond the limits of the United States.'" In response to the opinion's identification of a "gap in the enforceability of patent rights," Congress broadened the territorial scope of infringement defined in § 271 by amending the statute in 1984 to address certain domestic conduct that enables activities occurring abroad. Specifically, § 271(f)(1) establishes infringement liability for the circumstances at issue in the *Deepsouth* case, prohibiting the unauthorized exportation of substantial portions of the components of a patented invention in a manner that actively induces their combination outside of the United States. Section 271(f)(2) prohibits the unauthorized shipment of uncombined components that are especially adapted to work in a patented 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." This latter statutory provision was at issue in the *WesternGeco* case.

Background on *WesternGeco LLC v. ION Geophysical Corp.*

WesternGeco LLC owns four patents pertaining to technology it developed for searching for oil and gas beneath the ocean floor. The company does not sell or license its invention, but rather employs the technology itself in performing surveys on behalf of oil companies. ION Geophysical Corporation makes component parts in the United States for a competing survey system and ships those parts abroad for companies to build a system virtually identical to WesternGeco's. WesternGeco sued ION for infringement under § 271(f)(1) and (f)(2). The jury found infringement liability and awarded WesternGeco a "reasonable royalty" of $12.5 million. The jury also awarded WesternGeco $93.4 million in lost profits associated with ten survey contracts the jury determined WesternGeco had lost due to ION's infringement. ION appealed the award of lost-profits damages to the U.S. Court of Appeals for the Federal Circuit (Federal Circuit)—the court with exclusive, nationwide jurisdiction over most patent appeals—arguing that § 271(f) does not apply extraterritorially. A divided panel of the Federal Circuit reversed the award after concluding that § 271(f) does not allow patent owners to recover for lost profits arising from the overseas combination of domestically made components of a patented invention. The Supreme Court then granted certiorari to review the Federal Circuit's holding regarding the extraterritorial force of § 271(f).

The Supreme Court's Opinion

In a 7-2 opinion written by Justice Thomas, the Supreme Court held that the Federal Circuit erred in concluding that lost foreign profits are categorically unavailable in cases where the patent owner proves

infringement under § 271(f)(2). Instead, the Court concluded that damages awards for § 271(f)(2) infringements are not confined to domestic sales, but can also include lost foreign profits as long as the relevant infringing conduct occurred in the United States (i.e., shipping components of a patented invention from the United States for overseas assembly). In other words, patent owners could be entitled to damages associated with an infringer's foreign activities if the infringer had also committed a domestic infringement—by introducing an infringing product into foreign commerce through exportation. In reaching this determination, the Court applied the analytical framework it articulated in *RJR Nabisco, Inc. v. European Community* to interpret the extraterritorial reach of the Patent Act's general damages provision, § 284, and the infringement provision at issue in the case, § 271(f)(2). The Court exercised its discretion to skip step one of the *RJR Nabisco* framework, which asks if the statutory text provides a clear, affirmative indication of congressional intent for the statute to apply abroad, thereby rebutting the presumption against extraterritoriality. The Court justified declining to address WesternGeco's argument that the presumption should never apply to a general damages provision such as § 284 because "[r]esolving that question could implicate many other statutes besides the Patent Act," and, in any event, would not change the case's outcome.

The Court instead moved to the second step of the extraterritoriality framework—identifying the "focus" of a statute, which includes the conduct, parties, or interests that the statute seeks to regulate or protect. Under *RJR Nabisco*, "[i]f the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application" of the statute, "even if other conduct occurred abroad." On the other hand, if the relevant conduct occurred abroad, "then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory." The Court first determined that the focus of § 284 is on "the infringement," and cited previous Court precedent recognizing that the "overriding purpose" of the damages statute is to give patent owners "complete compensation" for infringements. Then the Court examined the statutory text of § 271(f)(2) and found that the statute focuses on domestic conduct: specifically, the domestic act of supplying components of a patented invention from the United States with the intent that they be assembled overseas. The Court concluded "that the conduct relevant to the statutory focus in this case is domestic" because ION's act of supplying the components that infringed WesternGeco's patents occurred in the United States. Therefore, the lost-profits damages awarded to the patent owner were a permissible domestic application of § 284. Because of this finding, the Court found it did not need to consider whether the presumption against extraterritoriality was rebutted in this case.

Justice Gorsuch, joined by Justice Breyer, dissented, asserting that the Court's holding "allows U.S. patent owners to extend their patent monopolies far beyond anything Congress has authorized and shields them from foreign competition U.S. patents were never meant to reach." The dissenting opinion argued that because the Patent Act provides patent owners with "a lawful monopoly over the manufacture, use, and sale of an invention within this country only," the foreign conduct at issue in the case—the use of WesternGeco's invention outside of the United States—is *not* an infringement of a U.S. patent right and thus should not be considered by a court in awarding compensation for infringement under § 284. Finally, the dissenters observed that, in their view, nothing in § 271(f)(2) "suggest[s] that U.S. patents protect against—much less guarantee compensation for—*uses abroad.*" In response, the Court disputed the dissenting justices' reading of the plain text of the Patent Act and stated that "[t]heir position wrongly conflates legal injury with the damages arising from that injury."

Implications for Patent Litigation and for Congress

WesternGeco expands the scope of available remedies for certain types of patent infringement to include damages attributable to foreign sales, though it also leaves several questions unanswered. Thus, the decision's potential impact on future patent litigation depends on how courts interpret and apply the case. On the one hand, the Court expressly stated in a footnote that its analysis and holding are limited to

patent-infringing exports under § 271(f)(2) because the Federal Circuit did not address the liability of ION under § 271(f)(1). Furthermore, the Court did not discuss the extraterritorial reach of § 271(a), the direct infringement provision, under which the vast majority of patent infringement cases arise. Thus, courts may apply *WesternGeco* narrowly and confine its application to only § 271(f)(2) cases, which would not likely be a dramatic change to current patent litigation practices. Similarly, it is also possible that *WesternGeco*'s impact may be limited if lower courts construe the decision as narrowly applying to certain fact-specific situations. Lower courts could potentially apply the decision only to situations that do not involve foreign patent law or implicate the sovereignty of foreign countries, but, like *WesternGeco*, concern foreign sales and contracts for services performed on the high seas (and therefore outside the territorial reach of any nation's patent jurisdiction). It would likely be fairly rare for litigation to arise under these specific factual circumstances, which would have the effect of limiting the reach of the Court's decision in *WesternGeco*.

In addition, though *WesternGeco* held that lost foreign profits *could* be recoverable under § 271(f)(2), it is important to note that patent owners are not automatically entitled to such foreign damages. In a footnote, the Court expressly stated that "we do not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases." In light of this footnote, it is possible that, on remand, WesternGeco may still be denied "lost profits resulting from its failure to win foreign service contracts" if a court finds such extraterritorial damages were not reasonably foreseeable or the injury was too remotely related to ION's domestic acts of infringement. Thus, *WesternGeco* may not necessarily cause a spike in damages awards in future patent litigation, as courts would likely still apply traditional principles of tort causation to determine whether the patent owner's lost foreign profits damages were attributable to a defendant's infringing domestic conduct.

On the other hand, if lower courts view the reasoning of *WesternGeco* more broadly—particularly language explaining that the "overriding purpose" of § 284 is to provide patent owners "complete compensation" for infringements—the opinion may have greater implications. For example, such a court may agree to allow patent owners to recover for foreign lost-profits damages in cases involving other types of infringement beyond § 271(f)(2). Patent owners could also rely on *WesternGeco*'s emphasis on "complete compensation" for infringement to challenge the validity of judicially created rules that have guided courts in calculating patent damages awards, such as the principles of "apportionment" or the "entire market value rule." It also remains to be seen whether courts will view *WesternGeco* as calling into question Federal Circuit case law interpreting § 271(a)—the direct infringement provision—as precluding recovery for lost foreign profits, although it may be worth noting that § 271(a) is limited to acts of domestic infringement and does not contain exportation language similar to that found in § 271(f).

Finally, the dissenting opinion raised the concern that the Court's holding allowing U.S. patent owners to seek damages for foreign uses of their inventions could "invite other countries to use their own patent laws and courts to assert control over [the American] economy," despite the fact that "foreign patent[s] lack[] any legal force here." However, at least one observer has downplayed the risk that foreign courts will respond in this manner, arguing, as noted above, that proximate cause and other legal doctrines will likely limit the amount of damages for foreign lost profits arising from infringing domestic conduct.

Congress could also play a role in determining *WesternGeco*'s impact. For example, the Patent Act's remedial provision could be amended to permit only domestic damages or limit foreign-based damages to only § 271(f) cases. Congress could also await further judicial developments before taking any action.

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