ALSTON & BIRD

WWW.ALSTON.COM

Intellectual Property ADVISORY ■

JUNE 25, 2018

Supreme Court Holds Patent Owners Can Recover Lost Foreign Profits

by Bruce Rose and Fanny Patel

The U.S. Supreme Court, reversing the Federal Circuit, held that lost profits are permissible under 35 U.S.C. § 284, upon a showing of infringement under 35 U.S.C. § 271(f)(2), for the foreign sale of infringing products so long as the infringing products were assembled abroad from components of the patented invention exported from the U.S. The Court then remanded the case, *WesternGeco LLC v. ION Geophyiscal Corp.*, to the Federal Circuit to confirm how much of the previously awarded $93 million lost profits jury award is properly recoverable by WesternGeco.

Background

In 2009, WesternGeco sued ION for infringement of four patents relating to surveying technology to search for oil and gas under the ocean floor. Because ION shipped components of its competing system—DigiFIN—from a warehouse in Louisiana to companies abroad that then combined the components into a surveying system that allegedly practiced the claimed invention of WesternGeco's patents, WesternGeco pursued infringement under 35 U.S.C. §§ 271(f)(1) and 271(f)(2) rather than the more common Section 271(a), which addresses direct infringement that occurs within the U.S. Section 271(f) is directed to infringers who "supply in or from the United States" components of a patented invention with the intent that they be assembled abroad in a manner that would constitute infringement if it occurred in the U.S.

The case went to trial in July 2012. A jury found ION infringed under Sections 271(f)(1) and 271(f)(2), found no willful infringement, and awarded WesternGeco damages of $12.5 million in reasonable royalties and $93.4 million in lost profits for the loss of 10 foreign survey contracts due to ION's infringement.

Upon appeal on the lost profits issue, the Federal Circuit held that lost profits resulting from activities outside the U.S. are not recoverable for infringement under 35 U.S.C. § 271(f). *WesternGeco LLC v. ION Geophysical Corp.*, 791 F.3d 1340, 1349 (Fed. Cir. 2015). In doing so, the majority relied on the presumption against extraterritoriality—"[t]he presumption that United States law governs domestically but does not rule the world applies with particular force in patent law." *Id.* at 1350. The majority also relied on an earlier Federal

Circuit decision applying the presumption to Section 271(a), *Power Integrations Inc. v. Fairchild Semiconductor Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), in which the court had held that a patentee cannot recover lost foreign profits because "the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement." *WesternGeco LLC v. ION Geophysical Corp.*, 791 F.3d at 1351. On the majority's lost profits ruling, Judge Wallach dissented, reasoning that "the majority's near-absolute bar to the consideration of a patentee's foreign lost profits is contrary to the precedent both of this court and of the Supreme Court." *Id.* at 1363-64. WesternGeco petitioned for, but was denied, rehearing en banc.

WesternGeco then petitioned for certiorari in February 2016, asking, among other things, that the petition be held until the Supreme Court announced its decision in *Halo Electronics v. Pulse Electronics*, 136 S. Ct. 579 (2016) which addressed the issue of enhanced damages for willful patent infringement. When the Court thereafter abrogated the *Seagate* test in *Halo*, the Court issued a GVR order—granted certiorari, vacated, and remanded the case back to the Federal Circuit to consider whether to enhance damages. 136 S. Ct. 2486 (2016). On remand, the Federal Circuit issued a second opinion in which it reinstated its earlier opinion that lost profits on foreign sales are not recoverable. *WesternGeco LLC v. ION Geophysical Corp.*, 837 F.3d 1358 (Fed. Cir. 2016). Judge Wallach again dissented from the majority opinion on the lost profits issue. *Id.* at 1364-69. In February 2017, WesternGeco again petitioned for certiorari on the issue of whether Sections 271(f)(2) and 284 allow a patent owner to recover for lost foreign profits.

The Supreme Court's Decision

On June 22, 2018, in a 7–2 ruling, the Supreme Court reversed the Federal Circuit and held that Section 284 permits recovery of lost foreign profits for patent infringement under Section 271(f)(2). The Court's decision focused on the presumption against extraterritorial application of statutes but specifically held that the lost foreign profits award to WesternGeco was a domestic application of Section 284 because infringement under Section 271(f)(2) involves domestic conduct.

The Court began by providing a two-step framework for analyzing extraterritoriality of federal statutes. Under step one, a court asks "whether the presumption against extraterritoriality has been rebutted"—that is, whether the statute in question provides a "clear indication of an extraterritorial application." The Court noted, however, that step one is discretionary in "appropriate cases" such as one that "require[s] resolving 'difficult questions' that do not change 'the outcome of the case,' but could have far-reaching effects in future cases." If the statue is not extraterritorial under the first step, a court moves to step two and asks "whether the case involves a domestic application of the statute"—that is, a court looks to "the statute's 'focus'" to determine "whether the conduct relevant to the focus occurred in United States territory."

Here, the Supreme Court exercised its discretion to forgo step one because "[r]esolving th[is] question could implicate many other statutes besides the Patent Act," and instead turned to step two. Applying step two to 35 U.S.C. §§ 271(f)(2) and 284, the Court concluded that "the focus of § 284, in a case involving infringement under § 271(f)(2), is on the act of exporting components from the United States." The Court explained that in this case the conduct relevant to the statutory focus occurred in the U.S.—that is, "it was ION's domestic act of supplying the components that infringed WesternGeco's patents." Accordingly, the Court held that

the lost foreign profits award to WesternGeco was a domestic application of Section 284 and was therefore proper. The Court qualified its holding by noting in a footnote that "we do not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases."

The Court dismissed ION's arguments that lost profits in this case occurred extraterritorially and require an extraterritorial application of Section 284. In doing so, the Court reasoned that the foreign events giving rise to lost foreign profits were merely incidental to the domestic conduct relevant to step two of the extraterritoriality framework—the domestic act of exporting the components from the U.S. The Court remanded for the Federal Circuit to consider whether to eliminate or reduce the $93 million lost profits jury award.

The dissent, authored by Justice Gorsuch and joined by Justice Breyer, agreed with the majority's extraterritoriality analysis but did not agree with the result because "[n]othing in the terms of the Patent Act supports that result and much militates against it." The dissent argued that awarding damages for use of an invention outside U.S. territory "would effectively allow U.S. patent owners to use American courts to extend their monopolies to foreign markets."

Key Takeaways

This decision understandably has significant implications for U.S. patent infringement litigation. Considering the global reach of U.S.-based businesses, patent owners will reconsider the damages universe in cases where infringers manufacture products part by part and then export the parts in uncombined form to foreign entities that assemble them.

However, this decision does nothing to expand the damages universe for infringement under Section 271(a), the main avenue of alleging infringement in patent cases. *See also WesternGeco LLC v. ION Geophysical Corp.*, No. 16-1011, slip op. at 7 n.2 (Jun. 22, 2018) ("Because the Federal Circuit did not address § 271(f)(1), … we limit our analysis to § 271(f)(2)."). Additionally, patent owners alleging infringement under Section 271(f)(2) should consider that, though it is an expansive provision that does not require an infringer to assemble a complete invention, as the Federal Circuit noted Section 271(f)(2) does require a patent owner to prove "that the defendant (1) intended the combination of components; (2) knew that the combination he intended was patented; and (3) knew that the combination he intended would be infringing if it occurred in the United States." *See WesternGeco LLC v. ION Geophysical Corp.*, 791 F.3d 1340, 1344-48 (Fed. Cir. 2015). The impact of this case on patent infringement cases in general may be limited. Nevertheless, it clarifies the available remedies for infringement under Section 271(f)(2) and creates potential additional arguments for patent owners.

You can subscribe to future ***Intellectual Property*** advisories and other Alston & Bird publications by completing our **publications subscription form**.

If you have any questions or wish to discuss further, please contact any of the following members of Alston & Bird's Intellectual Property Group:

Shri Abhyankar
404.881.7687
shri.abhyankar@alston.com

Wesley C. Achey
404.881.4930
wes.achey@alston.com

Ross R. Barton
704.444.1287
ross.barton@alston.com

Philippe Bennett
212.210.9559
philippe.bennett@alston.com

Kirk T. Bradley
704.444.1030
kirk.bradley@alston.com

Xavier M. Brandwajn
650.838.2066
xavier.brandwajn@alston.com

Keith E. Broyles
404.881.7558
keith.broyles@alston.com

Natalie C. Clayton
212.210.9573
natalie.clayton@alston.com

Michael S. Connor
704.444.1022
mike.connor@alston.com

Jason P. Cooper
404.881.4831
jason.cooper@alston.com

Thomas W. Davison
202.239.3933
tom.davison@alston.com

Brian C. Ellsworth
704.444.1265
brian.ellsworth@alston.com

Patrick J. Flinn
404.881.7920
patrick.flinn@alston.com

David S. Frist
404.881.7874
david.frist@alston.com

Guy R. Gosnell
704.444.1029
guy.gosnell@alston.com

John D. Haynes
404.881.7737
john.haynes@alston.com

Matthew W. Howell
404.881.7349
matthew.howell@alston.com

Yitai Hu
650.838.220
yitai.hu@alston.com

Ryan W. Koppelman
650.838.2009
ryan.koppelman@alston.com

Robert L. Lee
404.881.7635
bob.lee@alston.com

Richard M. McDermott
704.444.1045
rick.mcdermott@alston.com

Michael J. Newton
214.922.3423
mike.newton@alston.com

A. Shane Nichols
404.881.4540
shane.nichols@alston.com

Thomas J. Parker
212.210.9529
thomas.parker@alston.com

Fanny Patel
214.922.3453
fanny.patel@alston.com

Scott J. Pivnick
202.239.3634
scott.pivnick@alston.com

S. Benjamin Pleune
704.444.1098
ben.pleune@alston.com

Bruce J. Rose
704.444.1036
bruce.rose@alston.com

Casondra K. Ruga
213.576.1133
casondra.ruga@alston.com

Holly Hawkins Saporito
404.881.4402
holly.saporito@alston.com

Frank G. Smith III
404.881.7240
frank.smith@alston.com

M. Scott Stevens
704.444.1025
scott.stevens@alston.com

David J. Stewart
404.881.7952
david.stewart@alston.com

Helen Su
650.838.2032
86.10.85927588
helen.su@alston.com

Adam D. Swain
202.239.3622
adam.swain@alston.com

Paul Tanck
212.210.9438
paul.tanck@alston.com

David S. Teske
404.881.7935
david.teske@alston.com

ALSTON & BIRD

WWW.ALSTON.COM