June 25, 2018

Supreme Court Upholds Award of Foreign Lost Profits for U.S. Patent Infringement

Courts May Award Foreign Lost Profits Where Infringement Is Based on the Export of Components of Patented Invention Under § 271(f)(2) of the Patent Act.

SUMMARY

In a 7-2 decision reversing the Federal Circuit, the Supreme Court in *WesternGeco LLC* v. *ION Geophysical Corp.*[1] held that a patent owner is entitled to damages based on lost foreign profits that result from infringement under 35 U.S.C. § 271(f)(2). The Court held that because the combined statutory focus of § 271(f)(2) and the general patent damages statute, § 284, is on domestic activity, concerns about the presumption against extraterritoriality do not require limiting damages under § 271(f)(2).

BACKGROUND

The Patent Act authorizes patent owners to bring a "civil action for infringement," and provides for "damages adequate to compensate for the infringement."[2] Among various types of infringing conduct, section 271(f)(2) of the Act specifies that the knowing export of any specially made or adapted component of a patented invention with the intent that the component be combined outside of the United States constitutes infringement.[3]

Plaintiff WesternGeco LLC is the owner of four patents covering a proprietary ocean floor survey system. WesternGeco does not sell or license its technology, but rather uses its proprietary system to perform ocean floor surveys for oil and gas companies. In 2007, ION Geophysical Corporation began selling a competing system. ION manufactured the components for its system in the United States and shipped the components abroad to companies that assembled the exported components to create a surveying system equivalent to WesternGeco's.

WesternGeco sued ION Geophysical for patent infringement, and after trial was awarded $12.5 million in royalties and $93.4 million in lost profits based on survey contracts it lost due to ION's infringement. ION moved to set aside the verdict, arguing that lost profits based on WesternGeco's lost foreign contracts was precluded because § 271(f) does not apply extraterritorially. The district court denied the motion. On appeal, the Court of Appeals for the Federal Circuit held,[4] based on its own precedents, that patent owners could not recover for lost foreign sales under § 271(f).[5] In its June 22, 2018 decision, the Supreme Court reversed.

THE SUPREME COURT'S DECISION

In a 7-2 decision authored by Justice Thomas, the Supreme Court held that, when analyzed together, sections 271(f)(2) and 284 of the Patent Act permit recovery of lost foreign profits. The Court held that this did not violate the presumption against extraterritorial application of United States law because the "focus" of the statutes and the conduct they sought to regulate were domestic.

The Court began its analysis by describing the "two-step framework for deciding questions of extraterritoriality."[6] Finding an analysis under step one to be unnecessary, the Court decided the case under step two, which asks "whether the case involves a domestic application of the statute"[7] by "identifying the statute's focus and asking whether the conduct relevant to that focus occurred in United States Territory."[8] Beginning with § 284, the patent damages provision, the Court concluded that the statute's focus was on the act of patent infringement, because § 284 exists to "'affor[d] patent owners complete compensation' for infringements."[9] The Court next turned to the specific infringement statute at issue here—§ 271(f)(2)—and found that this provision "focuses on domestic conduct" because the statute imposes liability for "the domestic act of 'suppl[ying] in or from the United States.'"[10] This conclusion, the Court noted, is consistent with § 271(f)(2)'s purpose of "vindicat[ing] domestic interests."[11] The Court reasoned that because the relevant infringing conduct at issue was a domestic act (ION's export of components), the lost-profits damages awarded to WesternGeco were a domestic, not an extraterritorial, application of § 284.[12] The Court, however, expressly noted that its holding does not preclude the application of "other doctrines, such as proximate cause," that may limit recovery in other cases.[13]

Justice Gorsuch, joined by Justice Breyer, dissented. He argued that because the monopoly right conveyed by U.S. patents only extends to activities within the United States, damages should be limited to those occurring in the United States.[14] Justice Gorsuch expressed the concern that permitting damages based on lost foreign sales "would threaten to 'conver[t] a single act of supply from the United States into a springboard for liability'" based on the activities of foreign actors that U.S. patent law does not reach.[15]

IMPLICATIONS

The *WesternGeco* decision opens the door to larger damages awards based on lost foreign profits for claims under § 271(f)(2) and (though expressly not analyzed by the Court), possibly also under § 271(f)(1) for supplying a substantial portion of the components of a patented invention in a manner that induces the combination of those components outside of the United States. Plaintiffs that establish infringement under § 271(f) are thus no longer limited to seeking damages occurring within the territorial bounds of the United States. However, plaintiffs seeking recovery of lost foreign profits must still address proximate causation, exhaustion or equitable estoppel issues. As a result of *WesternGeco*, patent owners should carefully consider the viability of proving lost non-U.S. business as a result of infringement under § 271(f), and companies that are concerned about potential infringement of U.S. patents should carefully consider their potential global-sales-based exposure.

Perhaps of greater import, the reasoning of the decision could be applied to other damages statutes beyond the Patent Act. It will be left to future courts to determine whether the text and framework of other statutes permit the recovery of extraterritorial damages for other claims.

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ENDNOTES

[1] *WesternGeco LLC* v. *ION Geophysical Corp.*, 585 U.S. ___, No. 16–1011 (June 22, 2018) ("Slip op.").

[2] 35 U.S.C. §§ 281, 284.

[3] 35 U.S.C. § 271(f)(2).

[4] The Federal Circuit first handed down an opinion in this case in 2015. *WesternGeco LLC* v. *ION Geophysical Corp.*, 791 F.3d 1340 (Fed. Cir. 2015). On appeal, the Supreme Court vacated and remanded the Federal Court's judgment for further consideration in light a later decision of the Supreme Court. 579 U.S. ___, No. 15–1085 (2016). On remand, the Federal Circuit reinstated the part of its decision dealing with the extraterritorial application of § 271(f). 837 F.3d 1358 (Fed. Cir. 2016).

[5] The Federal Circuit had reasoned that because § 271(a) did not permit recovery for lost foreign sales, damages for infringement under § 271(f) should be limited in the same way. 791 F.3d at 1350-51 (citing *Power Integrations, Inc.* v. *Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013)).

[6] Slip op. at 5.

[7] *Id.* (quoting *RJR Nabisco, Inc.* v. *European Community*, 579 U.S. ___, No. 15–138, slip op. at 9 (2016).

[8] Slip op. at 5 (internal quotations omitted).

[9] *Id.* at 6-7 (quoting *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 655 (1983)).

[10] Slip op. at 7 (quoting 35 U.S.C. § 271(f)(2)).

[11] Slip op. at 7.

[12] *Id.* at 8.

[13] *Id.* at 9 n.3.

[14] WesternGeco, 585 U.S. ___, No. 16–1011, slip op. at 2 (June 22, 2018) (Gorsuch, J., dissenting).

[15] *Id.* at 7 (quoting *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 456 (2007)).

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CONTACTS

New York		
Adam R. Brebner	+1-212-558-3011	brebnera@sullcrom.com
Marc De Leeuw	+1-212-558-4219	deleeuwm@sullcrom.com
Stephen J. Elliott	+1-212-558-7446	elliotts@sullcrom.com
John Evangelakos	+1-212-558-4260	evangelakosj@sullcrom.com
Rudy Kleysteuber	+1-212-558-7226	kleysteuberr@sullcrom.com
Garrard R. Beeney	+1-212-558-3737	beeneyg@sullcrom.com
James T. Williams	+1-212-558-3130	williamsj@sullcrom.com
Palo Alto		
Nader A. Mousavi	+1-650-461-5660	mousavin@sullcrom.com