Insights: Alerts

“Foreign Lost Profits” for Infringement of U.S. Patents

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Today, in a 7-2 opinion authored by Justice Thomas, the U.S. Supreme Court held that patentees can “recover for lost foreign profits” when a defendant “ships components of a patented invention overseas to be assembled there” in violation of 35 U.S.C. § 271(f)(2).[1]

Background of the Dispute

WesternGeco LLC filed suit against ION Geophysical Corp. for infringement of patents relating to technologies used to search for oil and gas beneath the ocean floor. A jury found infringement and awarded WesternGeco $93,400,000 in lost profits and $12,500,000 in reasonable royalties. The Federal Circuit affirmed the judgment in part, but reversed the award of lost profits “resulting from conduct occurring abroad.” [2]

The infringement was under 35 U.S.C. § 271(f)(2), which makes it an act of infringement to supply “in or *from the United States*” any “component of a patented invention that is especially made or especially adapted for use in the invention,” where “such component is uncombined in whole or in part,” “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.”[3] The lost profits were based on “lost contracts for services to be performed abroad.”[4] ION made its accused product (the “DigiFINs”) domestically and shipped “them overseas to its customers, who, in competition with WesternGeco, perform surveys abroad on behalf of oil companies.”[5] WesternGeco identified contracts that “but for ION's supplying of DigiFINs to ION's customers, WesternGeco would have been awarded the contract,” resulting in the loss of profits. [6]

The Federal Circuit found that such foreign lost profits run afoul of the “well-established and undisputed” presumption against extraterritorial application of patent law.[7] The Court found that Congress, in enacting Section 271(f), had “expanded the territorial scope of the patent laws to treat the export of components of patented systems abroad (with the requisite intent) just like the export of the finished systems abroad,” but found that “[t]here is no indication that in doing so, Congress intended to extend the United States patent law to cover uses abroad of the articles created from the exported components.”[8] Thus, the Court found that precedent barring “lost profits for foreign conduct” in Section 271(a) cases was applicable in § 271(f) cases. [9]

The Court Holds that Foreign Lost Profits are Available in Section 271(f)(2) Cases

In reversing the Federal Circuit, the Supreme Court began its analysis by noting that the “subsection [of Section 271] at issue in this case, §271(f), ‘expands the definition of infringement to include supplying from the United States a patented inventions' components’”[10] and that patentees “who prove infringement under §271 are entitled to relief under §284, which authorizes ‘damages adequate to compensate for the infringement[].” [11]

The Court then noted its "two-step frameworks for deciding questions of extraterritoriality," which, in the first step, asks "whether the presumption against extraterritoriality has been rebutted," and if the presumption has not been rebutted, the second step asks "whether the case involves a domestic application of the statute."[12] The Court resolved the case "at step two," holding "that the conduct relevant to the statutory focus in this case is domestic."[13] In reaching this conclusion, the Court noted that that §284 "provides a general damages remedy for the various type of patent infringement identified in the Patent Act," stating that "the court shall award the claimant damages adequate to compensate for the infringement."[14] The Court thus concluded "that 'the infringement' is the focus of this statute,"[15] and cited its own precedent holding that the "overriding purpose" of §284 is to afford patent owners "complete compensation' for infringements."[16]

However, the Court noted that §284 "does not fully resolve this case, as the Patent Act [in §271] identifies several ways that a patent can be infringed."[17] Here, the infringement was under §271(f)(2), which "focuses on domestic conduct" in that it states that a party is liable as an infringer "if it 'supplies' certain components of a patented invention 'in or from the United States' with the intent that they 'will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States.'"[18] Thus, "the conduct that §271(f)(2) regulates—i.e., its focus—is the domestic act of 'suppl[ying] in or from the United States.'"[19] Thus, the Court held that the "conduct in this case that is relevant to that focus clearly occurred in the United States, as it was ION's domestic act of supplying the components that infringed WesternGeco's patents," and therefore, "the lost-profits damages that were awarded to WesternGeco were a domestic application of §284."[20]

Are Foreign Lost Profits Available in Section 271(a) Cases?

Section 271(a) makes it an act of infringement to make, use, offer to sell, or sell a patented invention "within the United States," while §§ 271(b) and (c) make it an act of infringement to induce or contribute to third party infringement, respectively, in the United States. The Court did not address whether a patentee is entitled to "foreign lost profits" for infringement under § 271(a), a position urged by the United States as *amicus curiae*. Under Federal Circuit precedent, foreign lost profits are generally not available in § 271(a) cases.[21] This question will undoubtedly be litigated in the wake of *WesternGeco*.

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[1] *WesternGeco LLC v. Ion Geophysical Corp.* (June 22, 2018), Slip op. at 1.

[2] *WesternGeco LLC v. ION Geophysical Corp.*, 791 F.3d 1340 (Fed. Cir. 2015). After the decision was vacated and remanded by the Supreme Court for reasons unrelated to lost profits, the Federal Circuit reaffirmed its earlier opinion with respect to lost profits. *WesternGeco LLC. v. ION Geophysical Corp.*, 837 F.3d 1358 (Fed. Cir. 2016).

[3] *WesternGeco LLC*, 791 F.3d at 1349 (emphasis added).

[4] *Id.*

[5] *Id.*

[6] *Id.*

[7] *WesternGeco LLC*, 791 F.3d at 1349-50.

[8] *WesternGeco L.L.C.*, 791 F.3d at 1350.

[9] *Id.* at 1350-51 (citing *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1371-72 (Fed. Cir. 2013)).

[10] Slip op. at 1 (quoting *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 444-445 (2007)).

[11] Slip op. at 2.

[12]Slip op. at 5 (quoting *RJR Nabisco, Inc. v. European Community*, 579 U.S. ___, __ (2016) (slip op., at 9)).

[13]Slip op. at 5-6.

[14]Slip op. at 6.

[15]*Id.*

[16]*Id.* (quoting *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655 (1983)).

[17]*Id.*

[18]Slip op. at 7.

[19]*Id.*

[20]Slip op. at 7-8.

[21]See *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1371-72 (Fed. Cir. 2013) ("[T]he 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.").

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