

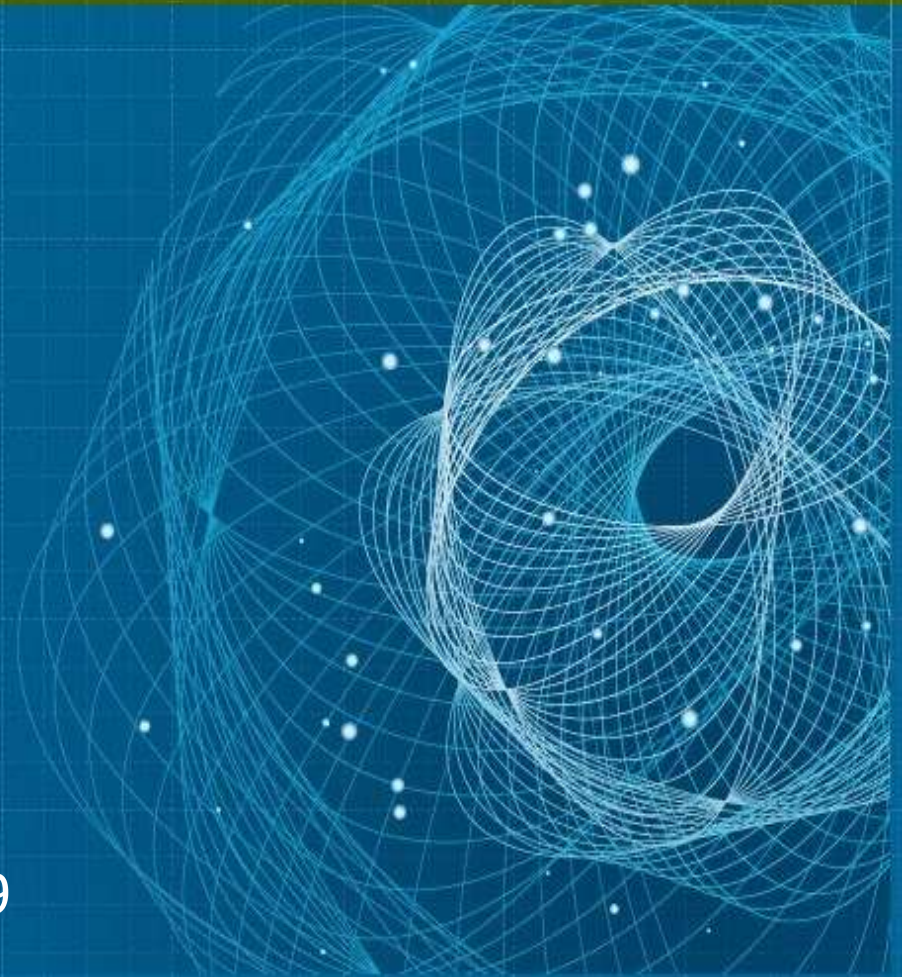


SUGHRUE MION, PLLC | INTELLECTUAL PROPERTY LAW

*WesternGeco LLC v. ION  
Geophysical Corp.*

Supreme Court 2018  
Extraterritorial Reach of  
U.S. Patents and Lost  
Profits

Abraham Rosner, November 2019



# Summary

- The decision of *WesternGeco LLC v. ION Geophysical Corp.* relates to damages that may be assessed upon the unauthorized exportation of the components of a patented invention manufactured in the United States for assembly abroad pursuant to 35 U.S.C. § 271(f) .



# Summary

- In a 7-2 opinion, the Supreme Court held that a patent owner is entitled to recover foreign lost profits over and above a reasonable royalty for infringement under 35 U.S.C. § 271(f)(2) – provided that the relevant infringing conduct occurred in the United States for overseas assembly.

# Summary

- This ruling is important because of the possibility that infringers may be liable for increased damages in patent cases involving international supply chains.

# Background: Extraterritorial Reach of U.S. Patents

- Traditionally, a U.S. patent could only be enforced against activities occurring within the United States. However, the globalization of industries has created conflict with U.S. patent law, in some cases allowing companies with infringing products to avoid liability, for example, by manufacturing an infringing product outside of the United States.

# Background: Extraterritorial Reach of U.S. Patents

- As a result, Congress enacted legislation expanding the definition of infringement, and allowing for enforcement of U.S. patents for certain activities occurring outside of the United States.

# Background: Extraterritorial Reach of U.S. Patents

- 35 U.S.C. § 271 defines various types of patent infringement including direct infringement under §271(a), inducement to infringe under §271(b), and contributory infringement under §271(c).

# Background: Extraterritorial Reach of U.S. Patents

- In the 1972 case of *Deepsouth Packing Co. v. Laitram Corp*, the Supreme Court held that shipping the parts of a patented device for final assembly outside the country did not infringe the patent.



# Background: Extraterritorial Reach of U.S. Patents

- More particularly, in *Deepsouth*, a U.S. manufacturer who shipped unassembled parts of a patented shrimp deveining machine abroad for assembly and use was found not liable for patent infringement because “it is not infringement to make or use a patented product outside of the United States.”

# Background: Extraterritorial Reach of U.S. Patents

- In response, Congress in 1984 enacted 35 U.S.C. §271(f) to expand the definition of infringement in overturning the Supreme Court's ruling in *Deepsouth Packing*.

# Background: Extraterritorial Reach of U.S. Patents

- Section 271(f) expanded infringement to include supplying the components of a patented invention for assembly outside of the U.S.

# Background: Extraterritorial Reach of U.S. Patents

- Particularly, §271(f) was enacted to change the existing case law that held that manufacturers who shipped components of a patented device overseas, where the device was then assembled, were not infringers.

## 35 USC §271(f)

- 35 USC §271(f) comprises two subparts which are directed at different types of infringing activity. The first subpart addresses “inducing infringement” similar to §271(b). By contrast, the second subpart addresses “contributory infringement” similar to §271(c).

## 35 USC §271(f)

- Both subparts require that the “component” or “components” of the “patented invention” be supplied or “caused to be supplied” in or from the United States.

## 35 USC §271(f)(1)

- Broadly speaking, §271(f)(1) prohibits supplying a substantial portion of the components of a patented system in a manner that actively induces their combination abroad.

## 35 USC §271(f)(2)

- Broadly speaking, §271(f)(2) prohibits supplying components that are especially adapted to work in a patented invention and intending that the components be combined abroad in a manner that would infringe if combined in the United States.



# Damages for Patent Infringement

- Patent owners who prove infringement under §271 are entitled to relief under §284, which authorizes “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.”

# Damages for Patent Infringement

- Reasonable royalty damages are based on a "hypothetical negotiation" between a "willing licensor" and a "willing licensee" at the time the infringement began.

# Damages for Patent Infringement

- Another measure of damages adequate to compensate for the infringement is “lost profits.”

# Damages for Patent Infringement

- "Lost profits" refers to the money that the patent owner could have made *but for* the wrongful infringement. The patent owner must be able to prove that its business suffered specifically because of the infringement.

# Damages for Patent Infringement

- Lost profits, if proven, can result in substantially increased damages awards. Generally, to be award “lost profits,” the patent owner is obliged to show a “reasonable probability” that “but for” the infringement, the patent holder “would have made the infringer’s sales.”

# Background of the Decision

- Competitors WesternGeco and ION Geophysical Corp develop and sell ocean surveying systems used to search for oil and gas beneath the ocean floor.

# Background of the Decision

- WesternGeco owns four patents pertaining to technology it developed for searching for oil and gas beneath the ocean floor. WesternGeco does not sell or license its invention, but rather employs the technology itself in performing surveys on behalf of oil companies.

## Background of the Decision

- ION Geophysical Corp. makes component parts in the United States for a competing system and ships those parts abroad to allow 3<sup>rd</sup> party companies to build a system virtually identical to WesternGeco's. ION does not perform surveys, but sells its device to customers who perform surveys abroad.



# Background of the Decision

- WesternGeco sued ION for patent infringement under §271(f)(1) and (f)(2) of the Patent Act.

## District Court Decision

- The jury found ION liable for infringement and awarded WesternGeco damages of \$93.4 million in lost profits (associated with ten survey contracts the jury determined that WesternGeco had lost due to ION's infringement), and \$12.5 million in reasonable royalties (for accused components not used in the services for which lost profits were awarded).

# District Court Decision

- ION filed a post-trial motion 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 the motion.

## Appeal to Federal Circuit

- On appeal, the Federal Circuit affirmed the finding of infringement pursuant to §271(f)(2), but reversed the award of lost profit damages. The Federal Circuit held that the patent act did not allow for the recovery of lost profits due to the presumption against extraterritoriality.

# Petition for Certiorari

- WesternGeco petitioned for certiorari on the matter of its lost profits, and specifically, whether, a patent owner can recover damages for lost foreign profits under §284 and §271(f). The Supreme Court granted WesternGeco's petition for review.

# Supreme Court Decision

- The Supreme Court acknowledged that courts ordinarily presume that the laws of the United States generally apply only within the United States, but noted a two-step inquiry established in an earlier case that is used to decide questions of extraterritoriality.

## Two Step Framework to Decide Questions of Extraterritoriality

- First the Court asks whether the statutory language (of §§284 and 271(f)(2)) provide a clear, affirmative indication of congressional intent for the statute to apply abroad, thereby rebutting the presumption against extraterritoriality.

## Two Step Framework to Decide Questions of Extraterritoriality

- Second, if there is no clear indication of extraterritorial application in the statute, the Court asks whether the case "involves a domestic application of the statute," i.e., whether the relevant conduct occurred in the United States. Namely, a tie to a statutory wrong committed in the U.S. is required to justify a remedy extending outside of the U.S.



## Two Step Framework to Decide Questions of Extraterritoriality

- The Court chose to forgo the first step. because “resolving that question could implicate many other statutes besides the Patent Act,” and, in any event, would not change the outcome of the case at issue.

# Two Step Framework to Decide Questions of Extraterritoriality

- As to the second step, the Court began its analysis with §284, which directs courts to "award the claimant damages adequate to compensate for the infringement."  
Consistent with the purpose of §284, the Court determined that the focus of §284 is "the infringement."

## Two Step Framework to Decide Questions of Extraterritoriality

- §271(f)(2) provides that a company infringes when it "*supplies*" certain components of a patented invention without a substantial non-infringing use "in or from the United States," with the intent for the components to be combined abroad in a manner that would constitute infringement if done within the United States.

## Two Step Framework to Decide Questions of Extraterritoriality

- The focus of this provision, as the Court determined, is the domestic act of "supplying" components "in or from the United States."
- Based thereon, the Court found that taken together, "the focus of §284, in a case involving infringement under §271(f)(2) is on the act of exporting components from the United States."

## **Award of Foreign Lost Profits Found to be a Domestic Application of §284**

- Because ION's act of exporting components occurred within the United States (a tie to a statutory wrong committed in the U.S.), the Court found that the award of foreign lost profit damages in this case was a "domestic application of §284."

# Award of Foreign Lost Profits under §271(f)(2) Found to be a Domestic Application of §284

- The Court reversed the Federal Circuit's decision that foreign lost profits are categorically unavailable under §284 for infringement under §271(f)(2), and concluded that the foreign lost profit damages awarded the patent owner were a permissible domestic application of §284.

## Reasoning of the Court

- [A] patent owner is entitled to recover “the difference between [its] pecuniary condition after the infringement, and what [its] condition would have been if the infringement had not occurred. ... This recovery can include lost profits. ... And, as we hold today, it can include lost foreign profits when the patent owner proves infringement under §271(f)(2).”

# Limited Holding

- The Court expressly stated that its analysis and holding are limited to patent infringing exports under §271(f)(2).



# The Dissent

- WesternGeco is not entitled to lost profits caused by the use of its invention outside the United States. The foreign conduct isn't "infringement" and under §284's plain terms isn't a proper basis for awarding compensation.

# The Dissent

- No doubt WesternGeco thinks it unfair that its invention was used to compete against it overseas. But that's simply not the kind of harm for which our patent laws provide compensation because a U.S. patent does not protect its owner from competition beyond our borders.

# The Dissent

- Why should §271(f)(2) allow greater recovery (of foreign lost profits) when a defendant exports a component of an invention in violation of §271(f)(2) than when a defendant exports the entire invention in violation of §271(a)?

# The Dissent

- Why should supplying a single infringing product from the United States make ION responsible for any foreseeable harm its customers cause by using the product to compete against WesternGeco worldwide, even though WesternGeco's U.S. patent does not protect it from such competition?

# Implications

- Notably, the Supreme Court reversed the Federal Circuit's categorical rule against extraterritorial damages – prompting patent owners to now look beyond U.S. borders in evaluating damages for any kind of U.S. infringement.

# Implications

- The holding is narrow: foreign lost profits damages are available for domestic acts that infringe §271(f)(2). However, the reasoning behind that holding is broad: a patentee must be made whole, even if the measure of harm includes foreign consequences of the infringement.

# Implications

- Thus, this case could be an avenue allowing patent owners to argue that they are entitled to recover foreign based damages for infringement under other subsections of §271 (e.g., the manufacture of infringing device in the United States, which is then exported to result in lost sales abroad).

# Implications

- For example, consider the manufacture of an infringing device (microchip) in the United States (direct infringement under §271(a)), which is then exported (and then incorporated into a phone) to result in lost sales abroad. Permitting foreign lost profits would effectively allow U.S. patent owners to use U.S. courts to extend their monopolies to foreign markets.



# Implications

- In yet a more extreme example, suppose that a company develops a prototype microchip in a U.S. lab with the intent of manufacturing and selling the chip in a foreign country as part of a new phone. Suppose that the chip infringes a U.S. patent and that the patent owner sells its own phone with its own chip overseas (cont'd).

# Implications

- The developer commits an act of infringement by creating the prototype in the U.S. (direct infringement under §271(a)). But the additional chips it makes and sells outside the U.S. do not qualify as infringement (cont'd).

# Implications

- However, under WesternGeco's approach, the patent owner might seek to recover profits that it lost to foreign competition - effectively giving the patent owner a monopoly over foreign markets.

# Implications

- Do U.S. companies that do business globally now have an additional motivation to move their manufacturing offshore (so as preclude liability for lost foreign profits)?

# Implications

- Does this decision invite other countries to use their own patent laws and courts to assert control over the U.S. economy?

Thank you!



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