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A sea change in foreign lost profits for patent infringement?

By Deanna Kunze

On Friday, the U.S. Supreme Court issued a decision held that under certain circumstances, damages for lost foreign sales may be available to owners of infringed U.S. patents. Considering the little-used 35 U.S.C. § 271(f)(2) of the Patent Act, which addresses domestic acts of infringement in products ultimately sold abroad, the Court awarded the lost profits damages provided by Section 284 for extraterritorial sales under Subsection 271(f)(2). Expressly limiting the application to infringement under Subsection 271(f)(2), the Court stated that "[t]he damages themselves are merely the means by which the statute achieves its end of remedying infringements, and the overseas events giving to the lost-profit damages here were merely incidental to the infringement."[1] The dissent, written by Justice Gorsuch, joined by Justice Breyer, takes issue with the extraterritorial application of the Patent Act, citing the failure of the majority opinion to address open questions regarding potential lost profits damages under other subsections of Section 271 and the potential conflicts with the intellectual property laws of other nations.

Subsection 271(f) of the Patent Act addresses infringement from the supply of components abroad with two provisions that work in tandem. Subsection (1) provides that it is an infringement to supply "from the United States all or a substantial portion of the components of a patent invention …" 35 U.S.C. § 271(f)(1). Subsection (2) provides that supplying a noncommodity component "especially made or especially adapted for use in the invention" in or from the U.S. constitutes an act of infringement. In February 2017, the Court held that supplying a single component of a patented invention from the United States to be combined with other components does *not* constitute patent infringement under Subsection 271(f)(1).[2] Instead, the Court held that supplying a single component can never amount to a "substantial portion" of a patented invention. In that opinion, *Technologies Corp. v. Promega Corp.*, 137 S. Ct. 734 (2017), the Court reasoned that Subsection 2, which applies to a single "specially adapted" component, should be used to determine whether infringement occurred in the case of supply of a single component. § 271(f)(2).

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[1] *WesternGeco LLC v. ION Geophysical Corp.*, 585 U.S. ___ (2018) (slip op. at 1).

[2] *See* our prior alert discussing the decision (available here).

A shot across the bow

It is under Subsection (2), the "specially adapted" provision, that the jury awarded lost profits damages to patent owner WesternGeco for foreign sales by the infringer in *WesternGeco LLC v. ION Geophysical Corp*., 585 U.S. ___ (2018). In a 7–2 majority opinion by Justice Thomas, the Court held that a patent owner who proves infringement under Subsection 271(f)(2) is entitled to recover lost foreign profits under Section 284. Here, the patents at issue involve marine survey equipment using lateral steering equipment, and the competition between patent-owner WesternGeco and infringer ION Geophysical took place on the high seas — outside the territorial U.S.

The majority of WesternGeco's sales are generated abroad. The jury awarded $93.4 million in lost profits from foreign surveys, but only $12.5 million in royalties for approximately 2,500 U.S.-manufactured products.[3] In other words, the value of the marine survey contracts far exceeded the value of the equipment manufactured.

Patent owners who prove infringement under Section 271 are entitled to lost profits under Section 284. The Federal Circuit reaffirmed in 2013, however, that lost foreign sales were not recoverable for infringement under Subsection 271(a), which addresses most of the infringements occurring solely within the United States.[4]

Generally, courts decide questions of extraterritoriality — i.e., whether the presumption against extraterritoriality is rebutted — by applying a two-step framework. First, the court asks "whether the presumption against extraterritoriality has been rebutted" with a "clear indication of an extraterritorial application."[5] If the answer is "no," the second question is "whether the case involves a domestic application of the statute." Skipping the first step in the framework, the Court moved to the second step to determine the statute's "focus," i.e., "the object[s] of [its] solicitude." Determining that the Patent Act's focus is on infringement and compensation to patent owners therefor, the Court reasoned that the two provisions of the Patent Act at issue are focused domestically. Therefore, the infringer's "domestic act of supplying the components that infringed the [patents]" results in a domestic application of Section 284's lost profit damages.

Relying on the recent *RJR Nabisco*[6] decision holding that RICO claims could not be established where the claims were based "entirely on injury suffered abroad" under the presumption against extraterritoriality, ION argued that damages awards for foreign injuries are always an extraterritorial application. Without significant explanation, the majority opinion simply states that this is a misreading of *RJR Nabisco* — *RJR Nabisco* requires a domestic injury, but does "not make any statements about damages — a separate legal concept."[7]

Justice Gorsuch, joined by Justice Breyer, states in his dissent that while the Federal Circuit mistakenly relied upon an extraterritoriality analysis, the result was correct. "The reason is straightforward. A U.S. patent provides a lawful monopoly over the manufacture, use, and sale of an

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[3] 585 U.S. __ (Gorsuch, J., dissenting) (slip op. at 7).

[4] *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc*., 711 F.3d 1348 (Fed. Cir. 2013).

[5] 585 U.S. __ (slip op. at 5). (citations omitted).

[6] 579 U.S. at __ (slip op. at 27).

[7] 585 U.S. __ (slip op. at 8-9).

invention within this country only." The dissent reasons that applying Subsection 271(f)(2) to protect against foreign uses of patented inventions (or components thereof) would invite anomalous results, such as permitting a greater recovery when a defendant exports a component in violation of Subsection 271(f)(2) versus exporting the entire invention under Subsection 271(a).

Predicting the tides

The majority opinion takes care to limit its holding specifically to infringement under Subsection 271(f)(2) — even refraining from expanding the discussion to its companion Subsection 271(f)(1). The dissenting justices acknowledge the majority's limitation of its holding when raising issues of potentially anomalous results for infringement under Subsection 271(a) versus 271(f)(2). Because infringement actions under Subsection 271(f)(2) are relatively rare, a holding so limited may cause little disruption to current practice in patent infringement litigation.

With this decision, however, patent owners need not presume that foreign lost profits damages are unavailable. First, based on the analysis by the majority (that the Patent Act is focused on compensating patent owners for infringement of their patents), it is unlikely that this holding does not apply to all acts of infringement under Section 271. A footnote at the end of the majority opinion states that it does not "address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases."[8] It is safe to assume that patent owners may be able establish proximate causation of lost foreign sales based on acts of infringement under the other subsections of Section 271. Second, where a patent owner proves infringement under Subsection 271(f)(1), the companion to Section 271(f)(2) that likewise requires both a domestic and a foreign act of infringement, the availability of foreign lost profits damages under *WesternGeco* almost certainly will be extended with little resistance. Finally, while claims under Section 271(f)(1) and (2) previously may have been impractical due to the availability of more clear-cut pure domestic infringement and associated lost profits damages, the availability of foreign lost profits damages may make claims under these provisions more attractive.

Thus, worldwide damages may now be the oyster of the U.S. patent owner.

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[8] *Id.* at 9, n. 3.