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INTELLECTUAL PROPERTY LAW

Intellectual Property Alert:
Full Measure of Compensation for Infringement

By Sarah A. Kagan

June 29, 2018 — Yet again the Supreme Court struck down a rigid Court of Appeals for the Federal Circuit rule in favor of a careful parsing of the patent statutes. The Supreme Court handed down its opinion June 22, 2018, in *WesternGeco LLC v. ION Geophysical Corporation* (No. 16-1011), in which it reversed the Federal Circuit rule preventing recovery for lost foreign profits. The Court held that patent infringement under 35 U.S.C. § 271(f), which codifies infringement liability for *exported* goods under certain conditions, can be compensated by lost foreign profits.

WesternGeco owns patents that claim systems used to search for gas and oil deposits under the ocean floor, which WesternGeco uses to perform surveys for its customers. ION Geophysical manufactured a component of such a system in the U.S. and sold it to overseas customers who assembled the system and performed surveys. WesternGeco proved that ION infringed its claims under 35 U.S.C. § 271(f)(2) (export of a specially adapted component of an invention patented in the U.S.) and was awarded $12.5 million in reasonable royalties and $93.4 million in lost profits for 10 lost overseas contracts.

Majority Opinion of the Supreme Court

Justice Thomas delivered the opinion of the Court. The opinion analyzed 35 U.S.C. § 271(f)(2) (infringement) and 35 U.S.C. § 284 (damages). It applied the two-step framework for deciding questions of extraterritoriality under *RJR Nabisco, Inc. v. European Community*[1] to these statutes. The first step asks whether the presumption against extraterritoriality has been rebutted, which can only occur when the statute provides a clear indication of an extraterritorial application. If such a rebuttal is not found, the framework asks whether the case involves a domestic application of the statute. For prudential reasons,[2] the Court did not address step one. In step two of the analysis, it determined that the statutes' focus was "the infringement" and that in this case the infringement occurred in the U.S., even if other conduct occurred abroad. The Court determined that the conduct regulated by the statutes was the domestic act of supplying in or from the U.S. The Court thus

[1] 579 U.S. _, _ , 136 S. Ct. 2090 (2016)
[2] The Court stated that courts have the discretion to begin at step two in appropriate cases. It exercised that discretion in this case because addressing step one would require resolving difficult questions that do not change the outcome of the case, but could have far-reaching effects in future cases.

concluded that the lost profits damages that the jury awarded to WesternGeco were a domestic application of 35 U.S.C. § 284.

The Court rejected ION's view as erroneously limited to analyzing the damages section of the patent act and ignoring the actual conduct of the parties defined in 35 U.S.C. § 271(f)(2). The majority criticized the analysis of the dissent as wrongly conflating legal injury with the damages arising from that injury.

Dissenting Opinion of the Supreme Court (Justice Gorsuch, joined by Justice Breyer)

The dissent's analysis peculiarly focused on 35 U.S.C. § 154(a)(1), which defines the content of a patent as including a grant to the patentee to exclude others from making, using, selling, or offering to sell the invention throughout the U.S. This is not, however, an exclusive listing of the granted rights, and it most decidedly is not the part of the patent act that defines infringement in its various forms. Section 154(a)(1) generally tracks with § 271(a), which the dissent mentions and seems to rely on, despite the fact that the respondent was found to infringe under 35 U.S.C. § 271(f)(2) and not under 35 U.S.C. § 271(a). These two sections define different acts as constituting infringement. The dissent discusses a number of cases from the 19th century relating to foreign patent use—all of which precede the Congressional enactment of 35 U.S.C. § 271(f)(2) by almost 100 years or more.

The dissent denies that 35 U.S.C. § 271(f)(2) changes the "bedrock rule" that foreign *uses* of an invention do not infringe a U.S. patent. The dissent justifies that conclusion by again referring to § 154(a)(1) as limiting the territorial scope of § 271(f)(2). But § 271(f)(2) is not about a foreign *use*, but rather "supplying" a component from the U.S. As the majority wrote, this analysis conflates the damages (measured by use of a foreign assembly of a patented invention) with the legal injury (the supplying of a specially adapted component from the U.S.).

In trying to conjure wild, adverse consequences that could flow from the majority's ruling, the dissent posits a prototype chip that is made in the U.S., exported abroad, and copied there. The prototype chip infringes a U.S. patent and the patent owner sells smartphones abroad containing copies of the chip. The dissent asserts that the patent owner could now obtain lost profits based on the amount of lost smartphone sales. The hypothetical seems short on facts and careful reasoning. First, this sounds like infringement under 35 U.S.C. § 271(a)—direct infringement—rather than § 271(f)(2), which is the basis of the majority ruling. Second, under the Supreme Court's decision in *Microsoft Corp. v. AT&T Corp.*,[3] a prototype chip is not itself a component of a patented invention, but rather a tool for making the component, so the posited acts would likely not qualify under § 271(f)(2). Third, the hypothetical does not posit a patent on the smartphone itself, yet infringement under § 271(f)(2) requires a component of a patented invention. This hypothetical does not seem to relate to the majority's holding.

[3] See *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007)

The dissent seems to embrace the position of the Supreme Court in *Microsoft Corp., supra.*[4] The *Microsoft* Court considered the effect of § 271(f)(2) on the presumption against extraterritoriality for foreign-made copies of a master disk of software supplied from the U.S. The *Microsoft* Court found that the presumption was not defeated just because a statute specifically addresses an issue of extraterritorial application. The *Microsoft* Court, however, was not dealing with the issue of damages, but rather dealt with whether infringement had occurred under the statute. Additionally, the *Microsoft* decision preceded the *RJR Nabisco* decision, setting out the two-part test to decide whether a federal statue applies extraterritorially.

Implications for the Future

Zealous advocates may attempt to expand this Court's application of the two-part analysis from *RJR Nabisco, supra,* from § 271(f)(2)/§284 to § 271(a)/§284. By jumping directly to step two of the analysis, the Court asked only "whether the case involves a domestic application of the statute." Section 271(a) is expressly limited to acts within or into the United States, so it appears that the answer to that inquiry must be affirmative. Thus, victims of direct infringement may also be entitled to compensation for foreign, consequential damages, in appropriate factual situations.

Click here to download the opinion in *WesternGeco LLC v. ION Geophysical Corporation*.

Click here to read our IP Alert on oral arguments in this case.

[4] See Section III.D of the Supreme Court opinion.