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Are Foreign Lost Profits Really Lost?

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On January 12, 2018, the Supreme Court granted certiorari to review the Federal Circuit's lost profits decision in *WesternGeco LLC v. ION Geophysical Corp.*, 791 F.3d 1340 (Fed. Cir. 2015), marking the first step toward defining the scope of recovery for damages in the form of lost foreign sales. Under the Patent Act, damages are governed by § 284, which provides:

Upon finding for the claimant the court shall award the claimant 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, together with interest and costs as fixed by the court.

While § 284 allows patent owners to recover lost profits and reasonable royalties, the statute is silent as to whether these damages should encompass overseas losses (i.e., from foreign sales or contracts), which could play an important and substantial role in elevating damages – especially for patent holders with international contracts and services.

Background

WesternGeco LLC ("WesternGeco") is a wholly-owned subsidiary of Schlumberger Limited, a worldwide provider of reservoir drilling and processing technology in the oil and gas industry. Relevant to this case, WesternGeco LLC provides reservoir monitoring and imaging services to help perform seismic surveys. ION Geophysical Corp. ("ION") offers similar services as WesternGeco and is a competitor.

In 2009, WesternGeco sued ION for patent infringement under 35 U.S.C. § 271(f)(1)-(2). Specifically, 35 U.S.C. § 271(f) provides:

1. Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention . . . in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent . . . shall be liable as an infringer.

2. Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use . . . knowing that such component is so made or adapted and intending that such component will be combined outside of the United States . . . shall be liable as an infringer.

The district court found for WesternGeco, awarding it $93,400,000 in lost profits and $12,500,000 in reasonable royalties as damages. On appeal, however, the panel majority reversed the district court's award of lost profits, observing that the "presumption against extraterritoriality is well-established and undisputed." Moreover, the Federal Circuit previously stated in *Power Integrations v. Fairchild*

Semiconductor, "[Our patent laws] do not thereby provide compensation for a defendant's foreign exploitation of a patented invention, which is not infringement at all." In effect, the majority held that "[u]nder *Power Integrations*, WesternGeco cannot recover lost profits resulting from its failure to win foreign service contracts."

WesternGeco's Petition

WesternGeco filed two petitions for certiorari. Based on the first petition, the Supreme Court vacated the Federal Circuit's opinion in light of *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016). On remand, however, the Federal Circuit reinstated its opinion and judgment as to lost profits. As a result, WesternGeco filed a second petition for certiorari on February 17, 2017, which presented the following question:

Whether the court of appeals erred in holding that lost profits arising from prohibited combinations occurring outside of the United States are categorically unavailable in cases where patent infringement is proven under 35 U.S.C. § 271(f).

In its petition, WesternGeco argued that the majority panel "applied the presumption against extraterritoriality in such a duplicative manner [that] defeat[ed] Congress' intent in enacting § 271(f)." Therefore, the decision "effectively eliminate[d] lost profit damages where infringement is found under § 271(f), limiting patent owners only to a reasonable royalty." WesternGeco also distinguished its case from *Power Integrations*, by arguing that "*Power Integrations* dealt with infringement under § 271(a)" and therefore "reflects no comparable congressional judgment to target certain extraterritorial conduct."

In an amicus curiae brief submitted on behalf of the United States, the Solicitor General urged the Court to hear this case, stating that the Federal Circuit's "approach systematically undercompensates prevailing patentees like petitioner, whose transnational business suffered when respondent infringed petitioner's patents within the United States."

In addition, WesternGeco argued that allowing patentees to recover lost profits from international sales would be consistent with copyright law, which has been found by several circuits to permit parties to recover foreign damages so long as those damages are directly linked to a domestic predicate act of infringement.

Implications

Although the Supreme Court, in its 2007 opinion in *Microsoft Corp. v. AT&T Corp.*, previously "[r]ecogniz[ed] [that] § 271(f) is an exception to the general rule that [U.S.] patent law does not apply extraterritorially," the Court ultimately "resist[ed] giving the language . . . an expansive interpretation."

Patent holders should be aware that the Supreme Court's decision in *WesternGeco* may present an opportunity to expand the scope of damages claims to encompass international losses caused by infringement in the United States.

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