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High Court Considers Upending Patent Damages

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The U.S. Supreme Court recently granted certiorari in WesternGeco LLC v. Ion Geophysical Corp., No. 16-1011 — a case that could have significant ramifications for U.S. patent holders who compete in foreign markets.

Statutory Background

WesternGeco concerns the scope of damages under 35 U.S.C. §271(f) where lost profits occur outside of the U.S. Section 271(f) creates infringement liability for any party that "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 a manner as to actively induce the combination of such components outside of the United States" in a manner that would infringe the patent.[1]

It also creates liability for any party who supplies the components of a patented invention, which are not staple articles of commerce, "knowing that such component is ... made or adapted" to infringe the patent, "and intending that such component will be combined outside of the United States" so as to infringe the patent.[2] Congress enacted §271(f) in response to the Supreme Court's decision in Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518 (1972), where the court found that a company was not liable for infringement of a patent on a machine where it produced the individual components of the machine in the U.S. but shipped them disassembled to customers who assembled them abroad.

Procedural History

WesternGeco, the petitioner, owns a patent on technology that improves the speed and accuracy of ship-based geological surveys used to find oil drilling sites under the ocean floor. WesternGeco does not license its patents or sell products embodying them. Instead, it uses its patented technology to conduct surveys for oil companies.

Ion developed a competing survey system. It shipped the components of its system from the U.S. to surveying companies outside the U.S., who combined them to conduct surveys abroad

in ways that would have infringed WesternGeco's patents had they taken place in the U.S. According to WesternGeco, Ion customers outbid it for at least ten contracts, each worth between $6 million and $45 million.

A jury found Ion liable for infringement under 35 U.S.C. §§271(f)(1), (2). It awarded $12.5 million in reasonable-royalty damages, and $93.4 million in lost profits from the loss of the 10 overseas contracts. The Federal Circuit affirmed the liability verdict, but reversed on damages.

Citing the presumption against extraterritorial application of the patent law, Judges Timothy Dyk and Todd Hughes held that WesternGeco could not recover lost profits from surveys that were conducted in international waters. WesternGeco's attempt to recover for overseas surveys, the panel majority reasoned, was an impermissible attempt to recover damages for foreign uses of a patented product. It likened the case to Power Integrations Inc. v. Fairchild Semiconductor International Inc., 711 F.3d 1348 (Fed. Cir. 2013), where the Federal Circuit held that a chip supplier could not recover for lost overseas sales based on a competitor's infringement of the patent in the U.S.

Judge Evan Wallach dissented in part. According to Judge Wallach, the panel majority conflated infringement and damages. The question, he explained, was not whether Ion could be held liable for infringing uses abroad. The jury had already found Ion liable under §271 for its infringement in the U.S. Instead, the question was whether foreign activity could be used to gauge WesternGeco's damages from Ion's U.S. conduct. In some cases, he reasoned, foreign sales could be used to measure damages from U.S. infringement. For example, if there was a one-to-one relationship between exports that infringed under §271(f) and sales of products abroad, the foreign sales might be relevant to the calculation of damages.

The Federal Circuit denied rehearing, over the dissents of Judges Wallach, Paulie Newman and Jimmie Reyna. WesternGeco filed a petition for certiorari.

The Supreme Court requested the views of the solicitor general, who filed a brief supporting WesternGeco. Section 284 of the Patent Act, the government explained, guarantees a prevailing patent owner "damages adequate to compensate for the infringement." 35 U.S.C. §284. According to the government, the court of appeals erred by precluding WesternGeco from recovering damages sufficient to compensate it for its lost profits, simply because those profits would have been earned on contracts to perform services outside the U.S. But, according to the Government, the presumption against extraterritorial application of the patents laws do not prevent courts from computing damages using evidence of foreign sales.

The Government also explained that the case was an important one. Categorically excluding foreign sales, it reasoned, "systematically undercompensates" patentees ... whose transnational business[es] suffer[]" when competitors infringe their patents inside the U.S.

Proceedings Before the Supreme Court

In a development closely watched across the patent world, the Supreme Court granted certiorari on Jan. 8, 2018. The grant of certiorari is interesting on a number of levels.

First, it is consistent with the practice of a Supreme Court that has consistently taken up anywhere between one and seven patent cases every term since 2009. But it adds a new wrinkle. Whereas the court had in the past focused significantly on issues of patentability (e.g., Alice Corp. Pty. Ltd. v. CLS Bank

International, 134 S. Ct. 2347 (2014); KSR International Co. v. Teleflex Inc., 550 U.S. 398 (2007); Bilski v. Kappos, 561 U.S. 593 (2010)) and claim construction (Nautilus Inc. v. Biosig Instruments Inc., 134 S. Ct. 2120 (2014); Teva Pharmaceuticals USA Inc. v. Sandoz Inc., 135 S. Ct. 831 (2015)), it has only addressed patent damages twice since 1952 (Samsung Electronics Co. Ltd. v. Apple Inc., 137 S. Ct. 429 (2016); Halo Electronics Inc. v. Pulse Electronics Inc., 136 S. Ct. 1923 (2016)).

Second, the decision is fascinating insofar as it has the potential to have a wide-ranging impact on industry, in particular for U.S. companies that sell products abroad. Reversal of the Federal Circuit's decision might mean that U.S. patentees could seek to recover lost profits that are incurred abroad but that nonetheless have a relationship to U.S. infringement. That could yield larger damages awards for entities, like Carnegie Mellon, that hold patents related to computer chips, which often are designed in the U.S. but manufactured and sold abroad.

It could also implicate recent trends in the pharmaceutical industry. While many drugs (particularly biologics) are manufactured close to their area of distribution, small molecules and other drugs are sometimes manufactured abroad and then shipped elsewhere. President Donald Trump has made a recent push to bring manufacturing that previously occurred abroad back to the United States. The outcome of WesternGeco, and the concurrent change in infringement risk, may weigh heavily on pharmaceutical companies' decision whether to go along with that White House push.

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[1] 35 U.S.C. §271(f)(1).

[2] Id., §271(f)(2).