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## Recovering Foreign Profits based on Domestic Acts of Infringement

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Out of concern for limiting the “extraterritorial” reach of America’s patent laws, courts have long held that prevailing infringement plaintiffs may only recover damages actually suffered here in the U.S. Eschewing the “but for” standard that generally governs the scope of a tort plaintiff’s available damages, courts have prohibited patent owners from recovering lost profits on foreign sales of patented products, even when the lost sales resulted from the defendants’ infringing conduct.

A Supreme Court decision from last June, however, may have fundamentally altered this paradigm. In *WesternGeco LLC v. ION Geophysical Corp.*, the Court ruled that “but for” damages are recoverable for a specific type of infringement that involves a defendant’s exportation of the components of a patented technology for assembly abroad. Stressing that the “overriding purpose” of patent damages “is to afford patent owners complete compensation,” the court reasoned that since the defendant had committed a domestic act of infringement, the patent owner may



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seek whatever damages are necessary to make it whole, specifically including foreign lost profits. And while the court limited its holding to the specific section of the Patent Act at issue in the case—35 U.S.C. § 271(f)(2)—the court’s underlying rationale arguably supports making foreign lost profits recoverable for other types of infringement as well.

### Case Background

The plaintiff in *WesternGeco* develops and builds ocean floor survey machines, which it uses to conduct oil and gas surveys for energy companies. The defendant, ION Geophysical, also builds ocean floor survey machines. But

unlike *WesternGeco*, ION does not conduct the surveys itself. Rather, it sells its machines to third parties, who then conduct the surveys for their customers.

In 2009, *WesternGeco* sued ION for infringing several patents covering *WesternGeco*’s survey technology. *WesternGeco* asserted that ION, by manufacturing components of the infringing survey machines and then exporting them for use by its customers abroad, had violated Section 271(f)(2). *WesternGeco* sought to recover the profits that it claimed it otherwise would have earned on ten specific foreign services contracts

that instead went to ION's customers (who performed the contracts using the infringing machines). The jury agreed and awarded WesternGeco \$93.4 million in foreign lost profits.

Invoking the so-called "presumption against extraterritoriality," the Federal Circuit reversed the lost profits award. The Federal Circuit held that because the Patent Act regulates only infringement that occurs in the U.S., the foreign use of a U.S. patent "is not infringement at all," and in turn, that WesternGeco could not recover "lost profits from the foreign uses of its patented invention."

### **The Supreme Court's Reversal**

In a 7-2 decision, the Supreme Court reversed the Federal Circuit. Pursuant to its "framework for deciding questions of extraterritoriality," the court first observed that "[i]f the conduct relevant to [a] statute's focus occurred in the United States, then the case involves a permissible domestic application of the statute, even if other conduct occurred abroad." The court then examined the Patent Act's damages provision, 35 U.S.C. § 284, which entitles a prevailing patent owner to recover "damages adequate to compensate for the infringement." Interpreting this language, the Court found that Section 284's "focus" is "the infringement."

The court next examined Section 271(f)(2), which governs the specific type of infringement on which the lost profits award was based. It permits the recovery

of damages under Section 248 against anyone who "supplies or causes to be supplied in or from the United States any component of a patented invention . . . intending that such component will be combined outside of the United States." According to the court, this language "focuses on domestic conduct," *i.e.*, "the domestic act of 'suppl[ying] in or from the United States.'"

The court ultimately concluded that, "[t]aken together, § 271(f)(2) and § 284 allow the patent owner to recover for lost foreign profits." The court thus applied the traditional "but for" causation rule, noting that 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," the court stressed, "can include lost foreign profits."

### **The Potential WesternGeco of WesternGeco's Rationale**

The Supreme Court's holding naturally has generated speculation as to whether and how it should apply in other infringement contexts. After all, the court's analysis centered on Section 284, which controls a patent owner's recoverable damages regardless of the type of infringement involved.

Notably, the only two district courts that have applied *WesternGeco* so far both concluded that it covers direct infringement claims under Section 271(a)—which governs the more traditional acts of "making, using, or selling" a patented invention

within the U.S. A California District Court first held in *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.* that since the defendant made its infringing product in the U.S., the plaintiff could recover any lost profits caused by the defendant's sales of that product, no matter where the sales occur. A Delaware District Court similarly held, in *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*, that the "Supreme Court's analysis of the patent damages statute, § 284, has equal applicability to the direct infringement allegations pending here, as governed by § 271(a), as it did to the supplying a component infringement claims at issue in *WesternGeco*, which were governed by § 271(f)(2)."

Whether other courts also will apply *WesternGeco* outside the context of Section 271(f)(2) remains to be seen. Fortunately (given the issue's importance), we may have clarity soon, as the district court in *Power Integrations* certified its ruling for interlocutory appeal. The Federal Circuit agreed to hear the appeal, and briefing is underway. Depending on the outcome, the Supreme Court may soon have a chance to definitively resolve the issue.

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