Client Alert

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WesternGeco v. ION—Did the Supreme Court Define a New World Order in Patent Damages?

It has long been accepted that the extraterritorial reach of US patents was limited. US patents generally protect patent owners against domestic acts of infringement, but generally not those that may take place outside the United States. An exception to this proposition is found in 35 U.S.C. § 271(f), under which if a US entity exports specialized components that are then assembled into an infringing device outside the United States, that entity may be liable for infringement. But, what happens if the non-US customer goes further, and uses that newly assembled product overseas to compete with the patent owner? Is this post-sale extraterritorial use addressed by US patent law? The Supreme Court recently decided this issue in *WesternGeco LLC v. ION Geophysical Corp.* and held that the US entity may be liable under § 271(f) for the patent owner's entire lost profits, even those profits derived from extraterritorial use of the invention. This holding opens the door for potentially dramatic damages awards—indeed, in *WesternGeco* the jury found ION liable for $93.5 million in lost profits due to the non-US use of the patented invention by ION's customers. While this outcome is clearly significant, as explained below, the ultimate reach of this decision should be fairly limited.

A brief background of the competing technologies is important to understanding this Supreme Court decision. WesternGeco LLC, the patent owner, asserted a number of patents directed to system and method for seismic surveying of the ocean floor, such as for conducting geological surveys used for oil exploration. WesternGeco did not sell or license its systems or methods. Instead, it used its patented technology itself as a service provider, performing geological surveys for oil and gas companies.[i] Thus, WesternGeco's profits were derived from its use of the patented technology. ION made competing technology in the United States that it sold to companies overseas, who then used that technology to compete with WesternGeco.[ii] The jury in the district court case found that ION infringed WesternGeco's patents under 35 U.S.C. § 271(f) and awarded $12.5 million in royalties for the sale of the components, and an additional $93.5 million in profits that WesternGeco claimed to have lost to ION's customers which performed surveying jobs with the equipment. ION did not appeal the $12.5 million royalty award but challenged the jury's findings that ION was liable for the post-sale, extraterritorial use by its customers, since the performance of a patented method abroad does not constitute infringement of a US patent. The Federal Circuit agreed with ION and vacated the district court's lost profits award. WesternGeco then petitioned the Supreme Court for a reversal of the Federal Circuit decision and to have the jury verdict affirmed.

The Supreme Court began its analysis by recognizing the "presumption against extraterritoriality" by which "courts presume that federal statutes 'apply within the territorial jurisdiction of the United States.' "[iii] The Court continued by introducing its previously developed two-step framework for deciding questions of extraterritoriality, namely (1) "whether the presumption against extraterritoriality has been rebutted" or (2) "whether the case involves a domestic application of the statute."[iv] In the present case, while acknowledging a preference to start at the first step of this inquiry, the Court found it could narrowly resolve the question in this case solely by looking at the second step. Specifically, after examining the remedial purpose of the patent damages statute, 35 U.S.C. § 284, and the conduct proscribed by 35 U.S.C. § 271(f), the Court held "that the conduct relevant to the statutory focus in this case is domestic."[v] Taking the two statutes together, the Court held that "it was ION's domestic act of supplying the components that infringe WesternGeco's patents. Thus, the lost-profits damages that were awarded to

WesternGeco were a domestic application of § 284."[vi] Put another way, but for ION's domestic acts resulting in infringement under § 271(f), WesternGeco would not have suffered the loss of overseas profits that were awarded by the jury.

The Supreme Court's confirming a claim for lost profits arising from extraterritorial third-party use of a patented invention is clearly significant, but the practical reach of this holding should be limited. First, the Court's holding is properly viewed as being limited to § 271(f), which was specifically intended to address the exportation of components that resulted in extraterritorial infringement. Second, and perhaps as significant, was the nature of the patent owner's business in the WesternGeco case that resulted in this large claim for lost profits. WesternGeco had patents on hardware but didn't sell that hardware; it was a service provider deriving recurring revenue from the patented hardware. Had its business simply been that of selling the hardware, it likely would not have been in a position of claiming lost profits for the post-sale extraterritorial use of the hardware. Finally, to prevail on its lost profits claim, WesternGeco convinced the jury that but for ION's sales, it would have been awarded the surveying contracts instead of ION's customers.

Thus, the holding of this case is likely limited to those cases (1) arising under § 271(f), (2) in which that patent owner derives recurring revenue from extraterritorial use of its inventions and (3) operates in a two-supplier market where the second supplier is using the infringing product. Like a "perfect storm," these conditions may not come together often, but it is something both patent owners and accused infringers need to be watching out for, since its impact, when it does occur, can be significant.

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[i] *WesternGeco LLC v. ION Geophysical Corp*., 585 U.S. ___ (2018), June 22, 2018, slip op. at 3.
[ii] Id.
[iii] Slip op. at 4.
[iv] Id. (citations omitted).
[v] Slip op. at 6.
[vi] Slip op. at 8.