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WesternGeco May Reshape Reasonable Royalty Damages

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In WesternGeco v. Ion Geophysical,[1] the U.S. Supreme Court held that the patent owner could recover lost profits damages under § 284 based on foreign activities arising from infringement under § 271(f)(2). The court's holding focuses on lost profits damages and § 271(f)(2) infringement. The analysis, however, does not depend specifically on either of these. Instead, the analysis suggests more generally that a patent owner can recover damages of any form under § 284 based on foreign activities arising from infringement of any form under § 271.

This would include the more common scenario of reasonable royalty damages arising from § 271(a) direct infringement by the manufacture, use or sale of patented inventions in the United States. The analysis underlying WesternGeco's holding thus opens the door to arguments for reasonable royalty damages based on foreign activities arising from domestic infringement.

In short, patent owners may have the opportunity to recover reasonable royalty damages tied to the infringer's foreign activities when the infringer places the infringing product or method in international commerce through U.S. patent infringement. Similar to other torts, patent infringement damages potentially reach to any economic activity caused by the domestic infringement.

Here we explain, first, how WesternGeco's analysis applies to § 271 generally, not only to § 271(f)(2), and second, how it applies to reasonable royalty damages, not only to lost profits. We explore the Federal Circuit's consideration of the territorial boundaries for each of these issues in Power Integrations v. Fairchild Semiconductor[2] and Carnegie Mellon v. Marvell,[3] respectively. These cases provide a convenient framework for considering WesternGeco's potential reach.

Does WesternGeco's Analysis Extend to All of § 271?

In determining that a patent owner could recover lost foreign profits under § 284 based on § 271(f)(2) infringement, the Supreme Court did not consider whether either of those provisions provide a "clear indication of an extraterritorial application" sufficient to rebut the general presumption against extraterritoriality.[4] Instead, the court evaluated "whether the case involves a domestic application of the statute," particularly by "identifying the statute's focus and asking

whether the conduct relevant to that focus occurred in United States territory."[5]

The court concluded that "the infringement" is the focus of § 284.[6] The court then turned to the infringement prohibited by § 271(f)(2) and determined that its focus is "on the act of exporting components from the United States."[7] The court did not identify any specific aspect of exporting relevant to the analysis — the key is simply that it occurs in the United States. In short, because § 271(f)(2) regulates the domestic act of "supplying in or from the United States," and § 284 compensates for "the infringement" under § 271(f)(2), the lost profits damages arising from the § 271(f)(2) domestic infringement "were a domestic application of §284."[8] The court did not consider the location of economic injury in its extraterritoriality analysis — instead, it focused on the statutory language.

In sum, the only aspect of § 271(f)(2) relevant to the court's analysis is that it addresses U.S. conduct. All provisions of § 271 regulate U.S. conduct. Therefore, the court's analysis should apply equally throughout § 271.

In particular, the court's analysis should apply to damages for infringement under § 271(a), and the Federal Circuit's contrary holding in Power Integrations may no longer be good law. There, the Federal Circuit held that a patent owner could never recover lost profits damages for lost foreign sales caused by U.S. infringement under § 271(a).[9] It found that "the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement."[10]

No more. The Supreme Court now has held that § 284 allows for damages caused by the extraterritorial sale of an invention arising from U.S. infringement. This should solve the Federal Circuit's rebuke in Power Integrations that the patent owner "has not cited any case law that supports an award of damages for sales consummated in foreign markets."[11] Patent owners now can argue that WesternGeco supports the proposition that no categorical rule prohibits damages caused by extraterritorial activity arising from U.S. infringement.

Indeed, the Federal Circuit's opinion in WesternGeco — now reversed — relied explicitly on Power Integrations and on the commonality of § 271(a) and § 271(f)(2).[12] As Federal Circuit Judge Evan Wallach articulated in his dissent below in WesternGeco, the Federal Circuit's blanket rule prohibiting damages for lost foreign sales in Power Integrations "is inconsistent with" Supreme Court precedent."[13] Now that the Supreme Court has agreed in WesternGeco, Power Integrations is likely open to challenge.

Does WesternGeco's Analysis Extend to Reasonable Royalty Damages?

WesternGeco specifically discusses only lost profits damages, and not reasonable royalties, but it analyzes § 284 as a whole. The statute provides for "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."[14] It has been interpreted to allow compensation for the patent owner's lost profits.[15] On its face, it explicitly allows for reasonable royalty damages.

WesternGeco does not make any relevant distinction between the types of damages that a patent owner might pursue under § 284. The opinion reiterates general statements about § 284, including that "the overriding purpose of § 284 is to afford patent owners complete compensation for infringements."[16] Further, "[t]he question posed by the statute is how much has the patent holder suffered by the infringement."[17] Neither of these statements (both quoting prior Supreme Court

cases) is exclusive to lost profits.

Indeed, the court concludes its analysis by explaining 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,"[18] and "[t]his recovery can include lost profits."[19] It also can include, by § 284's explicit terms, a reasonable royalty — often the most appropriate mechanism to "place the patent owner in as good a position as he would have been in if the patent had not been infringed."[20] The court's opinion provides no specific reason to limit the holding to lost profits, and its analysis likely can extend to reasonable royalty damages as well.

Patent owners previously have attempted to pursue reasonable royalty damages based on the extraterritorial economic effects of domestic infringement, and the Federal Circuit has categorically rejected that model based on territorial limits — most notably in Carnegie Mellon v. Marvell. There, Marvell infringed CMU's method claims by developing and testing computer chips in the United States.[21] After successfully completing the design through its infringement, Marvell went on to make and sell chips abroad that never entered the United States.[22]

CMU argued that the hypothetical negotiation for a reasonable royalty would take into account all chips sold worldwide by Marvell on the basis that the U.S. infringement — chip development and testing — enabled Marvell to create the chip in the first place. In short, the infringement was a but-for cause of the international sales. The jury awarded CMU $1.17 billion in reasonable royalty damages based on Marvell's U.S. and worldwide sales.[23]

The Federal Circuit vacated the award attributable to foreign sales.[24] Citing Power Integrations and its opinion (now reversed) in WesternGeco, the Federal Circuit found that the presumption against extraterritoriality prohibited awarding royalty damages based on foreign sales, even though "Marvell's sales are strongly enough tied to its domestic infringement as a causation matter to have been part of the hypothetical-negotiation agreement."[25]

Now, the Supreme Court's opinion in WesternGeco has altered the foundation of the Federal Circuit's Carnegie Mellon analysis. First, it demonstrates that the extraterritoriality analysis should end after finding domestic infringement under § 271. Second, as discussed above, it may justify reversal of the holdings in Power Integrations, upon which Carnegie Mellon depends. CMU established that Marvell's foreign sales were "strongly enough tied to its domestic infringement as a causation matter."[26] Under the broad reasoning of WesternGeco, this could establish the right to include those foreign sales in the reasonable royalty damages model for domestic infringement.

Conclusion

Although the Supreme Court kept the language of its opinion tailored to infringement under § 271(f)(2) and lost profits damages, its analysis does not depend on anything specific to these issues as compared to infringement and compensatory damages more generally. Patent owners and accused infringers should be mindful of how WesternGeco might reshape the landscape of reasonable royalty damages going forward and extend the chessboard to an international scale.

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[1] WesternGeco LLC v. ION Geophysical Corp., No. 16-1011 (S. Ct. June 22, 2018).

[2] Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348 (Fed. Cir. 2013).

[3] Carnegie Mellon Univ. v. Marvell Tech. Group, Ltd., 807 F.3d 1283 (Fed. Cir. 2015).

[4] Id. at 5 (quoting Morrison v. National Australia Bank Ltd., 561 U.S. 247, 255 (2010); citing RJR Nabisco, Inc. v. European Community, 579 U.S. ___, ___ (2016) (slip op., at 9)).

[5] Id.

[6] Id. at 6.

[7] Id. at 7.

[8] Id. at 7-8.

[9] Power Integrations, 711 F.3d at 1370-72.

[10] Id. at 1371-72.

[11] Id.

[12] WesternGeco L.L.C. v. ION Geophysical Corp., 791 F.3d 1340, 1350-51 (Fed. Cir. 2015), reinstated after remand by WesternGeco L.L.C. v. ION Geophysical Corp., 837 F.3d 1358 (Fed. Cir. 2016).

[13] WesternGeco, 791 F.3d at 1359-60.

[14] 35 U.S.C. § 284.

[15] See Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1544-45 (Fed. Cir. 1995) (describing the history of § 284, Supreme Court interpretation, and lost profits damages).

[16] WesternGeco, slip op. at 6-7 (quoting General Motors Corp. v. Devex Corp., 461 U.S. 648, 655 (1983)).

[17] Id. at 7 (quoting Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507 (1964)).

[18] Id. at 9 (quoting Aro, 377 U.S. at 507).

[19] Id. (citing Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 552-553 (1886)).

[20] Id. (quoting General Motors, 461 U.S. at 655).

[21] Carnegie Mellon, 807 F.3d at 1291-92.

[22] Id. at 1302, 1305-06.

[23] Id. at 1291-92.

[24] Id. at 1302, 1311.

[25] Id. at 1306-07.

[26] Id.