Foreign Patent Damages Recovery 2 Years After WesternGeco

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It has been two years since the U.S. Supreme Court's decision in WesternGeco LLC v. ION Geophysical Corp., and there have been surprisingly few opinions about extraterritorial patent damages, including (1) whether plaintiffs are entitled to seek discovery on extraterritorial sales; (2) Daubert motions and motions to strike expert reports regarding extraterritorial damages; and (3) motions in limine to prevent discussion of extraterritorial sales.

Why? Are plaintiffs not pursuing damages based on extraterritorial sales? Are defendants not fighting about turning over worldwide sales information? Are courts deciding these issues orally and not writing opinions on them?

The potential increase in recovery to plaintiffs as a result of WesternGeco could be extraordinary high — multiples of its recovery based on just domestic sales — so parties should be talking about it, and plaintiffs lawyers should be, at the very least, setting up their cases to have it available as an option.

Background on Power Integrations I and WesternGeco

On June 22, 2018, the Supreme Court issued a 7-2 ruling in WesternGeco, allowing a patent owner to recover lost profit damages based on foreign sales in connection with a finding of infringement under Title 35 of the U.S. Code, Section 271(f)(2) (i.e., the infringer exported components of a patented invention for combination abroad).[1]

The majority opinion, written by Justice Clarence Thomas, held that a patent owner that proves infringement under Section 271(f)(2) is entitled to relief under Title 35 of the U.S. Code, Section 284, "which authorizes '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'" and found that such relief could include lost sales outside of the United States.[2]

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The majority explained that extraterritorial application should depend on the statute's focus and applied the two-step analysis from the Supreme Court's 2016 decision in RJR Nabisco Inc. v. European Community.[3] In Nabisco, Justice Samuel Alito explained that, to determine if Congress intended a statute to have extraterritorial effect, a court must determine: (1) "whether the presumption against extraterritoriality has been rebutted" and (2) if it has not, then "whether the case involves a domestic application of the statute."[4]

The majority concentrated its analysis on step two, and found that the focus of Section 284 is to remedy an act of infringement, which has no territorial limits, and whether Section 284 should be applied to extraterritorial activity in a given case is informed by the liability-defining provision at issue.[5] In a case where the liability-defining provision is Section 271(f)(2), which focuses on the act of exporting components from the United States, the majority concluded that a patent owner should be able to recover foreign lost profits because the act that constituted infringement "clearly occurred in the United States."[6]

Justice Neil Gorsuch filed a dissenting opinion joined by Justice Stephen Breyer. In his dissent, Justice Gorsuch noted that the majority's ruling could disrupt our relationship with other countries if foreign countries also started to expand the coverage of their patent infringement statutes extraterritorially.[7]

Prior to the WesternGeco decision, "[t]he leading case on lost profits for foreign conduct" was the U.S. Court of Appeals for the Federal Circuit's 2013 decision in Power Integrations Inc. v. Fairchild Semiconductor International Inc., or Power Integrations I.[8] In Power Integrations I, the Federal Circuit held that a patent owner cannot recover foreign lost profit damages for direct infringement under Section 271(a), even if the direct infringement occurred in the United States.[9]

There, the Federal Circuit applied a different analysis from the Supreme Court, focusing more on step one of Nabisco (presumption against extraterritoriality), and holding that "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]

In a later case, Carnegie Mellon University v. Marvell Technology Group Ltd., or CMU, the Federal Circuit in 2015 extended its holding from Power Integrations I to reasonable royalties under Section 271 (a).[11]

Uncertainty Following WesternGeco

Since WesternGeco, district courts have been grappling with the question of whether the Supreme Court's decision implicitly overruled Power Integrations I. A majority of courts have found that the Supreme Court's decision did implicitly overrule Power Integrations I and CMU, while a minority of courts have held that Power Integrations I and CMU still control direct infringement cases under Section 271(a) until they are explicitly overruled by the Federal Circuit.

Judge Stark's Broad Application of WesternGeco

Since the Supreme Court made its decision in WesternGeco, the first case to weigh in on the issue of whether foreign sales damages are available under Section 271(a) was Power Integrations Inc. v. Fairchild Semiconductor in 2018, or Power Integrations II, in the U.S. District Court for the District of Delaware.[12]

In this case, U.S. District Judge Leonard Stark decided that WesternGeco implicitly overruled prior case law regarding Section 271 and broadly applied WesternGeco, extending it to Section 271(a).[13] This is because "[t]he 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 [the Supreme Court WesternGeco case], which were governed by § 271(f)(2)."[14]

Furthermore, "the Federal Circuit's WesternGeco I decision was based almost entirely on the Federal Circuit's Power Integrations [I] decision. It logically follows that when the Supreme Court expressly overruled WesternGeco I it also implicitly overruled Power Integrations [I]."[15] Unfortunately, while this case was certified for interlocutory appeal to the Federal Circuit, the parties settled, and the Federal Circuit was deprived of the opportunity to weigh in on this issue.

Post-Power Integrations II District Court Case Law and MLC Appeal

Following Judge Stark's Power Integrations II decision, district courts in Texas and Wisconsin have also explicitly held that the reasoning of WesternGeco extends to direct infringement cases under Section 271 (a).[16]

However, in the U.S. District Court for the Northern District of California, Judge Susan Illston's 2019 decision in MLC Intellectual Property LLC v. Micron Technology Inc. held that "MLC may not seek damages based on Micron's wholly foreign sales" under Section 271(a) for direct infringement based on WesternGeco.[17] Based on this reasoning, the court granted the defendant's pretrial motion to exclude evidence of foreign sales.[18]

Explaining her decision, Judge Illston reasoned that "[w]hether Judge Stark is correct that [the Supreme Court's WesternGeco decision] implicitly overruled Power Integrations I remains to be seen, but at this time controlling law holds that MLC may not seek damages under § 271(a) based on Micron's wholly foreign sales."[19]

In an earlier, 2018 opinion regarding the same issues, Judge Illston "recognize[d] that the case law regarding the relevance of foreign sales to the calculation of damages is developing and that the applicability of [the Supreme Court's WesternGeco decision] to claims of direct infringement under section 271(a) remains unclear."[20]

The three damages orders issued by the district court in MLC have been granted interlocutory review by the Federal Circuit under Title 28 of the U.S. Code, Section 1292(b).[21] However, whether Power Integrations I and CMU should still be considered controlling law for damages based on foreign sales

under Section 271(a) may not be addressed by Federal Circuit here as the briefs by both sides focus on other issues, and discussion of damages for foreign sales and WesternGeco has been relegated to a single footnote in the appellant's reply brief.[22]

Conclusion

While the world waits for clarification on the scope of damages that are recoverable under Section 271 (a), including whether recovery extends to foreign sales (and in what instances) and to reasonable royalty damages theories, attorneys for patent holders should consider seeking extraterritorial sales information during discovery and having experts issue opinions in the alternative, calculating damages based on both U.S.-only sales and worldwide sales (and perhaps limited sets of worldwide sales, depending on the facts of the case and the nexus between those sales and the acts that constituted infringement under Section 271).

Patent holders do not want to be caught post-fact discovery having not obtained extraterritorial sales information, and not pursued damages based on foreign sales, if the Federal Circuit rules that Power Integrations I and CMU have been overruled as a result of WesternGeco. Similarly, attorneys for accused infringers should preserve arguments that foreign sales are irrelevant to the computation of damages under Section 271(a).

[1] WesternGeco LLC v. ION Geophysical Corp. (WesternGeco II), 138 S. Ct. 2129, 2135 (2018).

[2] Id. (quoting 35 U.S.C. § 284).

[3] RJR Nabisco, Inc. v. European Community, 136 S. Ct. 2090 (2016).

[4] WesternGeco II, 138 S. Ct. at 2136 (citing Nabisco, 136 S. Ct., at 2101).

[5] Id. at 2137.

[6] Id. at 2138.

[7] Id. at 2143

[8] WesternGeco LLC v. ION Geophysical Corp. (WesternGeco I), 791 F.3d 1340, 1350 (Fed. Cir. 2015) (citing 711 F.3d 1348, 1350 (Fed. Cir. 2013)).

[9] 711 F.3d at 1381.

[10] Id. at 1371-72.

[11] See Carnegie Mellon University v. Marvell Technology Group, Ltd. (CMU), 807 F.3d 1283, 1307 (Fed. Cir. 2015).

[12] Power Integrations, Inc. v. Fairchild Semiconductor, 2018 WL 4804685, at *1.

[13] Id. at *2 (quoting WesternGeco II, 138 S. Ct. at 2138).

[14] Id. at *1.

[15] Id.

[16] See eg., Plastronics Socket Partners, Ltd. v. Dong Weon Hwang , No. 218CV00014JRGRSP, 2019 WL 4392525, at *5 (E.D. Tex. June 11, 2019), report and recommendation adopted, No. 218CV00014JRGRSP, 2019 WL 2865079 (E.D. Tex. July 3, 2019) ("Each of these instances would constitute infringement under § 271(a), and thus, under the reasoning of WesternGeco, would be compensable even if the sale causing damage ultimately occurred abroad."); W.H. Wall Family Holdings LLLP v. CeloNova Biosciences, Inc. , No. 1:18-CV-303-LY, 2020 WL 1644003, at *3 (W.D. Tex. Apr. 2, 2020) ("Courts have found that foreign damages may be compensable for domestic infringement under § 271(a). . . . Based on the foregoing, the Court finds that the information regarding foreign sales activity may be relevant to Wall's claim for damages in this case."); and ABS Glob., Inc. v. Inguran, LLC , No. 14-CV-503-WMC, 2020 WL 2405380, at *9, 11 (W.D. Wis. May 12, 2020).

[17] MLC Intellectual Prop., LLC v. Micron Tech., Inc. (MLC II), No. 14-CV-03657-SI, 2019 WL 2437073, at *3 (N.D. Cal. Jun. 11, 2019).

[18] Id.

[19] Id.

[20] MLC Intellectual Prop., LLC v. Micron Tech., Inc. (MLC I), No. 14-CV-03657-SI, 2018 WL 6175982, at *2 (N.D. Cal. Nov. 26, 2018).

[21] MLC, 794 F. App'x 951.

[22] See Reply Brief of Appellant at 1 n.2, MLC Intellectual Prop., LLC v. Micron Tech., Inc., No. 20-1413 (Fed. Cir. 2020) (stating, in part, "Also, both damages experts provided royalty base calculations that included foreign sales given the uncertainty in the law regarding foreign damages under WesternGeco, LLC v. ION Geophysical Corp., 138 S. Ct. 2129 (2018).")

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