Is the Federal Circuit's Holding that the Presumption Against Extraterritoriality Making Unavailable Damages Based on a Patentee's Foreign Lost Profits from Patent Infringement Consistent with 35 U.S.C. § 271(f)?

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WesternGeco LLC v. ION Geophysical Corporation
Docket No. 16-1011
Argument Date: April 16, 2018
From: The Federal Circuit

Case at a Glance: The Court will consider whether the text of 35 U.S.C. § 271(f) imposes liability on those supplying from the United States 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 if such combination occurred within the United States," and whether that liability also relates to the issuance of full compensatory damages where such infringement is found. Section 271(f) specifically targets domestic conduct (supplying components in or from the United States) with an intent that the components will be assembled abroad. The jury here found that respondents violated Section 271(f) by shipping components of petitioners' patented invention for assembly and use abroad. Because the intended foreign combination occurred and caused petitioners reasonably foreseeable harms, the jury awarded over $93 million in lost profits. The Federal Circuit, however, through application of the presumption against extraterritoriality, reversed the award of lost profits that would have been earned abroad. The Supreme Court will now consider whether the Federal Circuit's holding that lost profits arising from prohibited combinations occurring outside of the United States are unavailable in cases in which patent infringement is proven under Section 271(f) is proper under the statute.

Issue

Did the Federal Circuit err in holding that lost profits arising from prohibited combinations occurring outside of the United States are categorically unavailable in cases in which patent infringement is proven under 35 U.S.C. § 271(f)?

Introduction

By statute, patent owners who prove infringement are entitled to "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." 35 U.S.C. § 284 (emphasis added). What damages are "adequate to compensate for the infringement" depends on the application of general tort principles to the facts of each case and can include lost profits in appropriate cases. Section 284 applies to damages for infringement under Section 271(f).

Congress adopted Section 271(f) in response to the Supreme Court's decision in Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518 (1972). In Deepsouth, the defendant sold a machine covered by a patent, but never assembled the full machine in the United States. Instead, the defendant shipped components in three boxes to customers abroad, who could assemble the machine within an hour. By a 5–4 vote, the Court held that the defendant could not be liable for infringement under then-existing Section 271 because the defendant's customers' acts all took place abroad and the defendant did not make, use, sell, or offer to sell the entire patented machine in the United States, nor induce or contribute to such acts occurring in the United States. Congress enacted Section 271(f) to close what it viewed as "a loop-hole" in patent law. 130 Cong. Rec. H10525 (1984). The Senate Report accompanying the final bill described Section 271(f) as a "reversal of Deepsouth." S. Rep. No. 98-663 (1984).

As enacted, Section 271(f) defined liability as an infringer for whoever, with the requisite mental state, exports components of a patented invention from the United States for combination "outside of the United States in a manner that would infringe the patent if such combination occurred within the United States." In enacting Section 271(f), Congress treated a specific action within the United States (exporting from the United States with the intent to combine abroad) as sufficient to impose liability, knowing full well that the combination and ultimate use would occur abroad. The Court has previously described Section 271(f) as an "exception" to "the general rule under United States patent law that no infringement occurs when a patented product is made and sold in another country." Microsoft Corp. v. AT&T Corp., 550 U.S. 437 (2007).

The instant case requires the Court to assess whether the Federal Circuit's adoption of a presumption against extraterritoriality in denying lost profit damages arising from proven infringement by prohibited combinations occurring outside of the United States is consistent with the statutory text and intent of 35 U.S.C. § 271(f).

Facts

WesternGeco LLC. v. ION Geophysical Corp. (WesternGeco II), 791 F.3d 1340 (Fed. Cir. 2015), addressed a patent infringement suit by WesternGeco LLC (petitioner) against ION Geophysical Corp. (respondent) for infringement of, inter alia, United States Patent Nos. 6,691,038, 7,080,607, 7,162,967, and 7,293,520. WesternGeco's patents relate to marine seismic surveys, which are used to search for oil and gas beneath the ocean floor. WesternGeco's patents cover a system for controlling the movement of towed streamers in a manner that produces more efficient surveys and higher-quality data. ION manufactures components of a similar survey system in the United States that, when assembled, embodies WesternGeco's patented invention and exported the components to customers abroad, who assembled the system and used it to perform surveys on the high seas in competition with petitioner.

The jury found infringement and no invalidity as to all asserted claims and awarded WesternGeco $93.4 million in lost profits and a reasonable royalty of $12.5 million. The jury also found that ION's infringement had been subjectively reckless under the "subjective" prong of the then-prevailing two-part test articulated in In re Seagate, LLC, 497 F.3d 1360 (Fed. Cir. 2007) (en banc).

After trial, WesternGeco moved for enhanced damages for willful infringement under 35 U.S.C. § 284, and ION moved for judgment as a matter of law of no willful infringement, contending that WesternGeco had failed to prove that it was either objectively or subjectively reckless in its infringement. The district court held that ION was not a willful infringer, finding that ION's positions were reasonable and not objectively baseless and thus that the objective prong of the Seagate test had not been satisfied.

Upon appeal, the Federal Circuit, relying primarily on the presumption against extraterritoriality and an earlier Federal Court decision, Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348 (Fed. Cir. 2013), reversed the lost-profits award, holding that WesternGeco was not entitled to lost profits resulting from foreign uses of its patented invention. The majority panel found that WesternGeco was entitled to a reasonable royalty, but eliminated the $93.4 million lost-profit damage award. In dissent, Judge Evan Wallach argued that the majority misread Power Integrations and conflated damages with liability to create a "near absolute bar to the consideration of a patentee's foreign lost profits [that] is contrary to the precedent of both of this court and of the Supreme Court."

WesternGeco subsequently petitioned for rehearing en banc, which the Federal circuit denied. In dissent, Judges Wallach, Pauline Newman, and Jimmie Reyna (the author of Power Integrations) reaffirmed the points made in Judge Wallach's panel dissent and added that the majority decision was "at odds with the longstanding and analogous 'predicate act' doctrine in the copyright context[, which] holds that a copyright owner 'is entitled to recover damages flowing from the exploitation abroad of…domestic acts of infringement.'"

In response, WesternGeco petitioned for certiorari, raising two questions: whether the court of appeals erred in holding that damages based on a patentee's so-called "foreign lost profits" are categorically unavailable in cases of patent infringement under Section 271(f); and whether the Supreme Court should hold the instant petition for Halo Electronics, Inc. v. Pulse Electronics, Inc., No. 14-1513, and Stryker Corp. v. Zimmer, No. 14-1520. After the Court decided Halo and Stryker, it granted WesternGeco's petition and issued an order remanding the case to the Federal Circuit for further consideration in light of the Supreme Court's decision in Halo Electronics, Inc. v. Pulse Electronics, Inc., 136 S. Ct. 1923 (2016).

On remand, the Federal Circuit panel majority vacated the district court's judgment solely as to the denial of enhanced damages and remanded that limited issue "for further proceedings consistent with this opinion and with the Supreme Court's decision in Halo." In all other respects, the Federal Circuit reinstated its earlier opinion and judgment including as to lost-profit damages. Judge Wallach again dissented in part, objecting to the majority's formulation of a "rigid rule barring the district court from considering foreign lost profits even when those lost profits bear a sufficient relationship to domestic infringement."

WesternGeco petitioned to the Court for a writ of certiorari on February 17, 2017, and, on January 12, 2018, the Court granted the petition.

Case Analysis

In this case, the Court must determine whether the Federal Circuit's adoption of a presumption against extraterritoriality in denying lost-profit damages arising from proven infringement by prohibited combinations occurring outside of the United States is consistent with the statutory text and intent of Section 271(f).

On the issue of whether lost profit damages arising from prohibited combinations occurring outside of the United States are categorically unavailable in cases where patent infringement is proven under Section 271(f), petitioner and respondent frame the issue before the Court in different ways. Petitioner frames the issue as a misconstruction of the Patent Act and a misapplication of the presumption against extraterritorial application of United States law. Contrarily, respondents suggest that the question be framed as whether the Court should overrule its previously issued holding in Microsoft v. AT&T, 550 U.S. 437 (2007), and eliminate the presumption against extraterritoriality so that infringers are subject to damages under Section 284 based on noninfringing foreign use by third parties. In Microsoft, respondent argues that the Court held that the presumption against extraterritoriality applied to all laws, and especially the patent laws, including the interpretation of Section 271(f).

Petitioner argues that is a misapplication of the presumption against extraterritoriality to first apply the presumption to determine what conduct subjects a defendant to liability, and then again to limit remedies once liability is established. Petitioner acknowledges that the presumption against extraterritoriality is well-known canon of statutory construction that "applies with particular force in patent law" (see Microsoft), but argues that Congress intended that Section 271(f) would capture certain conduct having both a United States nexus and a foreign impact.

Thus, petitioner argues that Section 271(f) is an "exception" to the general rule under United States patent law that no infringement occurs when a patented product is made and sold in another country. Petitioner further argues that the Court, after determining liability given the presumption against extraterritoriality, should not apply the presumption against extraterritoriality yet again to limit damages. Petitioner suggests that the Court, in cases that have applied the presumption against extraterritoriality, has focused on the substantive elements of a statutory cause of action and has not applied the presumption again to limit the available damages once liability is established. Petitioner argues that the presumption against extraterritoriality appropriately applies to resolve questions only about what actions incur infringement liability under Section 271(f) and, once infringement liability is established, patentees are entitled to full compensation under Section 284.

Petitioner suggests that the Federal Circuit's categorical bar to lost-profits damages in Section 271(f) cases is contrary to the text of Section 284 and to the Court's decision in General Motors v. Devex, 461 U.S. 648 (1983). In General Motors, the Court construed Section 284 and rejected the argument that interest should be awarded only in exceptional circumstances. The Court explained that Section 284 ensures that a "patent owner would in fact receive full compensation for 'any damages' he suffered as a result of the infringement" and that "'element[s] of recovery' should not be limited 'unless Congress has said so explicitly.'" Because Congress did not explicitly limit an element of damages recovery in a patent infringement action under Section 271(f), petitioner suggests that damages for patent infringement found under Section 271(f) are not limited to reasonable royalties under Section 284 but should allow the patentee to be put in the position he would have been but for the infringement.

Petitioner also argues that the Federal Circuit's holding that "lost profits cannot be awarded" for "lost contracts for services to be performed abroad" is directly contrary to the holding in Goulds' Manufacturing Co. v. Cowing, 105 U.S. 253 (1881). The Goulds' Court held that transactions abroad can be the basis of an award of lost-profits damages for patent infringement. The petitioner suggests Goulds' holding that so-called "foreign" sales can be the basis of an award of lost profits so long as they are tied to infringing activity in the United States is consistent with the "full compensation" principle articulated in General Motors.

Petitioner further argues, echoing the dissent authored by Judges Wallach, Newman, and Reyna in the denial of rehearing en banc, that the Federal Circuit's decision conflicts with the longstanding "predicate act" doctrine of copyright law adopted by the courts of appeals. Petitioner notes that the Court has historically construed the patent and copyright statutes with reference to the same background principles and notes that multiple circuits have held, with no circuits holding otherwise, that a copyright owner can obtain damages based on foreign sales so long as the initial infringement occurred in the United States and the foreign sales are directly linked to that infringement. Petitioner argues that there is no principled basis, and it would be contrary to the holdings of the multiple circuits in copyright cases, for patent and copyright cases to take different approaches and for the Court to determine that lost‑profit damages accruing from infringement under Section 271(f) are not available to the wronged patentee.

Respondent acknowledges that infringement is complete under Section 271(f) upon export from the United States and that Section 284 is the appropriate statute for damages for infringement under all Sections of Section 271. Respondent argues that damages under Section 284 should not be available for foreign use since that foreign use is not an infringement of a United States patent. Respondent looks to the Federal Circuit's decision in Power Integrations, Inc. v. Fairchild Semiconductor, Inc., 711 F.3d 1348 (2013), cert. denied, 134 S. Ct. 900 (2014) for support. In Power Integrations, the Federal Circuit held that patent laws allow "damages adequate to compensate for the infringement" under Section 284, but they "do not thereby provide compensation for a defendant's foreign exploitation of a patented invention, which is not infringement at all." Respondent argues that, just as petitioner argued foreseeability and relied on General Motors' holding that a district court could discretionarily award prejudgment interest on patent damages, the Federal Circuit considered and rejected those same arguments in Power Integrations: "Regardless of how the argument is framed under the facts of this case, the respondent argues that the underlying question here remains whether Power Integrations is entitled to compensatory damages for injury caused by infringing activity that occurred outside the territory of the United States. The answer is no." Respondent further argues that the Federal Circuit had subsequently relied upon Power Integrations to deny infringement damages under Section 271(a) based on extraterritorial acts in Carnegie Mellon University v. Marvell Technology Group Ltd., 807 F.3d 1283 (Fed. Cir. 2015).

Respondent argues that the Court's abandonment of the presumption against extraterritoriality, as it applies to Section 271(f), would effectively overrule Microsoft and the cases that have relied on it under both Section 271(f) and Section 271(a). According to respondent, such a ruling could subject all infringers to liability for claims of damages anywhere in the world where the patent owner can trace some connection between acts in the United States and claims for damages in other countries. Respondent argues that neither Section 271 nor Section 284 should be construed so broadly as to permit for damages for foreign use, which is not infringement at all.

The United States as amicus curiae (the government) notes that the Court, in General Motors, construed Section 284 to require "full compensation" to the patentee for any infringement, consistent with traditional common-law tort principles, and that damages under the Patent Act, like compensatory damages in tort law, should "ensure that the patent owner is placed in as good a position as he would have been in" absent the infringement. See General Motors. The government further points to the Court's holding in Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476 (1964), recognizing that, in the context of Section 271, damages under Section 284 may include lost profits that the patentee would have earned but for the defendant's infringing conduct.

The government argues that the Federal Circuit erred by precluding recovery of lost-profits damages necessary to provide full compensation solely because those profits would have been earned on contracts to perform services outside of the territorial jurisdiction of the United States. However, the government argues that the presumption against extraterritoriality does not bar courts from taking notice of foreign evidence or events in fashioning appropriate relief for a domestic act of patent infringement. The government notes that the Federal Circuit did not question whether respondent's infringement under Section 271(f) proximately caused petitioner's loss of profits from ten specific contracts to perform marine seismic surveys but simply set aside the lost-profits award based solely on the foreign nature of those would-be sales.

The government notes that the presumption against extraterritoriality reflects the “commonsense notion that Congress generally legislates with domestic concerns in mind,” and it “serves to avoid the international discord that can result when United States law is applied to conduct in foreign countries.” RJR Nabisco, Inc. v. European Cmty., 136 S. Ct. 2090 (2016). The government also notes that the presumption against extraterritoriality does not prevent courts from taking account of foreign activities in applying United States patent law to claims of domestic infringement. The government cites the Court’s holding in Impression Prods., Inc. v. Lexmark Int’l, Inc., 137 S. Ct. 1523 (2017), that, when a United States patent owner authorizes the sale of an article embodying the patented invention, the United States patent rights in that article are exhausted, in support of the proposition that foreign events can have legal consequences under the Patent Act. But because those doctrines pertain to adjudicating a defendant’s liability under United States law for domestic acts of alleged patent infringement, the government argues that theses doctrines have not been viewed as implicating the presumption against extraterritoriality.

The government suggests that, just as the exhaustion inquiry in Impression Products did not implicate the presumption against extraterritoriality because that inquiry was used to determine whether the defendant’s domestic conduct was infringing, petitioner’s reliance on evidence of foreign activities to establish its entitlement to damages from domestic infringement does not amount to the extraterritorial application of United States law. The government argues that petitioner’s entitlement to damages should be informed by the traditional common-law rule that the victims of a tort should be returned to the position they would have occupied but for the legal wrong committed by the defendant. The government argues this notion should be just as borderless as the common-law exhaustion principle that the Court applied in Impression Products.

The government also echoes petitioner’s argument that the Federal Circuit’s prohibition against recovering foreign damages attributable to domestic patent infringement is in tension with appellate decisions calculating damages under the copyright laws. The government notes that, with respect to the recovery of lost profits for infringement proven under Section 271(f), the respective damages provisions of the Patent Act and Copyright Act of 1976, 17 U.S.C. 101 et seq., afford no evident textual basis for adopting different rules in the two contexts.

Petitioner further argues that Congress, upon enacting Section 271(f), did not make the foreign combination itself a violation of United States patent law, but rather treated specific domestic action (supplying components “in or from the United States”) with a particular foreign-oriented intent (that the components be combined “outside of the United States in a manner that would infringe the patent if such combination occurred within the United States”) as an act of domestic patent infringement. See 35 U.S.C. § 271(f). Petitioner further argues that consistent precedent holds that a prevailing patent owner’s damages may include lost profits that the patent owner can prove it would have earned absent the infringement. Thus, petitioner suggests that the plain text of Sections 271(f) and 284 makes clear that a victim of patent infringement under Section 271(f) can recover damages reasonably and foreseeably caused by the infringement, including lost sales, even where the lost sales would have occurred abroad.

Petitioner argues that there is no plausible basis for denying the patent holder the full measure of damages, including lost profits, that Section 284 provides just because the lost profits stemmed from conduct abroad or on the high seas. Petitioner suggests that all damages resulting from the infringement should be available to the patent holder because Congress specified the precise domestic conduct that suffices to constitute domestic patent infringement and it did so with full knowledge that the principle consequences of that infringement would flow from the "combination of such components outside the United States" upon enacting Section 271(f).

With respect to the question of applicability of the Federal Court's use of the presumption against extraterritoriality in vacating the lost-damages award, petitioner argues that Section 271(f) identified a specific form of domestic conduct that constituted infringement if it occurred with an intent to facilitate foreign combinations. Petitioner suggests that, when the intended combinations in fact occur, Congress, acting in response to the Deepsouth decision, wanted to supply a remedy and plainly contemplated that damages would be inflicted by foreign combinations and lost sales abroad. Petitioner further cites Goulds' Mfg in arguing that there is no reason to assume that Congress intended to provide less than a full remedy when the domestic misconduct directly causes an injury that is measured in part by foreign conduct. Goulds' Mfg makes clear that when a domestic act of infringement (there, manufacturing infringing pumps in the United States) foreseeably causes patent holders to lose sales in both the United States and abroad (for example, in Canada), the patent holder can recover damages for the domestic infringement as measured by the lost sales both here and abroad. Petitioner suggests that foreign sale damages should not be unrecoverable when they are a direct consequence of the domestic infringement just because the foreign sales do not constitute an independent act of infringement (because they occur abroad).

Petitioner suggests that damages provisions do not implicate the presumption against extraterritoriality at all. Instead, petitioner argues that, even when a statute regulates only territorially, as does Section 271(a), there is no basis for assuming that Congress did not intend for reasonably foreseeable damages to be fully recoverable just because the domestic violations caused harm that was suffered abroad or associated with foreign conduct, such as foreign lost profits.

Petitioner further argues that, for a violation of Section 271(f) to occur, a person must supply (or cause to be supplied) a component of a patented invention "in or from the United States," and if a person takes that domestic action, and does so with the intent that the component be combined outside the United States in a manner that would practice the patent, the person has committed an act of infringement. Thus, petitioner argues that, while Section 271(f) requires an intent that the combination take place abroad, the act of infringement is domestic (supplying in the United States) and the presumption against extraterritoriality should not be implicated.

Respondent next refers to the Court's two-step framework for analyzing the extraterritoriality effect of a statute described in RJR Nabisco (in which a court first asks whether the presumption against extraterritoriality has been rebutted—that is, whether the statute gives a clear, affirmative indication that it applies extraterritorially and, if the statute is not extraterritorial under the first step, the court subsequently asks whether the case involves a domestic application of the statute and looks to the statute's focus)(the RJR test). Under this analysis, respondent argues that Section 284 of the Patent Act does not permit petitioner to recover lost profits from respondent, a component manufacturer, for third parties' foreign use of a system patented in the United States.

Respondent argues that the first step requires the Court to conclude that Section 284 does not provide clear and affirmative indication of extraterritorial reach and that the second step requires the Court to further conclude that awarding lost-profits damages to petitioner would require a foreign application of the statute, because it compensates petitioner for a foreign injury—one that occurred outside the United States only after third parties took actions abroad. Respondent suggests that the only link that petitioner's foreign injury has to the United States is that respondent's act of domestic infringement is a but-for cause of that injury, which is a causational link the Court has deemed insufficient in applying the presumption against extraterritoriality.

Respondent argues that petitioner's contention that the presumption against extraterritoriality is inappropriately applied to Section 271(f) in the circumstances of this case misapprehends the extraterritoriality analysis, which applies separately to each provision of a statute, both to Section 271(f) and to Section 284. Respondent suggests that petitioner repeatedly concedes that Section 271(f) regulates only domestic conduct and that petitioner errs in arguing that, absent extraterritorial damages, it would be left with no remedy at all in a case proceeding under Section 271(f). Respondent notes that petitioner's arguments are incorrect as such a plaintiff would be entitled to a reasonable royalty as to each component supplied from the United States, lost profits for any lost sales from the United States, and injunctive relief.

Turning to Section 284, respondent argues that the petitioner's contention that the presumption can apply only once within a single statutory scheme has been rejected under the Court's holding in RJR Nabisco. Respondent also argues that the government errs in supporting the application of Section 284 to award lost profits for petitioner's foreign injury, since the petitioner seeks compensation for the profits it would have earned outside the United States, but lost as a result of post-infringement foreign activity by third parties.

Finally, respondent suggests that overruling the Federal Circuit's holding allowing the application of the presumption against extraterritoriality for proceeding under Section 271(f) and Section 284 would transform any domestic act of infringement into a springboard for worldwide patent damages and would present grave implications for international comity. Respondents further suggest that, while petitioner argues that causation principles offer a meaningful limit, juries would not be equipped to consider the comity implications of the damages they award.

As amicus in support of neither party, the New York Intellectual Property Law Association (the New York Association) suggests that the Federal Circuit “lost sight” of the core compensatory purpose of Section 284 and the underlying common-law standard for assessing damages, proximate causation, when it held that prevailing patentees under Section 271(f) cannot recover damages accrued abroad. The New York Association further suggests that, in place of proximate causation, the Federal Circuit’s holding introduces a rigid and arbitrary rule prohibiting the recovery of foreign lost profits. The New York Association argues that the Court should overturn the panel majority’s per se bar and allow the fact-finder to consider whether the damages are proximately caused by domestic infringement and therefore to determine whether they are recoverable on the facts of each case.

The New York Association, supporting petitioner’s position, notes that compensatory damages recoverable under Section 284 should include any damages the complainant can prove, consistent with common-law principles of proximate causation. The New York Association cited Goulds’ and Dowagiac for the proposition that the Court has long supported recovery for foreign damages caused by United States patent infringement and that the panel majority’s bar to the recovery of foreign lost profits is at odds with the Court’s precedent and the Federal Circuit’s own precedent. See Goulds’ Manufacturing Co. v. Cowing, Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co., 235 U.S. 641, 650 (1915).

The New York Association further argues that the panel majority erred by expanding the finding that no basis was found to award damages for sales consummated in foreign markets, regardless of any connection to infringing activity in the United States, into a per se rule that prevailing patentees cannot recover “foreign profits” caused by domestic patent infringement.

The New York Association suggests that the Court has historically used the presumption against extraterritorial application of United States law to determine whether a given statute regulates conduct and transactions that occur abroad. In support of the petitioner’s position, the New York Association argues that, in the instant case, domestic patent infringement has been proven under Section 271(f) and has been affirmed by the Federal Circuit and that the remaining issue is the damages due under Section 284 for that established domestic violation. The New York Association suggests that it is noteworthy that the Federal Circuit did not mention Section 284 in its damages analysis, much less apply the presumption against extraterritoriality to Section 284. The New York Association argues that there is no basis to invoke the presumption against extraterritoriality and that Section 284 applies upon a finding of domestic infringement and compensates prevailing patentees for damages proximately caused by the domestic violation.

The New York Association further argues that the Federal Circuit erred in relying upon Microsoft as support for its use of the presumption against extraterritoriality as a per se bar to recovery of damages accrued abroad. The New York Association argues that, in contrast to Microsoft, there is no implication of the location of regulated conduct as the liability for domestic patent infringement is established, and the only remaining issue should be whether the full compensation required under Section 284 includes damages proximately caused by the domestic infringement even if they accrue abroad. Thus, the New York Association suggests that Microsoft and the presumption against extraterritoriality have no appropriate application.

As amicus in support of the petitioner, Professor Stephen Yelderman argues that Congress intended the words “damages adequate to compensate for the infringement” to provide a principle of measurement to guide fact-finders in their assessment of patent damages. Specifically, to the pecuniary position the patentee would have enjoyed absent the infringement. Yelderman argues that the Federal Circuit’s holding prohibiting recovery of lost profits based on the presumption against extraterritoriality was a misreading of the Court’s precedents and that the presumption of extraterritoriality is simply irrelevant to the measure of damages once liability is established. Yelderman further argues that the Court should follow the presumption favoring the retention of long-established and familiar principles of the law of remedies, which would allow the award of actual damages sufficient to return the infringed patentee to the pecuniary position they would have been in but for the infringing activity.

In supporting the petitioner, the government argues that the Federal Circuit, relying on the presumption against extraterritorial application of United States law, construed Section 284 as not authorizing recovery of profits that petitioner would have earned on the high seas in a manner inconsistent with the text and purpose of Section 284. The government argues that the Federal Circuit’s approach ensures that the damages award will not be “adequate to compensate” the patentee for all the losses it suffered because of that domestic infringement in cases where domestic infringement prevents the United States patentee from realizing profits that it would otherwise have earned abroad and, as such, is at odds with common-law principles and the Court’s precedents.

In support of the petitioner, the government further suggests that the Federal Circuit’s approach is not required by the presumption against extraterritoriality because this case does not involve regulation of foreign conduct. Here, respondent infringed petitioner’s United States patent through conduct inside the United States (specifically, supplying in or from the United States components of petitioner’s invention for assembly abroad). The government argues that because Section 284 provides the award of claimant damages adequate to compensate for the infringement if the suit is successful, it is appropriate for courts to consider evidence of profits that would have been earned abroad when determining the magnitude of harm that domestic patent infringement has caused to a United States patentee. The government argues that the consideration of such evidence does not regulate foreign conduct or significantly implicate the concerns that underlie the presumption against extraterritoriality.

The government argues that in order for lost profits to be compensable, a patentee must prove that the infringer’s domestic infringement of the patentee’s United States patent caused economic loss to the patentee. Once that showing is made, the government argues, the relevant question should be how much profit the patentee has lost as a proximate result of the infringer’s wrongful conduct, not where the patentee would have earned those profits in a hypothetical world if the domestic infringement had not occurred. Thus, the government argues that, in accord with common-law principles and the Court's precedents, the petitioner is entitled to recover the profits that it would have earned on the high seas if respondent had not infringed its United States patent, thereby restoring petitioner to the position it would have occupied but for that wrongful conduct.

As amicus in support of the petitioner, Power Integrations, Inc. (Power Integrations) argues that the Federal Circuit erred in holding that the presumption against extraterritoriality precludes a damages award for domestic infringement calculated by reference to foreign lost profits. Instead, Power Integrations argues that traditional principles of proximate causation, such as the doctrine of superseding causation, adequately serve to limit the damages available for patent infringement. While agreeing with petitioner's positions on purported Federal Circuit errors with respect to damages and extraterritoriality, Power Integration further argues that the Federal Circuit also erred by fundamentally misconstruing the doctrine of superseding causation. Power Integration suggests that the Federal Circuit's superseding cause holding that damages for lost foreign sales were categorically unavailable under Section 284 is at odds with longstanding principles of proximate causation.

Power Integrations argues that the Federal Circuit's superseding cause holding is inconsistent with the Court's precedents defining a later-in-time action as a superseding cause only where the later cause was (1) of independent origin from the earlier misconduct and (2) not foreseeable. Because the Federal Circuit has long recognized the importance of independence and foreseeability in the superseding cause analysis, Power Integrations argues that the Federal Circuit's holding is a departure from its own precedent. Power Integrations further argues that the Federal Circuit's superseding cause holding creates a categorical bar on the recovery of lost foreign sales, which cannot be reconciled with the Court's previous decisions recognizing that non-infringing foreign sales can be used to calculate lost profits where the patented product is manufactured in the United States. Finally, Power Integrations argues that the Federal Circuit's treatment of non-infringing foreign sales as a superseding cause is inconsistent with a long line of cases making clear that non-infringing conduct should often be considered when calculating damages and even when determining liability for domestic infringement.

As amicus in support of neither party, the Intellectual Property Law Scholars (IPLS) argues that, from an extraterritorial perspective, a determination of liability or an award of damages both attempt to regulate conduct outside of the United States. IPLS suggests that Congress enacted Section 271(f) with the express purpose of creating extraterritorial reach to United States patent holders and, by adopting Section 271(f), Congress expressly contemplated the regulation of foreign markets. IPLS also notes that while Section 271(f) does require some domestic acts for there to be infringement, the markets at stake are not domestic markets, but are directed to the foreign markets to where the components are being exported. Because Congress spoke to extraterritoriality in the statute, IPLS argues that petitioner should be able to recover an award of damages for lost profits in this case because Congress has demonstrated its intent to permit extraterritorial reach under Section 271(f) and consequently for damages under Section 284 for damages under that provision.

As amicus in support of the petitioner, the Intellectual Property Law Association of Chicago (the Chicago Association) argues that there should be no extraterritorial application of United States patent law as the respondent is a United States company and its actions in the United States were held to infringe petitioner's patents. The Chicago Association notes that patented products manufactured part by part, with the parts then sold in uncombined form to offshore entities that assemble them, coupled with the requisite intent, is an infringement under Section 271(f). According to the Chicago Association, the Federal Circuit erred in issuing the categorical ruling that precludes a patent owner from recovering its lost profits resulting from such infringement in contravention of Section 284's mandate that a patent owner shall receive all of the damages adequate to compensate for the infringement.

The Chicago Association suggests that the Federal Circuit misconstrues and misapplies the clear and unambiguous language of Section 271(f) and the reasons why Congress enacted that statute by failing to treat Section 271(f) as a separate, stand-alone liability statute and reading that Section as being identical to Sections 271(a)–(b) in territorial scope. The Chicago Association argues such a reading is erroneous because Section 271(f) clearly states that certain actions occurring within the United States coupled with activities occurring outside the United States will give rise to infringement liability within the United States. The Chicago Association argues that the patent damage statute has no express territorial limitation but rather is aimed at addressing the amount of recovery that a successful patent owner "shall" receive. The Chicago Association suggests that had Congress wanted to limit the application of Section 284 to events occurring only in the United States, it would have amended that statute at the same time it enacted Section 271(f) in response to Deepsouth.

As amicus in support of neither party, the Houston Intellectual Property Law Association (the Houston Association) argues that the Federal Circuit failed to properly apply the Court's two-step test under RJR Nabisco. Under that RJR test, the Houston Association argues that Section 271(f) clearly reaches the extraterritorial conduct at issue as Section 271(f) provides clear indication that Congress intended for the provision to apply extraterritorially. The Houston Association suggests that the Federal Circuit dependence upon precedents invoking Section 271(a) was misplaced as Section 271(a) has strict territorial limits and Congress did not intend for it to operate beyond the limits of the United States, which is in stark contrast to the unambiguous extraterritorial intent of Congress when Section 271(f) was enacted. Similarly, to the extent that the RJR test must be applied separately to damages provisions, the Houston Association argues that Section 284 also meets the RJR test since damages under Section 284 are available for any kind of patent infringement.

The Houston Association also argues that the Federal Circuit's rule prohibiting recovery of lost profits resulting from infringement under Section 271(f) is contrary to traditional common-law principles of compensatory damages in tort law. The Houston Association suggests that an award of lost-profits damages for extraterritorial conduct arising from infringement under Section 271(f) should be limited by principles of proximate causation, not by the foreign nature of the losses. The Houston Association argues that the Federal Circuit's bright-line rule denies a prevailing patentee "damages adequate to compensate for the infringement" under Section 284, weakens patent rights, and negatively impacts innovation.

As amicus in support of neither party, the American Intellectual Property Law Association (the American Association) substantially mirrors the arguments of the Houston Association noting that the plain language of Section 271(f) references both domestic and foreign conduct and defines an infringement based on the domestic act of "supplying" components from the United States and the supplier's intent regarding foreign combination of those components. The American Association argues that liability under Section 271(f) will not be based on foreign activity alone but will always arise from domestic conduct and the associated relevant foreign conduct. Thus, the American Association argues that Section 271(f) satisfies the RJR test and does not impermissibly extend United States patent law extraterritorially. With respect to damages, the American Association suggests that the Court's extraterritoriality framework appropriately addresses the cause of action, not the remedy, because the question of Section 284 damages arises only after liability has been established. Alternatively, if the Court extends extraterritoriality to the question of damages, the American Association argues that foreign harm properly may be used to measure Section 284 damages under the RJR test because the underlying Section 271(f) infringement considers the infringer's intent that supplied components will be combined abroad and full compensation for such infringement should properly include harm caused when such expected foreign combination actually occurs. Finally, the American Association suggests that Section 284 damages are properly awarded for proven infringement under Section 271(f) as the infringing party would have willingly subjected themselves, via the domestic conduct covered by Section 271(f), to United States jurisdiction for the infringing conduct.

As amicus in support of neither party, the Intellectual Property Owners (IPO) argues that the text and history of Section 271(f) evidences a clear congressional intent to provide protection for patentees competing in foreign markets and that providing such protection requires a remedy for injuries suffered in those markets. The IPO suggests that, upon application of the holdings of RJR Nabisco, Section 284 has extraterritorial scope when infringement under Section 271(f) is proven. The IPO further argues that, even if it was found that Section 284 did not have extraterritorial scope, an award of lost foreign profits would be a permissible domestic application of the statute where that award compensates a patentee for a domestic act of infringement. The IPO argues that the Federal Circuit misapplied precedent precluding liability for extraterritorial acts that would infringe a patent if they occurred in the United States. The IPO further argues that allowing extraterritorial acts to establish injuries caused by domestic infringement does not require imposing liability for those extraterritorial acts and that distinction allows patent owners to be fully compensated for infringement under Section 271(f), as Congress provided in Section 284, without making other nation-states subject to United States patent law.

As amici in support of respondent, Fairchild Semiconductor International Inc., the Internet Association, SAS Institute Inc., Symmetry LLC, and Xilinx Inc. (the Fairchild Group) argue that the presumption against extraterritorial application of United States patent law confines not only patent liability but also "the damages that are to be imposed for domestic liability-creating conduct." The Fairchild group suggests that the holding in Power Integrations, in which the Federal Circuit stated 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" and thus overturned an award of lost profits based on non-infringing foreign sales.

The Fairchild Group, in contrast to amicus in support of petitioner, argues that the Court's holding in RJR Nabisco requires a finding that Section 271(f) does not apply extraterritorially and therefore there is no right to recover for damages that occur outside of the United States. Applying the two-part RJR test, the Fairchild Group argues that Section 271(f) does not regulate extraterritorial conduct but rather prohibits the supply in or from the United States of certain components of a patented invention with the intent that the components will be combined into the patented invention outside of the United States. The Fairchild Group concludes that Section 271(f) fails to provide the required affirmative indication under the first part of the RJR test that it applies extraterritorially, and also that Section 271(f), unambiguously, does not extend to or prohibit the eventual combination of components that may occur abroad. Under the second part of the RJR test, the Fairchild Group argues that, similar to the Court's findings in RJR Nabisco, nothing in Section 271(f) provides a clear indication that Congress intended to create a private right of action for injuries suffered outside of the United States. Because Section 284 does not say anything about recovery for injuries suffered abroad, the Fairchild Group argues that it follows that a patent plaintiff must allege and prove a domestic injury in order to recover damages for infringement. Thus, the Fairchild Group suggests that the presumption against extraterritoriality forecloses any interpretation of the current version of Section 284 as authorizing any such recovery for purely foreign injuries.

The Fairchild Group further argues that the damages provisions of the Patent Law statute implicates the presumption against extraterritoriality and suggests that the presumption applies, interalia, to a statute that provides a private right of action or otherwise affords relief, and it governs interpretation of such a statute separately from any effect it may have on the underlying substantive regulation. Referring to the Court's holding in RJR Nabisco, the Fairchild Group suggests that the presumption against extraterritoriality should apply to Section 284 and argues that even the potential for international controversy militates against recognizing foreign injury claims without clear direction from Congress.

The Fairchild Group argues that the government errs in suggesting that allowing recovery of foreign lost profits under Section 284 would not constitute a foreign application of the statute. Because the second step of the RJR test asks whether the case at hand involves a foreign application of the statute or a domestic one, the Fairchild Group argues that petitioner's claim for recovery of foreign lost profits should fail because the injuries for which damages are sought were the result of sales lost outside the United States.

The Fairchild Group suggests that the relevant "conduct" for purposes of Section 284 is not the acts constituting domestic infringement since infringement is the focus of Section 271(f) and collapsing the inquiry would be contrary to the requirement to analyze the application of Sections 271(f) and 284 separately. Here, the Fairchild Group argues that the foreign third-party commercial activity that caused petitioner to lose sales is the relevant conduct which directly caused the injuries and, as such, should be subject to the presumption against extraterritoriality.

The Fairchild Group suggests that the territorial system of patents would suffer just as much harm from the extension of damages beyond national borders as from the extension of liability. Thus, the robust enforcement of the presumption against extraterritoriality is important in an increasingly global economy as a holding in favor of petitioner would invite imposition of increased risk on United States businesses for patent injuries that occur abroad, inhibiting the ability of high-tech companies and others to innovate, without any clear statement that Congress intended such a result.

As amici in support of respondent, the Electronic Frontier Foundation and the R Street Institute (the EFF Group) argue that a finding that damages are not limited to acts within the United States would contradict the plain test of the Patent Act which has a "clear domestic focus." While conceding that Section 271(f) was enacted in response to an extraterritoriality decision of the Court, the EFF Group suggests the plain language of the statute is rooted in conduct "in or from the United States" and does not provide for the application of extraterritorial damages.

The EFF Group argues that, even though the text of Section 271(f) refers to acts that occur "outside" the United States, the statute's express language does not mean it allows patentees to recover damages for overseas conduct. The EFF Group suggests that the legislative history of Section 271(f) indicates no intent to provide for extending patent damage remedies extraterritorially, beyond what would be otherwise recoverable under Section 271(a). The EFF Group argues that when Congress enacted Section 271(f), it only intended to close the Deepsouth loophole so that the exportation of components that make up a larger infringing product would be treated just like exporting the entire infringing product itself and did not intend to expand patent remedies extraterritorially. Thus, the EFF Group argues that the Court should find that remedies awarded for infringement under Section 271(f) should be subject to the same United States territorial limitations applicable to remedies awarded for infringement under Section 271(a), in effect to conflate all remedies under Section 271 to one standard, in which the elicit territorial limitations of Section 271(a) are also applied to any remedies available under Section 284.

The EFF Group suggests that a ruling that allows extraterritorial damages in patent cases brought under Section 271(f) may allow inventors who obtain both United States and foreign patent rights to recover damages twice, especially if the Court's reasoning extends to cases brought under Section 271(a). In this scenario, the EFF Group asserts that patent owners could recover damages once by asserting United States patent rights against domestic uses to recover a royalty reflecting the value of all uses worldwide and again by asserting foreign patent rights in foreign nations where the patented technology was principally used. The EFF Group suggests that a holding allowing recovery of extraterritorial damages could deleteriously expose companies that conduct research and development in the United States to worldwide damages.

Significance

A decision reversing the Federal Circuit's application of the presumption against extraterritoriality and the resulting per se bar against recovery of any lost-profit damages based on foreign sales would allow a patent holder to recover damages for infringement proven under Section 271(f). More particularly, such a ruling would allow the recovery of such reasonable and foreseeable domestic- and foreign-based damages, to include foreign lost profits or lost wages, that would be necessary to return patent holders to the pecuniary position that they would have been but for the infringing conduct.

However, the Court's affirmation of the Federal Circuit's use of the presumption against extraterritoriality to prohibit awards of foreign lost profits resulting from infringement of Section 271(f) could create a grave risk of overcompensation due to the increased scale of available damages. The resultant risk of potentially catastrophic damages awards could incentivize companies to move their domestic facilities abroad, taking jobs and revenues with them.

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