Client Alert

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Supreme Court Allows Recovery of Lost Foreign Profits for Infringement under § 271(f)

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Key Points

- The Supreme Court in *WesternGeco LLC v. ION Geophysical Corp.* held 7-2 that because ION exported components of WesternGeco's patented system in violation of 35 U.S.C. § 271(f)(2), WesternGeco was entitled to recover damages for lost foreign profits under 35 U.S.C. § 284.
- The Court's rejection of the infringer's extraterritorial application argument hinged on the fact that the infringement under § 271(f)(2) (e., exporting), compensated by the damages award under § 284, was domestic activity. The subsequent foreign conduct underlying the damages was incidental to the domestic infringement.
- The Court's opinion expands the lost-profits damages pool for domestic infringement under § 271(f)(2)—and likely other types of infringement—that has consequences abroad. The Court left open, however, whether causation principles or other doctrines might limit damages awards.

Last week, the Supreme Court broke with the Federal Circuit in *WesternGeco LLC v. ION Geophysical Corp.*, allowing patent owners in certain cases to recover damages for profits lost outside the United States.

Liability for Exporting the Components of a Patented Product

The Patent Act defines various forms of patent infringement in 35 U.S.C. § 271. The primary provision, § 271(a), prohibits one without authority from making, using, selling, offering to sell, or importing a patented invention in the United States. Section 271(f) contains two complementary provisions that expand the definition of infringement to include supplying *from* the United States the components of a patented invention: § 271(f)(1) is an export-oriented analogue of induced infringement under § 271(b); and § 271(f)(2)—the source of liability in *WesternGeco*—addresses the act of exporting components that are specially adapted for an invention, similar to contributory infringement under § 271(c).

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Patent owners that prove infringement under § 271 are entitled to relief under § 284, which authorizes "damages adequate to compensate for the infringement."

WesternGeco's Lawsuit Against ION

WesternGeco owns four patents related to a system it had developed for surveying the ocean floor. In 2007, ION began selling a competing system. It manufactured the components in the United States, then shipped the components to companies abroad. Those companies combined the components to create a surveying system indistinguishable from the patented system, and used the system to compete with WesternGeco.

WesternGeco sued ION for infringement under (as relevant here) § 271(f)(2). At trial, WesternGeco proved that it had lost 10 overseas survey contracts as a result of ION's infringement. The jury found ION liable and awarded WesternGeco damages of $12.5 million in royalties and $93.4 million in lost profits. After post-trial motions and appeals, the Federal Circuit vacated the lost-profits award, noting that it had previously found § 271(a) inapplicable to lost foreign sales and holding that § 271(f)(2) should be interpreted in the same way.

The Supreme Court's Holding

The Supreme Court reversed the Federal Circuit, holding that § 271(f)(2) and § 284 permit a patent owner to recover damages for lost foreign profits. The Court found no impermissible "extraterritorial" application of the statutes. Courts generally "presume that federal statutes apply only within the territorial jurisdiction of the United States," and apply a two-step framework for deciding questions of extraterritoriality. First, courts ask "whether the presumption against extraterritoriality has been rebutted"—*i.e.*, whether the text of the statute "provides a clear indication of an extraterritorial application." If the presumption has not been rebutted, the second step of the framework asks "whether the case involves a domestic application of the statute."

Because resolving whether the presumption of extraterritoriality should ever apply to a general damage provision like § 284 "could implicate many other statutes besides the Patent Act," the Court proceeded directly to step two and held that this case involved a domestic application of the patent laws. The Court reasoned that the "focus" of § 284 is infringement and that the relevant infringement under § 271(f)(2)—specifically, supplying components of a patented invention from the United States—"clearly occurred in the United States." It followed in the Court's view that "the lost-profits damages that were awarded to WesternGeco were a domestic application of § 284." The fact that the ultimate injury occurred overseas did not make this application of § 284 extraterritorial, as the infringement itself took place in the United States.

Impact of the Ruling

The Court's ruling allows recovery of lost-profits damages that occurred abroad as the result of a domestic act of infringement—in this case, the export of infringing components. To the extent domestic companies that compete internationally previously chose not to enforce their patents against infringers whose profits are

generated abroad, this newly available damages base may change the calculus. In addition, although *WesternGeco* addressed only § 271(f)(2), it is only a matter of time before a patent owner seeks foreign damages for other forms of infringement under § 271.

In dissent, Justice Gorsuch (joined by Justice Breyer) expressed concern that this ruling will "allow U.S. patent owners to use American courts to extend their monopolies to foreign markets," which, "in turn, would invite other countries to use their own patent laws and courts to assert control over our economy." For example, given the escalating dispute between the United States and China over intellectual property, it is not hard to envision a response in kind should American companies successfully recover foreign profits from Chinese companies.

One countervailing consideration may be how damages for lost foreign profits will be proven. The majority opinion makes clear that it does "not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases."