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SCOTUS AUTHORIZES FOREIGN LOST PROFITS FOR DOMESTIC INFRINGEMENT UNDER 35 USC 271(f)(2) IN WESTERNGECO v. ION

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(June 25, 2018) On June 22, 2018, the Supreme Court of the United States delivered an opinion in *WesternGeco LLC v. ION Geophysical Corp.*, No. 16-1011, slip op. (U.S. June 22, 2018), addressing the question of whether a patent owner who proves infringement under 35 U.S.C § 271(f)(2) can recover lost foreign profits pursuant to 35 U.S.C. § 284. In a 7-2 decision, the Court held that an infringer found liable under the statute can be forced to pay damages for infringement that occurs outside of the United States. Slip op. at 8-9. This decision overturned the United States Court of Appeals for the Federal Circuit's ("Federal Circuit") ruling, which had enforced limits on applying the statutes extraterritorially. *Id*. at 4.

Background

By way of background, WesternGeco LLC ("WesternGeco") owns patents for a system used to scan the ocean floor for oil and gas deposits. *Id*. at 2-3. ION Geophysical Corp. ("ION") began selling a competing system that was built from components manufactured in the United States. *Id*. at 3. The components were shipped by ION to companies abroad, which then assembled the components to create a system that is indistinguishable from --and competes with-- that of WesternGeco. *Id*.

WesternGeco brought suit against ION alleging patent infringement under § 271(f)(2) of the Patent Act, which prohibits the exporting of components specially adapted to be assembled into a product which would infringe if manufactured domestically. If infringement is proven under 35 U.S.C. § 271, WesternGeco would be entitled to damages to compensate for the infringement. 35 U.S.C. § 284.

The District Court for the Southern District of Texas found ION liable, and awarded

WesternGeco $93.4 million in damages.

ION appealed to the Federal Circuit, arguing that WesternGeco could not recover damages for lost profits because § 271(f) does not apply extraterritorially. Because it had previously held that 35 U.S.C. § 271(a), the general infringement provision, does not allow patent owners to recover for lost foreign sales, the Federal Circuit reasoned that 35 U.S.C. § 271(f) should be interpreted in the same way. Therefore, the Federal Circuit held that WesternGeco was not entitled to damages for lost foreign profits.

WesternGeco petitioned for review in the Supreme Court, which granted certiorari on the question of whether the Federal Circuit erred in holding that lost profits arising from prohibited combinations occurring outside of the United States are unavailable in cases where patent infringement is proven under 35 U.S.C. § 271(f).

Analysis

The majority opinion authored by Justice Thomas, joined by Chief Justice Roberts, and Justices Kennedy, Alito, Sotomayor, and Kagan concluded that WesternGeco's award for lost foreign profits attributable to domestic acts of infringement under 35 U.S.C. § 271(f)(2) was a permissible domestic application of Section 284. *Id*. at 9-10. In reaching its conclusion, the Court determined that the "focus" of Section 284, the patent damages statute, was "infringement," and that the infringement at issue --namely the supplying of components -- was domestic.

Two-Step Framework

Because Congress is said to generally legislate with domestic concerns in mind, and to prevent dispute between our laws and those of other nations, the presumption of the Courts is that federal statutes only "apply within the territorial jurisdiction of the United States." *Id*. at 4.

The Supreme Court has established a two-step framework for determining questions of

extraterritoriality. *Id*. at 5. First, the Court asks "whether the presumption against extraterritoriality has been rebutted." *Id*. To be considered rebutted, the text must provide a "clear indication of an extraterritorial application." *Id*. If the presumption against extraterritoriality has not been rebutted, the second step asks "whether the case involves a domestic application of the statute." *Id*. This determination is made by identifying the "focus" of the statute, and asking "whether the conduct relevant to that focus occurred in the United States territory." *Id.* If the answer to this question is in the affirmative, then the case involves a permissible domestic application of the statute. *Id*.

While it is preferable to begin the analysis at step one, courts have discretion to begin with step two in "appropriate cases," where addressing step one would require resolving "difficult questions" that do not change "the outcome of the case" but could have far-reaching effects in future cases. In this case, the Court decided to exercise the discretion to begin with step two. *Id*.

The step two requires consideration of the "focus" of the statutes in determining whether the case involves domestic applications of the statutes. *Id*. at 6. The Court explained, the '"focus" of a statute is the 'objec[t] of [its] solicitude,' which can include the conduct it 'seeks to regulate,' as well as the parties and interests it 'seeks to protect[t]' or vindicate." *Id*. The case involves permissible domestic application of the statute if the conduct relevant to the statute's focus occurred in the United States. *Id*. However, regardless of any other conduct that occurred within the United States, if the relevant conduct occurs in another country, the extraterritorial application of the statute is impermissible. *Id*.

Application of Framework

Applying the above principles to the statutes at issue in the case at hand, the Court concluded that the conduct relevant to the statutory focus in the case was domestic. *Id*. 35 U.S.C. § 284 provides a general damages remedy for various types of patent infringement, stating that "the court shall award the claimant damages adequate to compensate for the infringement." *Id*. The Court concluded that the focus of this statute was "the infringement," as its main purpose is to "affor[d] patent owners complete compensation" for infringement. *Id*.

Arguments by ION that the focus Section 284 was on the award of damages were rejected. The Court reasoned that while the statute authorizes damages, "the damages themselves

are merely the means by which the statute achieves its end of remedying infringements." *Id.* at 8.

However, the observation that "infringement" is the focus of Section 284 is not enough to "fully resolve this case." *Id* at 7. To determine the focus of the statute in a specific case, the Court looks to the type of infringement that occurred. *Id*. at 7. In this case, the Court turned to 35 U.S.C. § 271(f)(2), which was the basis for WesternGeco's infringement claim and the lost-profits damages it received. *Id*.

The Court determined that Section 271(f)(2) focuses on domestic conduct, as it regulates the domestic act of "supplying" in or from the United States. *Id*. The statute "protects against domestic entities who export components from the United States," as it provides:

[A] company "shall be liable as an infringer" if it "supplies" certain components of a patented invention "in or from the United States" with the intent that they "will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States." *Id*.

ION's assertion that the case involves extraterritorial application of Section 284 because the lost-profits damages occurred extraterritorially, and because foreign conduct subsequent to ION's infringement was necessary to give rise to the injury, were rejected. The Court reasoned that the foreign events were merely incidental to the infringement that occurred when ION supplied the components from the United States. *Id*. at 8.

The Court concluded that the focus of Section 284 in a case involving infringement under Section 271(f)(2) is on the act of exporting components from the United States. *Id.* at 7. Because it was ION's domestic act of supplying the components that infringed WesternGeco's patent, the lost foreign profits damages that were awarded to WesternGeco was a proper domestic application of Section 284. *Id*. at 8.

Justice Gorsuch Dissent

In a dissenting opinion, Justice Gorsuch, joined by Justice Breyer, agreed that "WesterGeco's lost profits claim does not offend the judicially created presumption against the extraterritorial application of statutes." *WesternGeco LLC v. ION Geophysical Corp.*, No. 16-1011, slip op. (U.S. June 22, 2018) (Gorsuch, J., dissenting). However, they argued that the Patent Act does not permit damages awards for lost foreign profits, no matter the presumption against extraterritoriality, and expressed concern that permitting damages for lost foreign sales under U.S. patent law would allow other countries to use their own patent laws to exert control over the U.S. economy. *Id*. at 1-2.

The dissenting opinion concluded that, by assuming a patent owner can recover any lost foreign profit, the Court's majority opinion allows U.S. patent owners to extend their patent monopolies beyond what Congress had authorized under the Patent Act, and shields them from foreign competition. *Id*. at 9.

Practical Significance

The Court's holding that a company may could recover damages for lost foreign profits could make overseas damages available in those patent cases where the focus of the infringing conduct is domestic.

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