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Supreme Court Allows Foreign Lost Profits on Domestic Acts of Patent Infringement Under 35 U.S.C. § 271(f)(2)

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Today, in *WesternGeco LLC v. ION Geophysical Corp.*, 585 U.S. __ (June 22, 2018), the Supreme Court ruled that recovering foreign lost profits attributable to domestic acts of infringement under 35 U.S.C. § 271(f)(2) does not violate the presumption against extraterritorial application of U.S. statutes. In reaching its conclusion, the Court determined that the “focus” of the patent damages statute (35 U.S.C. § 284) was “infringement,” and that the infringement at issue was domestic.

WesternGeco manufactured systems for conducting marine seismic surveys for the oil and gas industry covered by U.S. patents. WesternGeco also subsequently used these patented systems to perform seismic surveys throughout the world. ION Geophysical manufactured components for a competing system in the U.S., but did not itself conduct seismic surveys. Instead, ION exported components to other companies that then assembled them into an overall system. Those companies then competed with WesternGeco on seismic surveys around the world.

WesternGeco accordingly brought suit against ION alleging infringement under 35 U.S.C. § 271(f)(2), which provides, in relevant part, that whoever “supplies” from the U.S. “any component of a patented invention” with knowledge that it “will be combined outside of the United States in a manner that would infringe [if in the U.S.] shall be liable as an infringer.” A jury determined that ION had infringed, and awarded lost profits of $93.4 Million on 10 specific surveys that WesternGeco lost to competitors who used the ION system.

The Court applied the two-step framework for deciding questions of extraterritoriality set forth in *RJR, Nabisco, Inc. v. European Community*, 579 U.S. __ (2016). The Court elected to skip the first step of this analysis, which asks whether the presumption against extraterritoriality has been rebutted, in part due to the complexity in answering that question and the implications it might have in future cases–noting how WesternGeco had argued that the presumption against extraterritoriality should never apply to remedial damages statutes. See *WesternGeco* (slip op. at 5). Instead, the Court focused on the second step under *RJR*: whether the case involved domestic applications of a statute, and concluded that here it did:

> [W]e conclude that the conduct relevant to the statutory focus in this case is domestic. We begin with §284. It provides a general damages remedy for various types of patent

> infringement identified in the Patent Act. The portion of §284 at issue here states that 'the court shall award the claimant damages adequate to compensate for the infringement.' We conclude that 'the infringement' is the focus of this statute. […] To determine the focus of §284 in a given case, we must look to the type of infringement that occurred. We thus turn to §271(f)(2), which was the basis for WesternGeco's infringement claim and the lost-profits damages that it received.
>
> Section 271(f)(2) focuses on domestic conduct. […] The conduct that §271(f)(2) regulates–*i.e.,* its focus–is the domestic act of "suppl[ying] in or from the United States." […] In sum, the focus of §284, in a case involving infringement under §271(f)(2), is on the act of exporting components from the United States. In other words, the domestic infringement is 'the object of the statute's solicitude' in this context.

WesternGeco, slip op. at 7-8 (citations omitted).

While ION had focused its arguments on the notion that the "focus" of the statute was damages, and argued that the damages here were extraterritorial, the Court was not convinced. Instead, the Court noted that "[w]hile §284 does authorize damages, what a statute authorizes is not necessarily its focus. Rather the focus is 'the object of the statute's solicitude'–which can turn on the 'conduct,' 'parties,' or interests that it regulated or protects. [] Here, the damages themselves are merely the means by which the statute achieves its end of remedying infringements." *WesternGeco*, slip op. at 8. The Court also discussed how the overseas conduct of surveys was "merely incidental" to the infringement at issue, and did not have "primacy" for purposes of an extraterritoriality analysis. *Id.*

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