Keywords: **damages, § 284, § 271(f)(2), lost profits, lost foreign profits, exporting**

General: **Infringement under § 271(f)(2) allows a patent owner to recover for lost foreign profits.**

WesternGeco, LLC v. ION Geophysical, Corp.
No. 16-1011
Decided June 22, 2018 (U.S. Supreme Court)

I. Facts

WesternGeco owns patents for a system used to survey the ocean floor. ION Geophysical began selling a competing system that was built from component manufactured in the United States, shipped to companies abroad, and assembled there into a system indistinguishable from WesternGeco's. WesternGeco sued for patent infringement under § 271(f)(2). At trial, WesternGeco was able to prove that it had lost 10 specific contracts due to ION's infringement. They jury found that ION was liable and awarded WesternGeco $12.5 million in royalties and $93.4 million in lost profits. ION filed a post-trial motion to set aside the verdict, asserting that § 271(f) does not apply extraterritorially and therefore there should have been no award for lost profits. The District court denied the motion. On appeal, the Circuit of Appeals for the Federal Circuit reversed the award of lost profits damages. WesternGeco petitioned for review to the Supreme Court.

II. Issue

Does § 284 allow a patent owner to recover for lost foreign profits if the infringer is found to be liable under § 271(f)(2)?

III. Discussion

Yes. The Court found that WesternGeco's award for lost profits was a permissible domestic application of § 284 of the Patent Act.

Courts presume that federal statutes apply only within the territorial jurisdiction of the United Sates, which is generally referred to as a presumption against extraterritoriality. There is a two-step framework for deciding questions of extraterritoriality. The first step is a determination of whether the presumption against extraterritoriality has been rebutted (i.e., if the text of the statute in question provides a clear indication of an extraterritorial application). If the first step is not fulfilled, a second step is undertaken in which a court determines whether the case involves a domestic application of the statute. This step includes identifying "the statute's focus" and determining whether the conduct relevant to that focus occurred in United States territory. If it did, then the case involves a permissible domestic application of the statute.

The Court noted that the focus of a statute can include the conduct it seeks to regulate, as well as the parties and interests it seeks to protect or vindicate. The Court also noted that if a statutory provision at issue works in tandem with other provisions, it must be assessed in concert with those other provisions. Further, the Court noted that if the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application of the statute, even if other conduct occurred abroad.

To avoid a far reaching outcome, the Court determined that it was appropriate to begin with step two of the inquiry for the present case and proceeded to identify the focus of the statute. In applying the above noted principles, the Court directed its attention to the portion of § 284 that states, "the court shall award the claimant damages adequate to compensate for the infringement." The Court concluded that the focus of § 284 is "the infringement," by reasoning that the overriding purpose of the statute is to afford patent owners complete compensation for infringements. However, the Patent Act lays out several ways that a patent can be infringed, so to fully resolve this case the Court turned its attention to § 271(f)(2).

§ 271(f)(2) was read as focusing on domestic conduct as it provides that a party "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." The Court found that that the conduct that § 271(f)(2) regulates (i.e., its focus) is the domestic act of "suppl[ying] in or from the United States."

The Court concluded that in sum, the focus of § 284 involving infringement under § 271(f)(2), is on the act of exporting components from the United States. Therefore, the relevant conduct was found to have occurred in the United States, as it was ION's domestic act of supplying the components that infringed WesternGeco's patents. Accordingly, the Court found that the lost-profits damages that were awarded to WesternGeco were a domestic application of §284. More generally, the Court found that under §284, damages are "adequate" to compensate for infringement when they "plac[e] [the patent owner] in as good a position as he would have been in" if the patent had not been infringed and that the recovery can include lost profits, including lost foreign profits when the patent owner proves infringement under § 271(f)(2).

IV. Dissent

Two dissenting judges argued that the Patent Act forecloses on the idea of lost profits damages for uses of patented inventions beyond the U.S. borders. They note that § 271(f)(2) expands § 271(a) to capture the conduct of someone who makes key components for an invention for assembly abroad. However, they argue that this does not change the rule that foreign uses of an invention do not infringe a U.S.

patent. The dissenters were additionally concerned about effectively extending patent monopolies to foreign markets, as this could invite foreign countries to use their own patent laws and courts to assert control in the U.S. economy.

V. Conclusion

A patent owner is able to recover lost foreign profit damages from an infringer who is found liable for infringement under § 271(f)(2). This holding allows for a patent owner to recover the difference between its pecuniary condition after the infringement, and what its condition would have been if the infringement had not occurred.

VI. Appendix

35 U.S.C. § 284 - Damages

Upon finding for the claimant the court shall award the claimant 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, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

35 U.S.C. § 271 – Infringement of Patent

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

(f) (2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.