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Supreme Court Opens the Floodgates for Foreign Lost Profits Damages

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In a 7-2 decision issued late last month, the U.S. Supreme Court ruled that patentees can recover damages resulting from the exportation of certain components to foreign jurisdictions, where those components are then incorporated into an infringing system used outside of the United States. The Court's decision reversed a Federal Circuit ruling that the patent holder could not receive lost profits stemming from overseas activity.

The patents-in-suit, each owned by plaintiff WesternGeco, involve technology for surveying the ocean floor using lateral steering. Defendant ION developed a competing system that infringed WesternGeco's patents; ION manufactured components for its system in the U.S., then shipped the components overseas to foreign companies which assembled and used the infringing system. After losing a number of survey contracts to ION's system, WesternGeco sued ION for infringement under Sections 271(f)(1) and (f)(2) of the Patent Act. A jury subsequently found ION liable and awarded WesternGeco nearly $95 million in lost profits damages. On appeal, the Federal Circuit reversed the lost profits award—concluding that Section 271(f) should be interpreted to exclude recovery of damages from lost foreign sales because it does not apply to extraterritorial activities.

In reversing the Federal Circuit's decision, the Supreme Court applied its two-step framework for deciding questions of extraterritorality: (1) whether the presumption against extraterritorality has been rebutted; and (2) if the presumption is not rebutted, whether the case involves a domestic application of the statute. As an initial matter, Justice Thomas, writing for the majority, exercised the Court's discretion to begin with step two of the test because addressing step one in this case (namely, whether extraterritorality should never apply to statutes that merely provide a general damages remedy, like Section 284 of the Patent Act) could involve many other statutes apart from the Patent Act, but would not change the outcome of this case.

To resolve step two, the Court had to identify the focus of the statute—which can include the relevant conduct that the statute seeks to regulate, and the parties it seeks to protect. Looking first to Section 284, which enables courts to award "damages adequate to compensate for infringement," the Court concluded that its focus is the "infringement." Because Section 271(f)(2) served as the basis for WesternGeco's infringement claim, the Court next analyzed the provisions of that section to determine its focus. The Court found that 271(f)(2) focuses on domestic conduct because it provides for infringement liability if a company "supplies or causes to be supplied in or from the United States" certain components of a patented invention. Thus, the Court ruled that ION's act of supplying the components to entities outside of the U.S. was a domestic act of infringement under 271(f)(2), and the resulting lost profits damages awarded pursuant to Section 284 were a permissible domestic application of the statute.

In dissent, Justice Gorsuch (joined by Justice Breyer) argued that permitting recovery of damages for overseas infringement of a U.S. patent "would effectively allow U.S. patent owners to use American courts to extend their monopolies to foreign markets." This result, he warns, "would invite other countries to use their own patent laws and courts to assert control over our economy." In Justice Gorsuch's view, the Patent Act's own terms limit its reach to conduct occurring within this country and does not cover infringing use of patented technology outside the United States.

The opinion of the Court significantly broadens the scope of lost profits damages available to patentees who can assert infringement claims under Section 271(f)(2). Parties involved in pending or soon-to-be-instantiated litigation should assess the infringement and damages claims in the case to determine whether foreign lost profits are implicated. However, the majority noted that its holding does not address issues such as proximate cause—which may serve as a check against exorbitant and far-reaching damages calculations.

The case is *WesternGeco LLC v. ION Geophysical Corp.*, No. 16-1011, 2018 WL 3073503 (U.S. June 22, 2018). A copy of the Court's opinion can be found here.