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WesternGeco v. Ion Geophysical Corp. Lost Foreign Profits Awarded as Damages

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It is an act of infringement under U.S. patent law to supply "in or from the United States" certain components of a patented invention 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." 35 U.S.C. § 271(f)(2). In *WesternGeco LLC v. ION Geophysical Corp.*, No. 16-1011 (2018), the U.S. Supreme Court in a 7–2 ruling held that a patentee may recover as damages lost foreign profits resulting from that type of infringement.

The patentee, WesternGeco, owns several patents for systems that survey the ocean floor. A competitor, ION Geophysical, began to sell similar systems that infringed WesternGeco's patents. However, ION Geophysical never manufactured or sold the competing systems in the United States. Rather, it domestically manufactured only the components of those systems. ION Geophysical then sold these components overseas to companies who would combine them "to create a surveying system indistinguishable from WesternGeco's."

WesternGeco sued ION Geophysical under § 271(f)(2) and sought to recover as damages the profits from several overseas surveying contracts that WesternGeco lost as a result of ION Geophysical's infringement. At trial, the jury returned a verdict in WesternGeco's favor for $12.5 million in royalties and $93.4 million in lost foreign profits.

On appeal, however, the U.S. Court of Appeals for the Federal Circuit reversed the award for the foreign lost-profits damages. The Court of Appeals reasoned that because § 271(a) precludes damages for lost foreign sales, so too should § 271(f). The Supreme Court granted certiorari and reversed the Federal Circuit.

In upholding damages for lost foreign profits, the Supreme Court referred to its two-step framework for questions of extraterritoriality set forth in *RJR Nabisco v. European Community*, 579 U.S. ___ (2016) (slip op. at 9). In the first step, the Court asks "whether the presumption against extraterritoriality has been rebutted." In the second step, the Court examines "whether the case involves a domestic application of the statute." Here, the majority decided to skip step one and instead resolve the question at step two. There, the Court determined the statute's "focus" and held that "the conduct relevant to the statutory focus in this case is domestic."

The Court first looked to § 284, which states that "the court shall award the claimant damages adequate to compensate for the infringement." Accordingly, § 284 focuses on "the infringement." The Court then directed its attention to the relevant type of infringement in § 271(f)(2), noting that the section focuses on regulating domestic conduct—the domestic act of supplying components of patented inventions "in or from the United States." Accordingly, the lost-profits damages resulted from the application of § 284 to ION

Geophysical's domestic acts of infringement—the statute was *not* being applied to foreign conduct.

Justices Gorsuch and Breyer dissented, emphasizing the Court's historical refusal to entertain infringement theories based on foreign activities and noting that here the Court was, as a practical matter, compensating the patent holder for extraterritorial conduct. The dissent further argued that treating § 271(f) as an exception to the general presumption against extraterritorial application of US laws would lead to anomalous results: a patentee could recover greater damages when an infringer exports merely a component of an invention than when an infringer exports the entire invention. The majority squarely rejected the dissenters' view that the statute was in effect regulating extraterritorial conduct and criticized the dissenters for "wrongly conflat[ing] legal injury with the damages arising from that injury."

In a footnote near the end of its opinion, the Court noted that it "do[es] not address the extent to which other doctrines, such a proximate cause, could limit or preclude damages in particular cases"—thus suggesting that there may be as yet unexplored constraints on a patentee's ability to claim foreign lost-profits damages.

The long-term significance of the Court's decision is not yet clear. On the one hand, the Court's opinion by its terms addresses infringement only under 35 U.S.C. § 271(f)(2). On the other hand, the logic of the opinion is not necessarily limited to § 271(f)(2), and patentholders' lawyers will likely lose little time in trying to apply it to other types of infringement. Time will tell whether *WesternGeco* marks a sea change in the U.S. conception of patent damages or will remain a mere curiosity, of interest only to patentees whose patents are infringed by component exporters.

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