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ALERTS

Supreme Court Rules That Patent Owners Can Recover For Lost Foreign Profits

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The U.S. Supreme Court, 7-2, held that patent owners can recover lost foreign profits for infringement under Section 271(f)(2) of the Patent Act. In *WesternGeco LLC v. ION Geophysical Corp*.), the Supreme Court held this month that WesternGeco's award for lost profits was a permissible domestic application of Section 284, the general damages provision of the Patent Act.

At issue was a violation of Section 271(f)(2), which provides that an infringer is liable if it supplies certain components of a patented invention "in or from the United States" with the knowledge that the components' assembly would take place outside the United States in a manner that would infringe the patent if done within the United States.

ION, the infringer, challenged an award of Section 284 damages for infringement under Section 271(f), arguing that WesternGeco could not recover lost foreign profits because the Patent Act does not apply outside the territorial jurisdiction of the United States. The court identified the two–step framework for determining the extraterritorial effect of a statute: 1) was the presumption against extraterritoriality rebutted; and 2) does the case involve a domestic application of the statute. The court has discretion to begin with step two in appropriate cases, so it moved straight to the question of domestic application.

Analyzing a statute's domestic application requires a review of "the statute's focus." To determine the focus, the court stated that if the provision at issue "works in tandem with other provisions, it must be assessed in concert with those provisions." The court recognized that patent owners who prove infringement under Section 271 are entitled to relief under Section 284 and that Section 284 provides "the court shall award the claimant damages adequate to compensate for the infringement." The court determined that "the infringement" was then the focus of the case and moved to the question of whether the relevant conduct constituting the Section 271(f)(2) infringement justified domestic application.

More specifically, the court explained 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.'" It noted Section 271(f)(2) was designed to "vindicate domestic interests …and protect against domestic entities who export components from the United States." Rejecting ION's argument that the statutory focus was "self-evidently on the award of damages," the court stated that "the damages themselves are merely the means by which the statute achieves its end of remedying infringement."

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In sum, the court held that in awarding damages against ION under Section 284 for its infringement under Section 271(f)(2), the focus was rightfully placed on ION's acts within the United States. That is, supplying components in violation of Section 271(f)(2) justified the award to WesternGeco of lost foreign profits under domestic application of Section 284.

The Supreme Court's holding provides a win for patent owners faced with third parties seeking to avoid infringement by intentionally supplying components to be combined outside the United States. This holding most notably eliminates the initial barrier of the presumption against extraterritoriality for infringement under Section 271(f)(2). This potential loophole for third parties appears to now be closed.

The court did make clear, however, that because the Federal Circuit did not address Section 271(f)(1), the Supreme Court's analysis was limited to Section 271(f)(2). Additionally, the court clarified that its holding does not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases.

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