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CLIENT ALERT

Supreme Court Rules on the Extraterritorial Application of the Patent Act

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Today, the Supreme Court issued its decision in *WesternGeco LLC v. ION Geophysical Corp.*, resolving a question about the extraterritorial application of the Patent Act when components of a patented invention are manufactured in the United States but assembled abroad. In a 7–2 opinion authored by Justice Thomas, the Court held that patent owners in this situation are entitled to recover lost foreign profits for infringement under 35 U.S.C § 271(f).

This case concerns several patents related to a system for surveying the ocean floor. For years, patent owner WesternGeco LLC used the technology itself to perform surveys for oil and gas companies. ION Geophysical Corporation then entered the market, selling a competing system consisting of components that were manufactured in the United States but combined abroad. WesternGeco prevailed in its patent infringement suit against ION, winning an award of $12.5 million in royalties and $93.4 million in lost profits. A divided panel of the Federal Circuit reversed the damages award for lost profits, holding that lost profits are categorically unavailable when components of a patented invention are combined outside of the United States. The Supreme Court granted certiorari.

At issue are two provisions of the Patent Act. Section 271(f)(2) defines patent infringement to include the act of shipping certain components of a patented invention outside of the United States to be assembled abroad. Section 284 allows a patent owner who proves infringement under § 271(f)(2) to recover damages. The question in this case is whether, under these provisions, a patent owner can recover damages for lost foreign profits.

Under the well-established presumption against extraterritoriality, the laws of the United States generally apply only within the United States. To determine whether a federal statute has extraterritorial reach, the Supreme Court has announced a two-step framework. First, the Court asks whether the statutory language provides a "clear indication of an extraterritorial application." Second, if it finds no clear indication of extraterritorial application, the Court asks whether the case "involves a domestic application of the statute." The Court today exercised its discretion to forgo the first (and more difficult) question—recognizing that it could have far-reaching implications for future cases but would not change the outcome of today's case—and moved directly to the second question.

To determine whether this case involves a domestic application of the relevant statutory provisions, the Court considered the provisions in tandem to identify the statute's "focus." The Court began with § 284, which directs courts to "award the claimant damages adequate to compensate for the infringement." Consistent with the purpose of § 284 to fully compensate patent owners for acts of infringement, the Court determined that the focus of § 284 is

“the infringement.” But § 284 must be considered in light of § 271(f)(2), the basis for the infringement claim in this case. Section 271(f)(2) provides that a company infringes when it “supplies” certain components of a patented invention without a substantial non-infringing use “in or from the United States,” with the intent for the components to be combined abroad in a manner that would constitute infringement if done within the United States. The focus of this provision, as the Court determined, is the domestic act of “suppl[ying]” components “in or from the United States.”

Taken together, “the focus of § 284, in a case involving infringement under § 271(f)(2), is on the act of exporting components from the United States.” Because ION’s act of exporting components occurred within the United States, the award of lost-profits damages in this case was a domestic application of § 284. The Court therefore reversed the Federal Circuit’s decision that lost profits are categorically unavailable under § 284 for infringement occurring under § 271(f)(2).

Justice Gorsuch, joined by Justice Breyer, dissented. Though Justice Gorsuch agreed with the majority’s extraterritoriality analysis, he took the position that a patent owner cannot seek lost profits for uses of its invention abroad, as that would represent an impermissible extension of a U.S. monopoly to foreign markets. The majority rejected this position, writing that the position “wrongly conflates legal injury with the damages arising from that injury.”

Following today’s decision, patent owners can seek compensation for lost foreign profits when the components of a patented invention are assembled outside of the United States.

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