Supreme Court Permits Award of Foreign Lost Profits When Patented Components Are Assembled Outside the U.S.

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On Friday, June 22, 2018, in *WesternGeco LLC v. Ion Geophysical Corp.*, No. 16-1011, the U.S. Supreme Court held that damages awards for infringement under 35 U.S.C. §271(f)(2) may include foreign lost profits.The ruling will have significant effect on companies that export components made for use in an invention covered by a valid United States patent.

Implications of *WesternGeco*

The principal result of *WesternGeco* is that companies exporting components of potentially-infringing products can be subject to claims for lost profit damages when those products used abroad infringe United States patents.

Exporting companies should also note:

- While the Supreme Court limited its decision to awards of lost profits for infringement under 35 U.S.C. §271(f)(2), the principles underlying the decision may create a similar entitlement to lost profits for infringement under 35 U.S.C. §271(f)(1).
- The decision left intact law holding that export of a finished product cannot create lost profits liability for extraterritorial *use* of that product under 35 U.S.C. §271(a).As the dissent in *WesternGeco* noted, there is some tension in permitting greater measure of recovery where a defendant exports components of an invention in violation of Section §271(f)(2) than when a defendant exports an entire invention in violation of Section §271(a).
- Given the importance of international trade in the current political climate, it is possible that the *WesternGeco* decision may spur Congress to address patent damages for foreign uses of infringing products under other provisions of 35 U.S.C. §271.

Background

WesternGeco owned four patents directed to "streamer positioning devices," which are used to map the ocean floor to aid in natural resource discovery, including identification of oil drilling locations, in surveys for oil and gas companies. Ion, the accused infringer, shipped components of an infringing survey system from the United States to companies abroad, where the components were combined and the resulting system was employed. WesternGeco sued Ion under sections 271(f)(1) and (f)(2), which address liability for infringement based on the export of a patented invention's components.

At trial, WesternGeco won on infringement, and the jury awarded both a reasonable royalty award of $12.5 million and a lost profits award of $93.4 million, based on contracts outside the United States that it lost when potential customers purchased and used Ion's infringing systems.

The Federal Circuit affirmed the judgment of infringement, but vacated the award of lost profits, concluding that it would violate the presumption against extraterritorial reach of the patent statute, specifically following its precedent under 35 U.S.C. §271(a) holding that a patent owner cannot recover lost profits for foreign sales.

The Supreme Court Reverses

In an opinion by Justice Thomas, the Supreme Court reversed, holding that foreign lost profits are available to a patent owner under 35 U.S.C. §271(f)(2). Those foreign lost profit awards do not violate the presumption against extraterritorial application of statutes, because

an act of infringement under 35 U.S.C. §271(f)(2) focuses on the domestic act of exporting components from the United States. Justice Thomas' opinion separated the legal injury from the quantum of damages arising from that injury, rejecting the dissenting view of Justice Gorsuch. Justice Gorsuch reasoned that allowing WesternGeco to obtain lost profit damages for use of its invention beyond United States borders, where its patents had no legal effect, would effectively allow U.S. patent owners to extend their monopolies to foreign markets. According to Justice Gorsuch, that would invite foreign countries to use their own patent laws to assert control over the United States economy.

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