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Supreme Court: Patent Infringement Damages May Include Foreign Lost Profits

The Supreme Court's June 22nd ruling in *WesternGeco LLC v. ION Geophysical Corp.*, is a win for patent owners and a lesson to all that money made abroad may be part of an award of patent infringement damages under certain circumstances.

Whoever Supplies Components of a Patented Invention Abroad Can Be Liable for Patent Infringement

As you may know, a U.S. Patent is only enforceable in the U.S. That is because patent infringement, made unlawful in 35 U.S.C. § 271(a), occurs when anyone makes, uses, offers for sale, sells or imports any patented invention "within the United States." Due to the fact that people were avoiding infringement liability by manufacturing components of patent inventions in the United States and shipping them abroad for assembly into the infringing product abroad, Congress reacted by enacting § 271(f)(2), which makes a person liable for patent infringement who, under certain circumstances, "supplies" components of a patented invention overseas to be assembled there.

The situation in *WesternGeco LLC v. ION Geophysical Corp.* is a perfect example of this type of infringement. WesternGeco LLC (WesternGeco) owned patents relating to a system for surveying the ocean floor, a system it used itself to perform surveys for oil and gas companies. ION Geophysical Corporation (ION) sold a competing system to companies abroad by manufacturing the system's components in the United States and shipping the components to the foreign companies for assembly abroad. Once those foreign companies combined the components, the system was indistinguishable from WesternGeco's, and ION used the system to compete with WesternGeco in performing surveys abroad. WesternGeco sued ION for patent infringement under § 271(f)(2) and the jury found ION liable.

Foreign Lost Profits Became the Heart of the Controversy and the Question Became: Is WesternGeco Entitled to Lost Profits Abroad Where U.S. Patents Are Not Even Enforceable?

The district court awarded WesternGeco \$93.4 million in lost profits (what WesternGeco could have made in foreign sales but for ION's infringement). ION moved to set aside the verdict arguing that WesternGeco could not recover the foreign lost profits because § 271(f)(2) does not apply extraterritorially. The district court denied the motion, but the Court of Appeals for the Federal Circuit agreed with ION and reversed the district court's award of lost profits, holding that lost foreign profits cannot be recovered because the Patent Act does not reach infringing conduct abroad.

The Supreme Court reversed the Court of Appeals, holding that § 271(f)(2) defines the unlawful act to be the act of *supplying* the components, which occurred domestically, and that lost foreign sales may be awarded as damages because under the Patent Act's provision for damages, a court must award damages "adequate to compensate for the infringement" to put the patent owner in as good a position as he would have been had the patent not been infringed.

Keep this Ruling in Mind as a New Opportunity and Remember it as a New Risk

Until the Supreme Court's ruling, Federal Circuit law made it difficult to obtain foreign lost profits for patent infringement that occurred domestically. While the Supreme Court's ruling is intended to be narrowly limited to § 271(f)(2), its reasoning is broad: a patent owner must be made whole for the infringement, and harm abroad in the form of foreign lost profits is an appropriate remedy. Commentators predict courts will interpret it broadly to apply for all types of patent infringement (not just infringement under § 271(f)(2)), opening up a full remedy for infringement that includes foreign lost profits.

If you conduct business abroad and compete with patent owners in the U.S., let's evaluate your risk. If you are a U.S. patent owner and you believe your U.S.-based competitors are side-stepping your patents by supplying parts of it to be assembled and sold abroad, let's evaluate whether you may have a cause of action. You can contact one of our patent attorneys or agents at 505-998-1500.