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Intellectual Property Alert: Patent Owners Can Obtain Damages for Lost Sales in Foreign Jurisdictions

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The U.S. Supreme Court reversed a Federal Circuit decision dealing with patent damages for lost sales in foreign jurisdictions. *WesternGeco LLC v. Ion Geophysical Corp.*, 586 U.S. ____ (June 22, 2018), Case No. 16-1011 (Thomas J). The Court concluded that U.S. patent owners can get damages from overseas sales lost through infringement.

WesternGeco owns four patents related to systems and methods for surveying the ocean floor to locate hydrocarbon deposits. ION developed and began selling a competing system indistinguishable from the systems disclosed in WesternGeco's patents. ION manufactured the components for its competing system in the United States and then shipped them to companies in foreign jurisdictions where the components were assembled to form the competing system.

Under the Patent Act, a company can be liable for patent infringement if it ships components of a patented invention overseas to be assembled there, and a patent owner who proves infringement under this provision can then be then entitled to recover damages. See 35 U.S.C. §271(f)(2) and 284.

WesternGeco sued for patent infringement and the jury in the District Court proceeding found ION liable and awarded WesternGeco damages in royalties and lost profits. On appeal, the Court of Appeals for the Federal Circuit reversed the award of lost-profits damages concluding that patent owners cannot recover damages for lost foreign sales. After granting a petition for review, the Supreme Court vacated the Federal Circuit's decision and remanded for further consideration in view of *Halo Electronics, Inc. v. Pulse Electronics*. On remand, the Federal Circuit reinstated its decision regarding extraterritoriality of §271(f).

On appeal, the Supreme Court reversed. In its decision, the Court utilized a two-step framework for assessing the extraterritorial application of U.S. laws, a doctrine known as the presumption against extraterritoriality. In determining whether this presumption applies, a

court determines if the law in question “focuses” on a domestic activity. The Court concluded that the focus of §284 involving infringement under §271(f)(2) is the exportation of components of a patented invention from the United States. Since it was ION's domestic act of supplying the components that infringed WesternGeco's patents, damages arising from foreign activity using the infringing system were thus permitted in this case.

This case now returns to the Federal Circuit for further proceedings. Of note, the Federal Circuit recently upheld a Patent Trial and Appeal Board ruling that three of the four patents owned by WesternGeco were invalid, which may reduce the damages available to WesternGeco.

PRACTICE NOTE:

This ruling may affect pending and future infringement lawsuits by helping ensure that patent owners receive adequate damages compensation caused by U.S. patent infringement regardless of where the infringement occurs. Under this ruling, U.S. patent owners are able to obtain damages from overseas sales lost through infringement *if* the conduct relevant to the statutory focus occurs in the U.S.