EXTRATERRITORIAL REACH OF PATENTS—
IMPACT OF RECENT SUPREME COURT DECISIONS

Leisa Talbert Peschel, Houston

Jackson Walker LLP

Advanced Patent Litigation
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LEISA TALBERT PESCHEL
Jackson & Walker LLP
1401 McKinney Street, Suite 1900
Houston, Texas 77010
(713) 752-4278
lpeschel@jw.com

EDUCATION
B.S. Chemistry, The University of Texas at Austin
B.S. Biochemistry, The University of Texas at Austin
Ph.D. Biomedical Sciences, Program in Environmental and Molecular Carcinogenesis, The University of Texas Health Science Center at Houston/ M.D. Anderson Cancer Center
J.D., *with honors*, The University of Texas at Austin

PROFESSIONAL ACTIVITIES
Partner, Jackson Walker LLP
Vice-Chair, State Bar of Texas IP Section Council
Tax and Compliance Director, Houston Intellectual Property Law Association
Fellow, Texas Bar Foundation

Leisa Talbert Peschel is both an intellectual property trial lawyer and counselor. Leisa has considerable expertise litigating intellectual property matters, including over fifty patent infringement cases. Her cases typically involve highly complex technical and legal issues. Leisa leverages her scientific background to gain a better understanding of a client's technology to better position her client throughout a case. She has been involved in cases dealing with a wide array of technologies, including Power-over-Ethernet (PoE), biotechnology research tools, chemical compositions, audio compression technology, display technologies, plastics, pipe thread compounds, blow-out preventers, security systems, computer software methods, and electronics.

In addition to her litigation expertise, Leisa maintains an active transactional practice. Leisa counsels clients on how to obtain, enforce, and license intellectual property. She also gives strategic guidance regarding intellectual property transactions, which includes performing due diligence on intellectual property portfolios. Her transactional practice also includes preparing patent opinions of counsel, including freedom-to-operate, noninfringement, and invalidity opinions. Leisa's scientific background is particularly helpful to clients seeking an opinion of counsel relating to biotechnology, chemical, or oil field services products.

Leisa is also a frequent author and speaker on intellectual property law topics. She has spoken on matters relating to corporate patent policies, patent infringement defenses (including section 101 and 112 defenses), patent damages, patent reform, standing, e-discovery, the intersection of science and the law, and design patent infringement.

* Any opinions expressed by Dr. Peschel are hers alone and do not necessarily reflect the opinions or views of Jackson Walker LLP or its clients.

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I. INTRODUCTION

A presumption against the extraterritorial application of United States law exists. *Equal Emp't Opportunity Comm'n v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991). 35 U.S.C. § 271(f) is a provision that governs liability for patent infringement resulting from the export of components that are intended to be combined in a way that would have infringed if they had been combined in the United States. *WesternGeco LLC v. ION Geophysical Corporation*, 791 F.3d 1340, 1351 (Fed. Cir. 2015) (citing *Microsoft v. AT&T Corp.*, 550 U.S. 437, 442, 455–56 (2007)). Over the last decade, the Supreme Court has stepped in to address the metes and bounds of liability under 35 U.S.C. § 271(f) on several occasions. On June 22, 2018, the Supreme Court decided the case of *WesternGeco, LLC v. ION Geophysical Corporation* and held that lost profits awarded for infringement of § 271(f)(2) is not an extraterritorial application of United States law. *WesternGeCo LLC v. ION Geophysical Corp.*, 585 U.S. __ (2018) (slip. op. at 9).

The parameters of liability and exposure under 35 U.S.C. § 271(f) help define the risks involved in global operations for businesses with a strong technology focus. This article seeks to summarize those parameters through analysis of the most recent Supreme Court decisions on § 271(f) including specifically an in-depth analysis of the *WesternGeco* case.

II. FOREIGN INFRINGEMENT LIABILITY UNDER 35 U.S.C. § 271

At least three provisions of 35 U.S.C. § 271 address infringement liability for foreign activities. 35 U.S.C. § 271(f)(1) provides:

> Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

Thus, § 271(f)(1) is directed at liability for export of components and active inducement of another to combine those components in a way that would infringe if it had been done in the United States. 35 U.S.C. § 271(f)(2) similarly addresses export of components and provides:

> Whoever without authority supplies or caused to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

Whereas both provisions of §271(f) address infringement liability for export of components,[1] 35 U.S.C. § 271(g) addresses the import into the United States of products made abroad by patented processes:

> Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale or use of the product

[1] While § 271(f)(1) and § 271(f)(2) also provide liability for supplying component(s) ***in*** the United States, the required inducement or intention must be to create a combination of such component(s) outside the United States.

> occurs during the term of such process patent. In an action for infringement of a process patent, no remedy may be granted for infringement on account of the noncommercial use or retail sale of a product unless there is no adequate remedy under this title for infringement on account of the importation or other use, offer to sell, or sale of that product. A product which is made by a patented process will, for purposes of this title, not be considered to be so made after—(1) it is materially changed by subsequent processes; or (2) it becomes a trivial and nonessential component of another product.

While these provisions relate to liability for foreign activities under U.S. patent law, other than the directive that the patentee must be adequately compensated for the infringement, the Patent Act does not provide direct guidance as to how damages are to be calculated once liability is determined. *See* 35 U.S.C. § 284.

III. *WESTERNGECO V. ION GEOPHYSICAL*—LOST PROFITS FOR COMBINATIONS OCCURRING OUTSIDE THE UNITED STATES

On April 16, 2018, the Supreme Court heard oral arguments regarding:

> Whether the U.S. Court of Appeals for the Federal Circuit erred in holding that lost profits arising from prohibited combinations occurring outside of the United States are categorically unavailable in cases in which patent infringement is proven under 35 U.S.C. § 271(f).

The Supreme Court held that lost foreign profits were available damages for infringement of 35 U.S.C. § 271(f)(2). *WesternGeCo*, slip op. at 9. This decision has the potential to substantially impact damages' analyses, discovery obligations, and decisions made regarding the worldwide supply of essential components.

An analysis of how the *WesternGeco* case got to the Supreme Court illuminates the inherent issues in enforcing U.S. patents against global business operations.

A. Patents and Products at Issue

WesternGeco LLC ("Western Geco") sued ION Geophysical Corp. ("ION") in the Southern District of Texas for infringement of U.S. Patent Nos. 6,691,038 ("the '038 patent"); 7,080,607 ("the '607 patent"); 7,162,967 ("the '967 patent"); & 7,293,520 ("the '520 patent") (collectively, the "asserted patents"). *WesternGeco*, 791 F.3d at 1342. The asserted claims all related to systems used for searching for oil and gas beneath the ocean floor. *Id*. at 1343. The Federal Circuit described this search as follows:

> To search for oil and gas, ships tow a series of long streamers. Each streamer is equipped with a number of sensors. An airgun bounces sound waves off the ocean floor. The sensors pick up the returning sound waves, and, in combination with each other, create a map of the subsurface geology. The generated map can aid oil companies in identifying drilling locations for oil or gas.

Id. Weather and conditions may affect this search and the patented technology allegedly offered two improvements: (1) controlling the relationship of streamers and sensors by using winged positioning devices; and (2) using the sensors to generate four-dimensional maps to show changes in the seabed over time. *Id*.

WesternGeco was formed in 2000 as a joint venture between Schlumberger and Baker-Hughes. WesternGeco commercialized the patented technology at issue and sells it as the Q-Marine system. *Id*. at 1343, 1345. WesternGeco performs surveys on behalf of oil companies using the Q-Marine. *Id*. at 1343. ION manufactures the accused DigiFin device, which it sells to customers who perform surveys for oil companies and compete with WesternGeco. *Id*. The surveys are done on ships on the high seas where jurisdiction is determined by the flag flying on the ship. *Id.* at 1360 (citations omitted). This situation makes it inherently difficult to enforce intellectual property rights against activities performed on these ships. The lost profits at issue in the case concerned ten contracts for surveys to be performed abroad (outside the territorial jurisdiction of the United States) that amounted to over $90 million in profits. *Id*. at 1349.

B. Southern District of Texas and Jury's Determination of Liability and Damages

WesternGeco filed suit against ION in June 2009 in the Southern District of Texas alleging willful infringement of the asserted patents under 35 U.S.C. § 271(f)(1) and § 271(f)(2). *WesternGeco*, 791 F.3d at 1343. Essentially, § 271(f)(1) concerns active inducement for a foreign combination by supplying a substantial portion of components of a patented system, and § 271(f)(2) prohibits supplying components specially adapted to work in a patented invention and intending that the components would be combined abroad in a manner that would infringe if performed in the United States. 35 U.S.C. § 271(f). *Id*. The district court granted summary judgment of infringement on claim 18 of the '520 patent under 35 U.S.C. § 271(f)(1) in June 2012. *Id*. at 1344. A necessary part of that ruling was the determination that ION intended the components to be combined, which was referred to in the July/August 2012 jury trial. *Id*. The jury found willful infringement on all asserted claims of the asserted patents and awarded $93,400,000 in lost profits and $12,500,00 in reasonable royalties. *Id*. Following the jury trial, the Court denied the parties' post-trial motions, including WesternGeco's motion for enhanced damages. *Id.*

C. Federal Circuit's Opinion Regarding Lost Profits

ION appealed the final judgment to the Federal Circuit, and WesternGeco conditionally cross-appealed on the denial of its motion for enhanced damages. *WesternGeco*, 791 F.3d at 1344. The Federal Circuit issued an opinion addressing ION's three issues—standing, infringement, and lost profits—and affirming the district court's no willfulness finding. *Id*. at 1345, 1348–49, 1351, 1354. The only decision reversed by the Federal Circuit was the denial of ION's JMOL regarding lost profits. *Id*. at 1354. Due to the Supreme Court's decision in *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S.Ct. 1923 (2016), the Federal Circuit's opinion was vacated and remanded for further consideration. *WesternGeco LLC v. ION Geophysical Corp.*, 837 F.3d 1358, 1360 (Fed. Cir. 2016). In its 2016 2-1 panel decision, the Federal Circuit reinstated their earlier opinion in all respects except for the issue of enhanced damages, which was remanded to the district court for further consideration in light of *Halo*. *Id*. (Judges Dyk and Hughes, with Judge Wallach dissented with respect to the lost profits aspect of the prior opinion).

In holding that WesternGeco was not entitled to lost profits on contracts for services to be performed abroad, the Federal Circuit considered the presumption against extraterritoriality and compared § 271(f) to § 271(a). *WesternGeco*, 791 F.3d at 1349–50. Specifically, the Federal Circuit quoted from the Supreme Court's *Microsoft* decision:

> The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law. The traditional understanding that our patent law operates only domestically and does not extend to foreign activities is embedded in the Patent Act itself, which provides that a patent confers exclusive rights in an invention within the United States.

Id. at 1350 (quoting *Microsoft*, 550 U.S. at 437). 35 U.S.C. § 271 (f) was enacted as a limited exception to the presumption against extraterritoriality to treat the export of components of patented systems abroad just like the export of the finished systems to overrule the Supreme Court's decision in *Deepsouth*. *Id*. at 1350–51. With respect to damages under § 271(a) for the export of a finished product, the majority noted that lost profits for use of that product were not available under the Federal Circuit's precedent in *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013). *Id*. at 1351. By analogy, the Federal Circuit held that lost profits for foreign use of a patented system arising from the export of a component (with the requisite intent) are not available as damages arising from § 271(f) liability. *Id*. Indeed, the Federal Circuit was concerned that a holding otherwise would result in § 271(f), relating to components, being broader than § 271(a), which covers finished products. *Id*.

Judge Wallach dissented from the majority opinion and would have affirmed the award of lost profits damages under 35 U.S.C. § 271(f). *WesternGeco*, 791 F.3d at 1354. Judge Wallach first noted that Congress had enacted both § 271(g)—imposing liability based on foreign use of a patented process if a product made by the process is imported into the United States—and § 271(f) to address infringement liability for foreign activities. *Id*. at 1355. According to Judge Wallach, those foreign activities are relevant to an assessment of damages if liability is found. *Id.* Judge Wallach drew analogies to cases regarding convoyed sales and the entire market value rule to note that there is no doctrinal reason to exclude foreign sales of an unpatented service in which a patent-practicing device was used from the damages analysis. *Id*. at 1357–58. Judge Wallach then addressed the issue of whether lost profits should have been excluded because it was not ION itself that performed the surveys. *Id*. at 1358. Here, Judge Wallach focused on the fact that 35 U.S.C. § 284 focuses the damages analysis on the harm done to the patentee and that WesternGeco suffered the same lost profits whether ION was competing directly or indirectly. *Id*. With respect to the specific issue of whether awarding lost profits under § 271(f) would result in a double recovery resulting from multiple patent suits in multiple countries, Judge Wallach opined that the opposite was true on these facts—performing the process with the patented device on the high seas could result in no recovery absent § 271(f). *Id*. at 1360. Judge Wallach viewed the majority's decision as resulting in the patentee not being able to receive full compensation for the harm done. *Id*. at 1361. The dissent further argued that the cases the majority relied on regarding § 271(a) liability did not hold that foreign use could never be considered in the damages calculation for the act of domestic infringement. *Id*. at 1362. For all of these reasons, Judge Wallach would have allowed consideration of a patentee's foreign lost profits in the damages analysis. *Id.*

D. Supreme Court's Opinion Regarding Lost Foreign Profits

WesternGeco appealed the Federal Circuit's decision regarding lost profits (after it was reinstated) to the Supreme Court. No. 16-1011. In this closely watched case, amicus briefs were filed by the United States (in support of WesternGeco), New York Intellectual Property Law Association, Law Professor Stephen Yelderman, Power Integrations Inc., Intellectual Property Law Scholars, Intellectual Property Law Association of Chicago, Houston Intellectual Property Law Association, Intellectual Property Owners Association, American Intellectual Property Law Association, Fairchild Semiconductor International, Inc., The Internet Association, SAS Institute, Inc., Symmetry, LLC, Xilink, Inc., Electronic Frontier Foundation, and R Street Institute. Oral arguments were held April 16, 2018. The parties' opening statements before questioning began give insight into the heart of their arguments. For WesternGeco, Paul Clement began as follows:

> Congress enacted Section 271(f) to address this Court's decision in *Deepsouth* and to prohibit a specific domestic act of infringement with foreseeable foreign consequences. Congress targeted a specific domestic act, the supply of components from the United States with a particular intent, that the components be combined abroad in a way that, if it

> happened in the United States, would constitute infringement. Congress provided a cause of action for the domestic infringement and provided a damages remedy that guaranteed the victim of the infringement damages adequate to compensate for the infringement. The plain text of the Patent Act, therefore, gives the victim of Section 271(f) infringement an entitlement to adequate damages, including lost profits. And the presumption against extraterritoriality raises no obstacle to that commonsense result. There's no case of this Court that applies the presumption to a damages provision, and there's no case of this Court that applies the presumption in a case of domestic injury caused by domestic consequence—conduct, rather.

Before being interrupted by relevant questioning, Kannon K. Shumagan provided the following opening statement on behalf of ION in support of the Federal Circuit's opinion denying lost profits:

> The presumption against extraterritoriality applies with particular force to the Patent Act. And as the government recognized at least in its brief, the presumption applies independently to remedial provisions as well as substantive ones because remedial provisions can create a similar risk of conflict with foreign law. Now, in our view, this case involves the extraterritorial application of the remedial provision in the Patent Act, Section 284, which by its terms has no extraterritorial reach. And while the Act of infringement here all of the parties now agree was concededly domestic, our submission is that the damages here were, in fact, foreign. And, indeed, Petitioner repeatedly describes those damages as foreign.

Justice Thomas delivered the opinion of the Court on June 22, 2018 with only Justice Gorsuch and Justice Breyer dissenting. The Supreme Court began first with an analysis of extraterritoriality. The principle of extraterritoriality provides the presumption that federal statutes apply only within the territorial jurisdiction of the United States. *WesternGeCo*, slip. op. at 4. The Court then identified the two-step framework for evaluating extraterritoriality:

(1) whether the presumption against extraterritoriality has been rebutted, i.e., if the text provides a "clear indication of an extraterritorial application;" and if not,

(2) whether the case involves a domestic application of the statute.

Id. at 5 (quoting *RJR Nabisco, Inc. v. European Community*, 579 U.S. __, __ (2016)(slip. op. at 9)). However, the Court used its discretion to skip step one because it would "require resolving difficult questions that do not change the outcome of the case but could have far-reaching effects in future cases." *Id*. (quotations omitted). Rather, the Court resolved the case as step two by looking at the "statute's focus." *Id*. at 5–6. Here, there were two inquiries. First, 35 U.S.C. § 284 requires "damages adequate to compensate for the infringement"—thus, the Court held that infringement was the focus of the Patent Act's damages statute. *Id*. at 6. Turning to the infringement statute at issue—§ 271(f)(2)—the Court then concluded that is focuses on domestic conduct. *Id*. at 7. That is because § 271(f)(2) provides liability for the domestic act of supplying in or from the United States and reaches components manufactured in the United States but assembled overseas. *Id*. (citing *Life Technologies*, 580 U.S. ___, at ___ (slip. op. at 11)). In the specific case of *WesternGeCo*, it was ION's domestic act of supplying the component(s) that infringed WesternGeCo's patents, and the Court therefore held that the lost profits awarded for that infringement were a permissible domestic application of § 284. *Id*. at 8–9.

The Supreme Court did specifically note that the opinion in *WesternGeCo* did "not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases." *WesternGeCo*, slip. op. at 9 n.3. Thus, although the Court held that lost foreign profits are an available remedy for infringement of § 271(f)(2)—the only provision of § 271 before the Court—the Court reminded litigants that the requirements for an award of lost profits, including proximate cause, still limit that availability. In the case of *WesternGeCo*, proximate cause of the foreign lost profits was not an appealed issue before the Supreme Court.

Only Justices Gorsuch and Breyer dissented from the majority opinion in *WesternGeCo*. The dissenting opinion largely tracked the Federal Circuit's rationale for excluding lost foreign profits as a remedy to infringement under § 271(f)(2). First, Justice Gorsuch noted that a United States patent provides a lawful monopoly over the manufacture, use, and sale of an invention within this country only and that WesternGeCo was seeking lost profits for uses of its invention beyond the borders of the United States. *WesternGeCo*, dissenting slip op. at 1. It was undisputed that ION manufactured the components for its competing system in the United States and then shipped them to companies abroad who combined the components into the competing system and used the system to compete with WesternGeCo outside of United States territory. *WesternGeCo*, slip. op. at 3. Therefore, in the dissent's view, the only injury under the statute was manufacturing the components in the United States, and a damage's award that covers third parties' noninfringing foreign uses was not "precisely commensurate" with that injury. *WesternGeCo*, dissenting slip op. at 4. Put another way, the foreign uses of the ION system by third parties did not interfere with WesternGeCo's United States patent monopoly. *Id*. at 4–5.

In dissent, Justices Gorsuch and Breyer also agreed with the Federal Circuit that a holding that lost foreign profits were available under § 271(f)(2) creates the "anomalous" result that allows a "greater recover when a defendant exports a *component* of an invention in violation of § 271(f)(2) than when a defendant exports the *entire* invention in violation of § 271(a)." *Id*. at 7. The dissenting opinion also noted that the jury awarded $93.4 million in lost foreign profits for 10 surveys (foreign uses of the invention) but only $12.5 million in royalties for 2,500 U.S.-made products. *Id*. In other words, the award for the export of components that led to foreign combination of 10 systems far exceeded the specific award for the harm that occurred in the U.S. manufacture of many more products.

E. Analysis of How the Supreme Court's Opinion May Impact Risk Analysis for Global Business Operations

When launching a new product or a service built on new technology, part of a company's due diligence may involve patent landscaping to identify whether there is a significant risk of patent infringement. That diligence may identify a particular patent of concern. A company may also become aware of a problematic patent through industry meetings, including standards organizations, or industry publications. And yet another way that a patent may show up on a company's radar is through a demand letter from a competitor. How a company reacts to such knowledge depends on an analysis of the risk that the patent of concern holds: (1) is there prior art that invalidates the patent; (2) did the patentee commit inequitable conduct; (3) what is the likelihood that a jury would find infringement; (4) if a jury finds infringement, what is the potential exposure to patent damages; (5) what is the opportunity to license such technology if necessary, including how much such a license would cost; (6) can the product be redesigned to reduce risk; and (7) can U.S. sales of the product/components be minimized? The *WesternGeco* case alters that analysis.

In a situation where a company has identified a U.S. patent of concern and the company is supplying from the United States to operations across the world components of a system that might infringe that patent, the *WesternGeco* decision significantly increases the potential exposure to patent damages. This is particularly true where the patentee has put the company on notice and the company must consider the potential trebling of damages associated with a willful infringement finding. In that scenario, risk mitigation strongly suggests spending additional funds on formal opinions of noninfringement or invalidity or redesigning the technology to further differentiate from the patented technology. Alternatively, a company may decide to manufacture and supply the component at issue from outside the United States to worldwide locations to prevent putting worldwide profits at risk.

Beyond its impact on potential damages, the availability of foreign lost profits may also impact the parties' negotiating positions. A court is far more likely after *WesternGeCo* to allow discovery into worldwide sales. Armed with such information, a plaintiff is likely to include such sales in its valuation of the case and start at a higher demand than it would have in the absence of such information.

IV. *LIFE TECHNOLOGIES CORP. V. PROMEGA CORP.*—SINGLE COMPONENT NOT SUFFICIENT TO MEET § 271(F) REQUIREMENTS

Prior to agreeing to address damages arising from § 271(f) liability, the Supreme Court took up the meaning of supplying "all or a substantial portion of the components of a patented invention." In *Life Technologies*, the Supreme Court clarified the statutory meaning of 35 U.S.C. § 271(f)(1). *Life Technologies*, 137 S.Ct 734, 737 (2017). 35 U.S.C. § 271(f)(1) provides:

> Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

The Supreme Court addressed the specific issue of whether supplying a single component of a multicomponent invention for manufacture abroad gives rise to liability for infringement under § 271(f)(1) and held that it does not. *Life Technologies*, 137 S.Ct. at 737.

A. Procedural History

The patent at issue in *Life Technologies* concerned a kit for genetic testing that had five components including an enzyme known as *Taq* polymerase. *Id.* at 738. Promega was the exclusive licensee of the patent at issue and brought suit against Life Technologies for manufacturing *Taq* polymerase in the United States and supplying it to the United Kingdom where Life Technologies combined it with the other components. *Id.* Interestingly, Promega had sublicensed the patent at issue to Life Technologies for the manufacture and sale of genetic testing kits in certain licensed law enforcement fields worldwide. *Id.* Promega argued that Life Technologies had "infringed the patent by selling the kits outside the licensed fields of use to clinical and research markets" and specifically that Life Technologies' supply of *Taq* polymerase to the United Kingdom triggered liability under 35 U.S.C. §271(f). *Life Technologies*, 137 S.Ct. at 738.

The case was tried to a jury who found that Life Technologies had willfully infringed the patent. *Id*. at 739. Life Technologies then moved for judgment as a matter of law arguing that the "all or a substantial portion" language in § 271(f)(1) did not include the supply of a single component of a multicomponent invention. *Id*. The district court granted that motion. *Id*. The Federal Circuit then reversed and reinstated the jury's verdict relying on a dictionary definition of "substantial" as "important" or "essential" to conclude that a single important component could be a substantial portion of the components. *Id*.

B. The Substantial Portion Requirement of § 271(f)(1) is Not Met by Provision of a Single Component.

In what had become a theme for the 2016 term, the Supreme Court reversed and remanded for proceedings consistent with its opinion. *Life Technologies*, 137 S.Ct. at 743. Specifically, the Supreme Court held that the supply of a single component of a multicomponent invention was not an infringing act under § 271(f)(1). *Id*. at 739. The Supreme Court first noted that both "all" and "portion" as used in the statute indicated a quantitative meaning and that there was nothing in the surrounding statutory text that would ground a qualitative interpretation. *Id*. at 740. Moreover, a qualitative reading would render the phrase "of the components" unnecessary the first time it was used in § 271(f)(1). *Id*. After concluding that a quantitative meaning was required, the Supreme Court next addressed whether a single component could ever constitute a substantial portion and clarified that it could not. *Id*. at 741. The Supreme Court looked to the statute's use of the plural "components" and the structure of § 271(f) in its entirety—which includes § 271(f)(2) addressed to a singular component—to conclude that a single component could not meet the requirement for a substantial portion of the components under § 271(f)(1). *Id*. at 742.

Life Technologies specifically concerns the supply of a single component. For global operations where the only concern is a U.S. patent, *Life Technologies* may counsel towards supplying only a single component from the United States. However, liability may still be found under 35 U.S.C. § 271(f)(2), which needs to be taken into account in any risk analysis.

V. CONCLUSION

U.S. Patent law provides some possibility of liability for foreign activities but requires some activity in the United States. The Supreme Court's decision in *WesternGeco* that, if proven, lost profits are available as damages for violation of 35 U.S.C. § 271(f)(2) expanded the reach of U.S. patents to worldwide sales arising from the supply of a component from the United States.