wiley

ALERT

Supreme Court Holds that Lost Profits from Foreign Sales Are Recoverable for Patent Infringement Under 35 U.S.C. § 271(f)(2)

June 22, 2018

Today, the Supreme Court of the United States (Court) issued its opinion in *WesternGeco LLC v. Ion Geophysical Corp*. Reversing the U.S. Court of Appeals for the Federal Circuit (Federal Circuit), the Court held that lost profits from foreign sales are recoverable for infringement under 35 U.S.C. § 271(f)(2).

Section 271(f)(2) imposes liability for suppliers of the components of patented devices, when those components will be combined outside the United States in a manner that would infringe a U.S. patent. In the case below, a jury found that Ion Geophysical had infringed WesternGeco's patents under § 271(f) and awarded WesternGeco $12.5 million in reasonable royalty damages and $93.4 million in lost profits for lost sales in foreign countries. The Federal Circuit had vacated the lost profits award as an improper extraterritorial enforcement of a U.S. patent.

Reversing, the Supreme Court focused heavily on the intersection of the act of infringement under § 271(f)(2) and the damages authorized by § 284 (the patent damages statute). Writing for a majority of the Court, Justice Thomas reasoned that the lost profits were not an improper extraterritorial application of U.S. law because "the focus of § 284, in a case involving infringement under § 271(f)(2), ***is on the act of exporting components from the United States***." Slip Op. at 7. Thus, the Court concluded that because "it was ION's ***domestic act*** of supplying the components that infringed WesternGeco's patents[,] . . . the lost-profits damages that were awarded to WesternGeco were a domestic application of §284." *Id.* at 8.

Authors

Wesley E. Weeks
Partner
202.719.7569
wweeks@wiley.law

Practice Areas

Intellectual Property

Patent

Justice Gorsuch dissented, writing that while he agreed that "WesternGeco's lost profits claim does not offend the judicially created presumption against the extraterritorial application of statutes," the lost profits award was nonetheless impermissible under the Patent Act. Slip Op., Gorsuch, J., dissenting at 1. Specifically, he argued that U.S. patents grant a monopoly only within the United States and that allowing the lost profits awarded here "would effectively allow U. S. patent owners to use American courts to extend their monopolies to foreign markets." *Id.* at 1-2. This, he continued, could "invite other countries to use their own patent laws and courts to assert control over our economy." *Id.* at 2.

In future cases, lower courts will now have to confront important issues involving the proximity of lost profits with the alleged infringing conduct. As Judge Wallach explained in his Federal Circuit dissent in this case, "the appropriate measure of damages must bear some relation to the extent of the infringement in the United States." *WesternGeco L.L.C. v. ION Geophysical Corp.*, 837 F.3d 1358, 1368 (Fed. Cir. 2016). Thus, the courts need to formulate a "proper proximity standard—i.e., a standard that can be used to determine the sufficiency of the connection between infringement under United States law and foreign lost profits." *Id.* at 1367.