



CRA Insights: Intellectual Property

CRA Charles River
Associates

June 2018

Recent developments in IP damages

CRA Insights: Intellectual Property is a periodic newsletter that provides summaries of notable developments in IP litigation.

WesternGeco LLC v. ION Geophysical Corp., 16-1011 (United States Supreme Court)

On June 22, 2018, the United States Supreme Court issued a decision in *WesternGeco LLC v. ION Geophysical Corp.*, holding that WesternGeco's award for lost profits was a permissible domestic application of §284 of the Patent Act. The opinion was authored by Justice Thomas on behalf of the Court. Justices Gorsuch and Breyer dissented.

The case involves four patents related to a system for surveying the ocean floor. WesternGeco uses the technology to perform surveys for oil and gas companies. In late 2007, ION Geophysical Corporation began selling a competing system. It manufactured the components for its system in the United States and then shipped them to companies abroad. Those companies combined the components to create a surveying system indistinguishable from WesternGeco's and used the system to compete with WesternGeco.

At trial, a jury found ION liable for infringement under 35 U.S.C. §271(f)(2). §271(f)(2) imposes liability on parties who supply components from the US for combination outside of the US in a manner that would infringe the patent if that combination occurred within the US. The jury awarded WesternGeco \$93.4 million in lost profits based on 10 specific survey contracts, plus \$12.5 million in reasonable royalty damages.

ION filed a post-trial motion to set aside the verdict, arguing that WesternGeco could not recover lost profits damages because §271(f) does not apply extraterritorially. The District Court denied the motion. On appeal, the Court of Appeals for the Federal Circuit reversed the award of lost profits damages, holding that §271(a), the general infringement provision, does not allow patent owners to recover for lost foreign sales, and that §271(f) should be interpreted the same way because it was "designed" to put patent infringers "in a similar position."

In its opinion, the Supreme Court identified a two-step framework for deciding questions of extraterritoriality. The first step asks whether the presumption against extraterritoriality has been rebutted, and the second step asks whether the case involves a domestic application of the statute. The Court exercised its discretion to forgo the first step of the framework and resolve the case at step two.

In its analysis, the Court determined that the conduct relevant to the statutory focus in this case was domestic. It first considered 35 U.S.C. §284, the patent damages statute, and found that the focus of §284 is "the infringement." Thus, it held that in order to determine the focus of §284 in a given case, it is necessary to identify the type of infringement that occurred. In this case, that was §271(f)(2), which was the basis for WesternGeco's infringement claim. The Court found that §271(f)(2) focuses on domestic conduct because the conduct it regulates is the domestic act of supplying in or from the United States. Thus, the Court reasoned that the focus of §284, in a case involving infringement under §271(f)(2), is on the act of exporting components from

the United States, and that the lost profits damages that were awarded to WesternGeco represented a domestic application of §284.

In the dissent, Judge Gorsuch wrote that “[b]y failing to heed the plain text of the Patent Act and the lessons of our precedents, the Court ends up assuming that patent damages run (literally) to the ends of the earth. It allows U.S. patent owners to extend their patent monopolies far beyond anything Congress has authorized and shields them from foreign competition U.S. patents were never meant to reach.”

Editors

Kimberly J. Schenk

Principal

Chicago

+1-312-377-2249

kschenk@crai.com

Sean D. Sheridan

Principal

Chicago

+1-312-377-9237

ssheridan@crai.com

www.crai.com/ip



The conclusions set forth herein are based on independent research and publicly available material. The views expressed herein are the views and opinions of the authors and do not reflect or represent the views of Charles River Associates or any of the organizations with which the authors are affiliated. Any opinion expressed herein shall not amount to any form of guarantee that the authors or Charles River Associates has determined or predicted future events or circumstances, and no such reliance may be inferred or implied. The authors and Charles River Associates accept no duty of care or liability of any kind whatsoever to any party, and no responsibility for damages, if any, suffered by any party as a result of decisions made, or not made, or actions taken, or not taken, based on this paper. If you have questions or require further information regarding this issue of *CRA Insights: Intellectual Property*, please contact the contributor or editor at Charles River Associates. Detailed information about Charles River Associates, a registered trade name of CRA International, Inc., is available at www.crai.com.

Copyright 2018 Charles River Associates