

## Extraterritoriality and Proximate Cause After WesternGeco

Timothy R. Holbrook\*

21 Yale J.L. & Tech. 189 (2019)

*The Supreme Court's decision in WesternGeco LLC v. ION Geophysical Corp. had the potential to reach into a number of trans-substantive areas, including the nature of compensatory damages, proximate cause, and extraterritoriality. Instead of painting with a broad brush, however, the Supreme Court opted to take a modest, narrow approach to the issue of whether lost profits for foreign activity were available to a patent holder for infringement under 35 U.S.C. § 271(f)(2). In addressing this issue, the Court utilized its two-step framework for assessing the extraterritorial reach of U.S. law that it adopted in RJR Nabisco Inc. v. European Community. Step one under RJR Nabisco entails an assessment of whether the presumption against extraterritoriality has been rebutted. Step two requires a court to examine whether activity relevant to the focus of the statute occurred within the United States, even if other acts occurred outside. If so, then the statute still applies to the conduct. The Court skipped step one in WesternGeco, but its analysis of step two confirmed that the territorial limits of damages is tied to the corresponding liability provision. Ultimately the Court allowed the damages for the relevant foreign activity.*

*This decision clarified a few important aspects about the extraterritorial application of U.S. law. By skipping step one of RJR Nabisco, the Court made clear that the presumption against extraterritoriality is distinct from the focus analysis of step two. The Court passed on the opportunity to further elaborate on step one and to answer definitively whether the presumption applies to remedial provisions. The Court did elaborate on step two and embraced a methodology that tied the extraterritorial reach of a general remedy provision to the corresponding liability provision.*

*The Court's decision also leaves a number of questions open. Specifically, it remains unclear whether the Federal Circuit's*

---

\* Vice Provost for Faculty Affairs, Emory University, and Asa Griggs Candler Professor of Law, Emory University School of Law. I authored the Brief of Intellectual Property Law Scholars in Support of Neither Party in the *WesternGeco, Inc. v. ION Geophysical Corp.* at the Supreme Court. Thanks for outstanding research assistance from Michael Anderson and David Rutz. ©2018 Timothy R. Holbrook.

*decisions in Power Integrations, Inc. v. Fairchild Semiconductor International, Inc. and Carnegie Mellon University v. Marvell Technology Group, Ltd. survive WesternGeco, along with other decisions regarding the extraterritorial reach of U.S. patent law. I contend that the ultimate conclusions in Power Integrations and Carnegie Mellon are correct, even though the methodology used in the original decisions was wrong. I also discuss how the Court also failed to explore the important role that proximate cause may play in future patent cases, particularly those involving global theories of damages. The Federal Circuit could—and should—embrace a narrower conception of proximate cause to limit these types of global theories of patent damages.*

INTRODUCTION.....	192
I. SURVEILLANCE TECHNOLOGY, BOATS, AND THE HIGH SEAS	197
A. <i>Patent Damages and Territoriality</i> .....	197
B. <i>The Supreme Court's Decision in WesternGeco</i> .....	200
II. WHAT WE DID LEARN FROM <i>WESTERNGECO</i> .....	203
A. <i>The Supreme Court Punts on Step One of RJR Nabisco</i> .....	203
B. <i>The Court Offers Guidance as to Step Two's Focus, Making General Damages Provisions Dependent on How Liability is Defined Elsewhere in the Statute</i> .....	207
III. UNANSWERED QUESTIONS AND IMPLICATIONS .....	209
A. <i>Do Power Integrations, Carnegie Mellon, and Other Federal Circuit Decisions Survive WesternGeco?</i> .....	209
i. <i>WesternGeco uses a different methodology of extraterritoriality analysis from that used by Power Integrations and Carnegie Mellon</i> .....	209
ii. <i>Notwithstanding the Supreme Court's Decision in WesternGeco, the Federal Circuit's Denial of Damages in Power Integrations and Carnegie Mellon May Be Correct (and the Court's Other Case Law May Be Wrong). ....</i>	211
B. <i>Should the Federal Circuit Reconsider the Role of Proximate Cause in Policing Damages?</i> .....	221
i. <i>Commentator's Views on proximate cause in policing damages</i> .....	222
ii. <i>The Federal Circuit's approach to proximate cause has undermined its usefulness as a limit on patent damages</i> .....	223
CONCLUSION .....	226

## INTRODUCTION

The Supreme Court's decision to review a case usually generates broad interest, at least within the substantive area of law in the case. Some of these cases, like Employee Retirement Income Security Act (ERISA) cases, may not grab national headlines, but they nevertheless are important.<sup>1</sup>

The same can be said for patent law. Occasional patent cases at the Supreme Court can garner attention in the general population and popular media.<sup>2</sup> Generally, though, the average American may not be concerned with whether, for example, the construction of a term in a patent claim contains factual issues<sup>3</sup> or what the appropriate standard of enhancing patent damages should be.<sup>4</sup> Within the patent field, however, any action by the Court garners the attention of patent attorneys and litigators.

In recent years, the Supreme Court has taken a keen interest in patent law, taking forty-eight cases relating to patent law since 2000.<sup>5</sup> At times, the issue in a given case transcends patent law, such as setting the standard for the grant of a permanent injunction<sup>6</sup> or exploring

---

<sup>1</sup> See, e.g., *Advocate Health Care Network v. Stapleton*, 137 S. Ct. 1652 (2017).

<sup>2</sup> See, e.g., Bill Mears, *Court: Human Genes Cannot Be Patented*, CNN (June 13, 2013 8:21 PM), <https://www.cnn.com/2013/06/13/politics/scotus-genes/index.html>; Adam Liptak, *Justices, 9-0, Bar Patenting Human Genes*, N.Y. TIMES (June 14, 2013), <https://www.nytimes.com/2013/06/14/us/supreme-court-rules-human-genes-may-not-be-patented.html>.

<sup>3</sup> *Teva Pharms. USA v. Sandoz*, 135 S. Ct. 831 (2015)

<sup>4</sup> *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1928, 195 L. Ed. 2d 278 (2016).

<sup>5</sup> Timothy R. Holbrook, *Is the Supreme Court Concerned with Patent Law, the Federal Circuit, or Both: A Response to Judge Timothy B. Dyk*, 16 CHI.-KENT J. INTELL. PROP. 313, 314 (2017). Since I wrote this response to Judge Dyk, the Supreme Court decided three cases during its October 2017 term—*Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, 138 S. Ct. 1365 (2018); *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348 (2018); and *WesternGeco LLC v. ION Geophysical Corp.*, 138 S.Ct. 2129 (2018)—and, as of this writing, one case in its 2018 term, *Helsinn Healthcare S.A. v. Teva Pharm. USA, Inc.*, 139 S. Ct. 628 (2019). The Court has granted certiorari in one more case for its 2018 term, *Return Mail, Inc. v. U.S. Postal Serv.*, 139 S. Ct. 397 (2018), and another for its 2019 term, *Iancu v. NantKwest, Inc.*, 139 S. Ct. 1292, 1293 (2019). Counting of cases, of course, can depend on how one categorizes a case, so there can be disparities among different counts of patent cases.

<sup>6</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006); see, e.g., *Swarovski Aktiengesellschaft v. Bldg. No. 19, Inc.*, 704 F.3d 44, 54 (1st Cir. 2013) (applying *eBay* in trademark context); *Salinger v. Colting*, 607 F.3d 68, 75 (2d Cir. 2010) (applying *eBay* in copyright context); *Geertson Seed Farms v. Johanns*, 570 F.3d 1130, 1136 (9th Cir. 2009) (applying *eBay* in environmental law context), *rev'd*

the scope of jurisdiction under the Declaratory Judgment Act.<sup>7</sup> Indeed, Professor Tejas Narechania suggests that such “field splits” – where the same doctrine is treated inconsistently in different substantive areas – may be what is triggering Supreme Court review in a number of patent cases.<sup>8</sup>

On first look, the Supreme Court’s decision to review *WesternGeco LLC v. ION Geophysical Corp.* may have seemed of little interest to anyone outside of patent law (and perhaps to many inside patent law).<sup>9</sup> The case involved the award of damages for a rather unique infringement provision of U.S. patent law, 35 U.S.C. § 271(f), dealing with certain acts of exportation from the United States. Although the United States recommended that the Supreme Court take the case,<sup>10</sup> many considered the issue in *WesternGeco* to be rather narrow.

In reality, the case involved three intersecting areas of law, as depicted in the below Venn diagrams. The case potentially presented an issue of a field split. Minimally, the case involved a trifecta of issues that go beyond the narrow issue of section 271(f)(2) infringement damages.

---

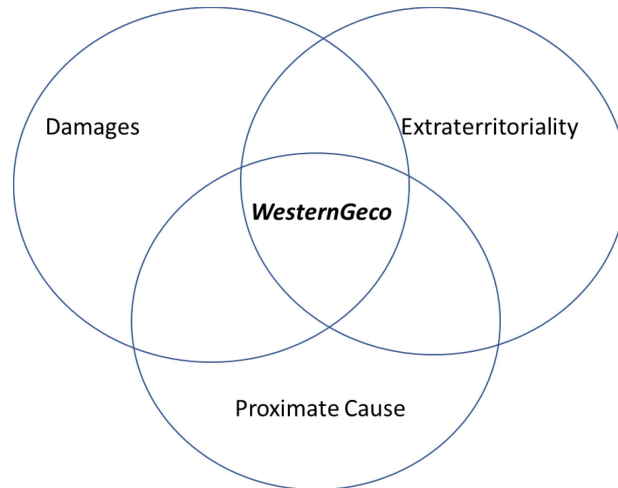
*and remanded on other grounds sub nom. Monsanto Co. v. Geertson Seed Farms*, 561 U.S. 139 (2010).

<sup>7</sup> *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007); *see also Nike, Inc. v. Already, LLC*, 663 F.3d 89, 96 (2d Cir. 2011) (applying *MedImmune* to trademark law), *aff’d*, 568 U.S. 85 (2013); *Klinger v. Conan Doyle Estate, Ltd.*, 988 F. Supp. 2d 879, 886 (N.D. Ill. 2013), *aff’d*, 755 F.3d 496 (7th Cir. 2014) (applying *MedImmune* in copyright case); *Sevigny v. United States*, No. 13-CV-401-PB, 2014 WL 3573566, at \*4 (D.N.H. July 21, 2014) (applying *MedImmune* in bankruptcy case).

<sup>8</sup> Tejas N. Narechania, *Certiorari, Universality, and a Patent Puzzle*, 116 MICH. L. REV. 1345, 1348 (2018) (“That is, rather than turn to whether two courts of appeals have decided the same issue differently, the Supreme Court considers whether two fields of law--say, patent law and securities law--appear to apply the same doctrine differently.”); *see also* Timothy R. Holbrook, *Explaining the Supreme Court’s Interest in Patent Law*, 3 IP THEORY 62, 71-72 (2013) (arguing that Supreme Court intervenes to correct patent-specific legal rules in certain areas); Robin Feldman, *Ending Patent Exceptionalism and Structuring the Rule of Reason: The Supreme Court Opens the Door for Both*, 15 MINN. J.L. SCI. & TECH. 61, 66 (2014) (discussing patent exceptionalism in the antitrust context).

<sup>9</sup> *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018), *rev’g*, 837 F.3d 1358 (Fed. Cir. 2016).

<sup>10</sup> Brief for the United States as Amicus Curiae, *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018) (No. 16-1011). 2017 WL 8234654 [hereinafter First Brief for the United States].



The case presented the issue of compensatory damages under section § 284 of the Patent Act and was the Supreme Court’s first decision to assess the nature of patent infringement damages directly. Section 284 entitles a patent owner to “damages adequate to compensate for the infringement.”<sup>11</sup> The Supreme Court, prior to *WesternGeco*, had never squarely addressed the compensatory nature of this provision;<sup>12</sup> instead the Court only had discussed section 284 in the context of the appropriate standard for awarding pre-judgment interest.<sup>13</sup>

The damages awarded in *WesternGeco* involved activities outside of the United States. As such, the case also implicated the presumption against extraterritoriality. That presumption operates to limit the reach of U.S. laws to acts within U.S. territories absent a clear signal from Congress.<sup>14</sup> The Supreme Court has taken a renewed interest in the presumption in recent years, culminating in the Court’s decision *RJR Nabisco, Inc. v. European Community*.<sup>15</sup> The Court in *RJR Nabisco* formally adopted a two-step

---

<sup>11</sup> 35 U.S.C. § 284 (2018).

<sup>12</sup> See Timothy R. Holbrook, *Boundaries, Extraterritoriality, and Patent Infringement Damages*, 92 NOTRE DAME L. REV. 1745, 1767 (2017).

<sup>13</sup> *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 649 (1983).

<sup>14</sup> *Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. 108, 115 (2013) (“That canon provides that ‘[w]hen a statute gives no clear indication of an extraterritorial application, it has none.’”) (quoting *Morrison v. Nat’l Australia Bank Ltd.*, 561 U.S. 247, 255 (2010); ”); *Morrison*, 561 U.S. at 255 (“[The presumption] rests on the perception that Congress ordinarily legislates with respect to domestic, not foreign, matters.”); *E.E.O.C. v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991) (“[U]nless there is ‘the affirmative intention of the Congress clearly expressed,’ we must presume ‘it is primarily concerned with domestic conditions.’” (quoting *Benz v. Compania Naviera Hidalgo, S.A.*, 353 U.S. 138, 147 (1957) and *Foley Bros. v. Filardo*, 336 U.S. 281, 285, (1949))).

<sup>15</sup> 136 S. Ct. 2090 (2016).

methodology for assessing whether a statute can reach activity outside of the United States.<sup>16</sup> Step one entails an assessment of whether the presumption against extraterritoriality has been rebutted by “a clear, affirmative indication that [the statute] applies extraterritorially.”<sup>17</sup> If not, then step two requires a court to determine the “focus” of the statute: “If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad.”<sup>18</sup>

*WesternGeco* presented an interesting extraterritorial issue: does the presumption against extraterritoriality and the *RJR Nabisco* framework apply to remedial provisions such as section 284, or is it limited to liability and jurisdiction? In other words, if a court were to conclude that the statute had extraterritorial reach on the liability side, would the issue of extraterritoriality be irrelevant to whether damages are available for foreign activity? Or instead, would a court need to address the presumption at both stages of liability and remedial provisions, like a two-pass filter? *WesternGeco* at the Federal Circuit<sup>19</sup> was part of a trilogy of decisions, including *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*<sup>20</sup> and *Carnegie Mellon University v. Marvell Technology Group, Ltd.*,<sup>21</sup> all of which rejected global damages awards, although *Power Integrations Carnegie Mellon* dealt with damages under 35 U.S.C. § 271(a).<sup>22</sup> Before *WesternGeco*, the Supreme Court had not

---

<sup>16</sup> *Id.* at 2101.

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

<sup>19</sup> The Federal Circuit twice addressed the extraterritorial issue in the *WesternGeco* case. It initially embraced the strict territorial rule articulated in *Power Integrations*, but the Supreme Court vacated that judgment in light of the Court's decision dealing with enhanced damages in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016). See *WesternGeco L.L.C. v. ION Geophysical Corp.*, 791 F.3d 1340, 1351 (Fed. Cir. 2015) (“Under *Power Integrations*, *WesternGeco* cannot recover lost profits resulting from its failure to win foreign service contracts, the failure of which allegedly resulted from ION's supplying infringing products to *WesternGeco*'s competitors.”), *cert. granted, vacated*, 136 S. Ct. 2486 (2016). The Federal Circuit reinstated its territorial rule on remand without reconsidering intervening Supreme Court precedent on extraterritoriality. *WesternGeco L.L.C. v. ION Geophysical Corp.*, 837 F.3d 1358, 1361 (Fed. Cir. 2016), *rev'd* 138 S. Ct. 2129 (2018).

<sup>20</sup> 711 F.3d 1348, 1372 (Fed. Cir. 2013).

<sup>21</sup> 807 F.3d 1283, 1311 (Fed. Cir. 2015).

<sup>22</sup> See generally Bernard Chao, *Patent Law's Domestic Sales Trap*, 93 DENV. L. REV. ONLINE 87 (2016); Bernard Chao, *Patent Imperialism*, 109 NW. U.L. REV. ONLINE 77 (2014).

addressed the applicability of the presumption to remedial provisions, making this case important for the Court's extraterritoriality jurisprudence.

Finally, the case also presented an interesting issue of proximate cause with respect to damages. The proximate cause issue in the case was two-fold. First, the damages arose from acts outside of the United States. The case, therefore, presented the intersection of proximate cause and territoriality. In other words, is the presumption against extraterritoriality distinct from proximate cause, or should concerns of extraterritoriality be folded into the proximate cause analysis? Second, the damages at issue in the case were not for sales of the invention itself; instead, they were for lost sales of services to use the patented invention. Such harm is more remote than sales of the invention itself, creating an issue of proximate cause.

*WesternGeco*, as a result, had the potential to be a sweeping opinion, reaching into a variety of distinct aspects of judicial doctrine. It was not a minor case about a somewhat esoteric patent infringement provision. Ultimately, the Supreme Court's decision in the case was relatively narrow and avoided many of these broader implications. While narrow, however, the decision did answer a few questions and provided some insights into others.

This Article explores the implications of the *WesternGeco* decision for patent law and beyond. Part I offers a summary of the case, its briefing, and then the Supreme Court's holding. Part II explores the questions that the Court did answer. In particular, it discusses the implications of the Court's skipping step one of the *RJR Nabisco* framework. That Part also discusses what the Supreme Court clarified with its step two analysis. Importantly, the Court made clear that the extraterritorial reach of a general remedy provision depends upon the corresponding liability provision. Part III turns to the questions left open by the Court and how courts in future cases may address those gaps. Specifically, Part III interrogates whether the Federal Circuit's *Power Integrations* and *Carnegie Mellon* decisions survive *WesternGeco*. I contend that they do. Section III then discusses the important role that proximate cause may play in future patent cases, particularly those involving global theories of damages. The Article then concludes.

---

<sup>23</sup> *WesternGeco L.L.C. v. ION Geophysical Corp.*, 953 F. Supp. 2d 731, 739 (S.D. Tex. 2013), *aff'd in part, rev'd in part*, 791 F.3d 1340 (Fed. Cir. 2015), *cert. granted, judgment vacated*, 136 S. Ct. 2486, 195 L. Ed. 2d 820 (2016), *and aff'd in part, vacated in part, rev'd in part*, 837 F.3d 1358 (Fed. Cir. 2016).



## I. SURVEILLANCE TECHNOLOGY, BOATS, AND THE HIGH SEAS

### A. Patent Damages and Territoriality

The technology in *WesternGeco* involved “marine seismic streamer technology . . . deployed behind ships [that] use acoustic signals and sensors to create three-dimensional maps of the subsurface of the ocean floor in order to facilitate natural resource exploration and management.”<sup>23</sup> WesternGeco sued ION Geophysical Corporation (“ION”) in the Southern District of Texas, alleging that ION infringed four of its U.S. patents on this technology.<sup>24</sup> In 2007, ION began selling a competing system by manufacturing the components of the patented article in the United States, then shipping them to companies abroad for use on the high seas, outside of any single country’s jurisdiction.<sup>25</sup> Once assembled ION’s version of the competing system provided services that were indistinguishable from those provided by WesternGeco’s patented article.

At trial, the jury concluded that ION had infringed four WesternGeco patents.<sup>26</sup> WesternGeco provided evidence that it had lost ten survey contracts due to ION’s infringement. A jury found that ION had infringed under section 271(f)(2) and awarded WesternGeco \$93.4 million in lost profits for lost foreign sales under 35 U.S.C. § 284, as well as a reasonable royalty of \$12.5 million for the lost patented article.

The district court denied ION’s motion for judgement as a matter of law on a variety of grounds. The court rejected ION’s argument that it lacked the requisite intent required for infringement under section 271(f)(2) because the exported components had no substantial non-infringing uses and ION had the requisite prior knowledge of the patents.<sup>27</sup> Additionally, ION argued that the lost profits award must be vacated because it was not based on the domestic acts of infringement in this case; instead, the damages were based on the revenues that WesternGeco estimated its overseas competitors received for their *uses* of ION’s equipment in ten seismic surveys

---

<sup>23</sup> *WesternGeco L.L.C. v. ION Geophysical Corp.*, 953 F. Supp. 2d 731, 739 (S.D. Tex. 2013), *aff’d in part, rev’d in part*, 791 F.3d 1340 (Fed. Cir. 2015), *cert. granted, judgment vacated*, 136 S. Ct. 2486, 195 L. Ed. 2d 820 (2016), *and aff’d in part, vacated in part, rev’d in part*, 837 F.3d 1358 (Fed. Cir. 2016).

<sup>24</sup> *Id.*

<sup>25</sup> *WesternGeco*, 791 F.3d at 1349.

<sup>26</sup> *Id.* at 1344.

<sup>27</sup> *WesternGeco*, 953 F. Supp. 2d at 750.

performed in foreign waters.<sup>28</sup> ION asserted that section 271(f)(2) does not afford such protection and would give improper extraterritorial effect to U.S. law.<sup>29</sup> ION insisted that it could only be liable for “supplying” the component; the provision could not be extended to any subsequent “making” or “using” of a device abroad.<sup>30</sup> The District Court denied this motion, claiming that foreign lost profits from domestic acts of infringement should not be precluded.

The Federal Circuit, however, took a very different view of the availability of damages in the case.<sup>31</sup> That court concluded that the lost profits due to the foregone sale of services was not recoverable given the presumption against extraterritoriality.<sup>32</sup> The Federal Circuit reached this conclusion by using a strict territorial limit on patent infringement damages that the court embraced in *Power Integrations* and *Carnegie Mellon*.<sup>33</sup> In all three cases, the Federal Circuit rejected damages awards for foreign activities, even though there was a predicate domestic act of infringement. Judge Wallach dissented, rejecting the articulated bright-line territorial rule.

---

<sup>28</sup> *Id.* at 755.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.* (“ION argues that the lost profits award must be vacated because it is not based on the domestic acts of infringement in this case but on the revenues that WesternGeco estimated its overseas competitors received for their non-infringing uses of ION’s equipment in ten seismic surveys performed in foreign waters. ION says to do so is not permitted by § 271(f) and would give improper extraterritorial effect to U.S. law. ION insists that it can only be liable for ‘supplying’ the component and cannot extend to subsequent ‘making’ or ‘using’ of a device abroad.”).

<sup>31</sup> The Federal Circuit decided this case twice. The court’s initial judgment was vacated and remanded in light of the Supreme Court’s decision in decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016), dealing with the standard for enhanced patent damages. See *WesternGeco LLC v. ION Geophysical Corp.*, 136 S. Ct. 2486 (mem.) (2016). The Federal Circuit reinstated its first decision with respect to territorial limits on patent damages. This Article will cite to the second decision. Judge Wallach’s dissents in the two decisions did differ, however, and the Article will cite to the appropriate one.

<sup>32</sup> *WesternGeco L.L.C. v. ION Geophysical Corp.*, 791 F.3d 1340, 1349 (Fed. Cir. 2015) (“We hold that lost profits cannot be awarded for damages resulting from these lost contracts.”).

<sup>33</sup> *Id.* at 1351; see also *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, 711 F. 3d 1348 (Fed. Cir. 2013). For some reason, the Federal Circuit in its second *WesternGeco* decision did not revisit its damages reasoning to also account for *Carnegie Mellon University v. Marvell Technology Group, Ltd.*, 807 F.3d 1283 (Fed. Cir. 2015), which also embraced a strict territorial rule, 807 F.3d 1283, 1311 (Fed. Cir. 2015) (“We accordingly must vacate the portion of the damages award, original and supplemented, and the portion of the ongoing-royalty order, which apply the royalty rate to chips not made or used in, or imported into, the United States. A new trial is required to determine whether those chips were sold in the United States.”).

Instead, he focused on the crux of the issue: “When a patent holder successfully demonstrates both patent infringement under United States law and foreign lost profits, what degree of connection must exist between the two before the foreign activity may be used to measure the plaintiff’s damages?”<sup>34</sup>

Although the Federal Circuit relied upon the presumption against extraterritoriality in its reasoning, the court did not use the two-step framework for assessing the extraterritorial application of U.S. law adopted by the Supreme Court in *RJR Nabisco, Inc. v. European Community*. Under *RJR Nabisco*, a court at step one should determine whether the presumption against extraterritoriality has been rebutted, which occurs when “the statute gives a clear, affirmative indication that it applies extraterritorially.”<sup>35</sup> If the presumption is not rebutted at step one, a court then goes to step two to assess the focus of the statute to determine if, under the facts of the case, the statute is regulating domestic conduct, even if there may be some conduct that occurred abroad.<sup>36</sup> Necessarily, because a court at step two must consider the particular foreign and domestic activities in the case before it, the focus of the statute is contingent on the particular facts of any given case. As a result, it is difficult, if not impossible, to generalize a court’s conclusion as step two.

The Supreme Court signaled interest in the case when it asked for the Solicitor General’s view of whether to grant *certiorari*. When the Court makes such a request in a patent case, it dramatically increases the likelihood that the Court will take the case, particularly if the government recommends that the Court take the case.<sup>37</sup> That dynamic bore out here, as the government did recommend the Court grant *certiorari*.

Interestingly, the Solicitor General took a rather aggressive stance in its argument. The United States first argued that the presumption against extraterritoriality did not apply at all to remedial provisions.<sup>38</sup> Instead, once liability has been assessed, the only limit

---

<sup>34</sup> *WesternGeco L.L.C. v. ION Geophysical Corp.*, 837 F.3d 1358, 1365 (Fed. Cir. 2016) (Wallach, J., dissenting).

<sup>35</sup> *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2101 (2016).

<sup>36</sup> *Id.*

<sup>37</sup> John F. Duffy, *The Federal Circuit in the Shadow of the Solicitor General*, 78 GEO. WASH. L. REV. 518, 540-44 (2010).

<sup>38</sup> See *See First Brief for the United States*, *supra* note 10, at 11-13. The Solicitor General’s brief also compared extraterritoriality for liability and damages with prior art provisions and exhaustion. *Id.* at 10-11. This perspective confuses the concerns about extraterritoriality. For prior art and exhaustion, it is foreign

on damages is proximate cause; extraterritoriality can no longer limit damages.<sup>39</sup> The Solicitor General also acknowledged the Court had not addressed whether the *RJR Nabisco* framework applied to remedial provisions of a statute but argued, even if it did, the framework would afford damages to the patentee in this case.<sup>40</sup> In this way, the Solicitor General attacked not only the Federal Circuit’s decision in this case but also its earlier decisions in *Power Integrations* and *Carnegie Mellon* that adopted a bright-line presumption against extraterritoriality.<sup>41</sup> The Solicitor General, therefore, painted this case as being about far more than merely damages under section 271(f); instead the case was about the Federal Circuit’s broader approach to damages for foreign activities flowing from domestic infringement. The Solicitor General repeated these broader themes in his brief on the merits.<sup>42</sup>

The stage was set, therefore, for this case to address a variety of issues in sweeping fashion. Whether the Court would write a broad decision on all of these issues, however, seemed unlikely. Indeed, the Court ultimately wrote a narrow decision.

### ***B. The Supreme Court’s Decision in WesternGeco***

The Supreme Court ultimately took a middle ground approach to the various issues circulating in the case. Even though the case was pregnant with a variety of issues—its first interpretation of compensatory patent damages, extraterritoriality, and proximate cause—the Court wrote fairly narrowly. Unlike the Federal Circuit, the Supreme Court did use the *RJR Nabisco* two-step framework.

---

activity that creates effects within the United States. There is no concern about U.S. law regulating foreign activities. That contrasts sharply with using U.S. law to regulate foreign behavior through liability for foreign acts or damages for foreign activities. In theory, prior art and exhaustion indirectly could moderate foreign activity by encouraging U.S. actors to behave differently in light of potential domestic impacts of their behavior. But the policies implicated by prior art and international exhaustion are simply different in kind to liability and damages rooted in foreign activity.

<sup>39</sup> *Id.* at 13.

<sup>40</sup> *Id.* at 13-14.

<sup>41</sup> *Id.* at 19.

<sup>42</sup> Brief for the United States as Amicus Curiae Supporting Petitioner at 9-10, *WesternGeco LLC v. ION Geophysical Corporation*, 137 S. Ct. 2206 (mem.) (2017) (No. 16-1011), 2018 WL 1168813 (arguing that “evidence does not regulate foreign conduct or significantly implicate the concerns that underlie the presumption against extraterritoriality” and the outcome would be the same even under *RJR Nabisco* framework).

Tellingly, the Supreme Court skipped step one's assessment of whether the presumption had been rebutted. The Court noted, "[w]hile 'it will usually be preferable' to begin with step one, courts have the discretion to begin at step two 'in appropriate cases.'" <sup>43</sup> The Court declined to perform 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."<sup>44</sup> The question the Court wished to avoid was whether the presumption should ever "apply to statutes, such as § 284, that merely provide a general damages remedy for conduct that Congress has declared unlawful. Resolving that question could implicate many other statutes besides the Patent Act."<sup>45</sup> Because step one depends solely on the statute and not the facts of the case, any holding on this issue would extend well beyond § 284 and patent law itself.

The Court concluded at step two, however, that damages are available for the foreign activity in this case. Step two requires a court to inquire "whether the case involves a domestic application of the statute." To answer this question, the Court noted the focus of section 284 is "infringement."<sup>46</sup> As a result, the focus of section 284 depends on the definition of infringement under section 271 at issue in the case.<sup>47</sup> Consequently, the Court turned to section 271(f)(2) to perform its focus analysis. The Court held that section 271(f)(2)'s focus is the supplying of components from the United States, which are domestic acts. The Court reasoned, "The conduct in this case that is relevant to that focus clearly occurred in the United States, as it was ION's domestic act of supplying the components that infringed WesternGeco's patents."<sup>48</sup> Those domestic acts resulted in the consequences for which damages are sought, so those damages should be available. The Court, therefore, rejected the Federal Circuit's territorial limits.

The Court rejected ION's argument that the statute's focus is simply damages such that an award for extraterritorial activity is beyond

---

<sup>43</sup> *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129, 2136 (2018) (quoting *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2101 n.5 (2016)).

<sup>44</sup> *Id.* (quoting *Pearson v. Callahan*, 555 U.S. 223, 236–37 (2009)).

<sup>45</sup> *Id.*

<sup>46</sup> *Id.* at 2137 ("We conclude that 'the infringement' is the focus of this statute.").

<sup>47</sup> *Id.* ("To determine the focus of § 284 in a given case, we must look to the type of infringement that occurred.").

<sup>48</sup> *Id.* at 2138.

that focus: “While § 284 does authorize damages, what a statute authorizes is not necessarily its focus.”<sup>49</sup> The focus is the ““objec[t] of the statute’s solicitude,”” which here are the various acts of infringement under section 271.<sup>50</sup> The Court acknowledged that section 284 is “merely the means by which the statute achieves its end of remedying infringements.”<sup>51</sup> Similarly, the Court viewed the overseas events as “merely incidental” to the acts of infringement, so they lacked primacy in an extraterritorial analysis of damages.<sup>52</sup> The language in *RJR Nabisco* relied upon by ION involved the issue of liability and not damages.<sup>53</sup>

Relatedly, the majority faulted the dissenting justices for conflating liability with damages.<sup>54</sup> The majority noted that damages in patent law are compensatory in nature, and such relief can include foreign lost profits for infringement under section 271(f)(2). Conspicuously, the Court noted—though it did not address—the potential that other doctrines, such as proximate cause, could limit the availability of such damages in other contexts.<sup>55</sup>

Justice Gorsuch, joined by Justice Breyer, dissented. In their view, damages for foreign lost profits were not available in this case regardless of the applicability of the presumption against extraterritoriality.<sup>56</sup> The dissent looked at the language of sections 154(a)(1) and 271(a) to emphasize the territorial nature of the rights afforded by a U.S. patent. The dissent, seemingly somewhat in agreement with the majority, noted that the definitions of infringement “work their way into the statutory measure of damages” given section 284’s reference to “infringement.”<sup>57</sup> In Justice Gorsuch’s view, section 271(f) simply carved out a small exception for making the patented invention in the United States,

---

<sup>49</sup> *Id.*

<sup>50</sup> *Id.* (quoting *Morrison v. Nat’l Australia Bank Ltd.*, 561 U.S. 247, 267 (2010)).

<sup>51</sup> *Id.*

<sup>52</sup> *Id.* (quoting *Morrison*, 561 U.S. at 267).

<sup>53</sup> *Id.*

<sup>54</sup> *Id.* (“Their position wrongly conflates legal injury with the damages arising from that injury.”).

<sup>55</sup> *Id.* at 2139 n.3 (“In reaching this holding, we do not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases.”).

<sup>56</sup> *Id.* at 2139 (Gorsuch, J., dissenting) (“In my view the Act’s terms prohibit the lost profits sought in this case, whatever the general presumption against extraterritoriality applicable to all statutes might allow.”).

<sup>57</sup> *Id.* at 2140.

but that did not change the rule with respect to foreign uses of the patented invention, the basis for damages in the case.<sup>58</sup>

Drawing on a hypothetical that is quite similar to the facts of *Carnegie Mellon*, Justice Gorsuch identified the problem here.<sup>59</sup> If someone made a prototype of a patented chip that is used in cell phones, then, seemingly under the majority's approach that company could be liable for all uses of the chip in cell phones around the world.<sup>60</sup> As Justice Gorsuch noted, this would be an odd outcome, given that foreign jurisdictions' patent laws should govern those sales.<sup>61</sup>

## II. WHAT WE DID LEARN FROM *WESTERNGECO*

*WesternGeco* had the potential to be a sweeping opinion. The Supreme Court, however, took a narrow approach to the case. Nevertheless, there are a number of important takeaways and insights from the decision, which this Part explores. The implications of the decision will impact not only patent law but also extraterritoriality doctrine generally.

### A. *The Supreme Court Punts on Step One of RJR Nabisco*

One of the open questions presented in *WesternGeco* was whether the presumption against extraterritoriality applied to remedial provisions. This question is one that transcends patent law. The petitioner and the United States suggested that the presumption was irrelevant to damages. In other words, extraterritoriality is a one-pass test: if the presumption is satisfied at the liability phase, then a court should not revisit the issue on the remedial stage.

Others argued, however, that the presumption does attach individually, requiring two passes with respect to both liability and remedies. Otherwise, according to this line of argument, a court could miss the extraterritorial consequences of a damages award. As to liability, the infringement could take place within the United States, satisfying the *RJR Nabisco* framework. If the analysis stops

---

<sup>58</sup> *Id.* at 2141.

<sup>59</sup> *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 986 F. Supp. 2d 574, 593–94 (W.D. Pa. 2013), *aff'd in part, vacated and remanded in part, rev'd in part*, 807 F.3d 1283 (Fed. Cir. 2015) (noting domestic use of patented method resulting in foreign sales of chips).

<sup>60</sup> *WesternGeco*, 138 S. Ct. at 2142.

<sup>61</sup> *Id.* at 2142–43.

there, with no consideration at the remedies phase, then the door would be wide-open for all damages flowing from those domestic acts, limited only by proximate cause.

This case demonstrated the concern: liability was determined based on the supply of components from the United States. There was no issue of extraterritoriality applied at the liability stage. Yet an award of damages here risked extending U.S. law extraterritorially. Whether the foreign activity triggers liability or damages is a distinction without a difference here. In both scenarios, a party is using U.S. law to regulate behavior outside of the United States.

Technically, the Court did not provide a clear answer to this question. The Court declined to answer this question precisely because it transcends patent law: “[r]esolving that question could implicate many other statutes besides the Patent Act. We therefore exercise our discretion to forgo the first step of our extraterritoriality framework.”<sup>62</sup> So, unfortunately, the law on extraterritoriality will have to wait for a future case to answer this question.

By skipping step one, the Court also avoided another thorny issue: what is the consequence if the presumption is rebutted with respect to the extraterritorial scope of the statute?<sup>63</sup> In other words, the law is unclear as to what happens when the presumption is rebutted at step one. It could mean that, once rebutted, any relevant extraterritorial activity falls within the scope of the statute. It treats the presumption as a binary issue: the presumption is rebutted, or it is not. The presumption would have no further operation, for example, to provide a basis for offering a narrower interpretation of the statute notwithstanding the presumption’s rebuttal.<sup>64</sup> That approach, however, ignores the particular context of a given case.

---

<sup>62</sup> *WesternGeco*, 138 S. Ct. at 2136–37.

<sup>63</sup> See Maggie Gardner, *RJR Nabisco and the Runaway Canon*, 102 VA. L. REV. ONLINE 1335-36 (2016) (bemoaning Court’s failure in *RJR Nabisco* to provide such guidance). In essence, the Court has compounded this oversight by, again, skipping over this consideration. The Court passed on a similar opportunity in another case addressing section 271(f) of the Patent Act, *Life Techs. Corp. v. Promega Corp.*, 137 S. Ct. 734 (2017). Notwithstanding a discussion of extraterritoriality at oral argument, the Court’s decision is silent as to the presumption. See Holbrook, *supra* note 12 at 1758–59.

<sup>64</sup> See *Microsoft Corp. v. AT & T Corp.*, 550 U.S. 437, 455–56 (2007) (“AT & T argues that the presumption is inapplicable because Congress enacted § 271(f) specifically to extend the reach of United States patent law to cover certain activity abroad. But as this Court has explained, ‘the presumption is not defeated... just because [a statute] specifically addresses [an] issue of extraterritorial application,’; it remains instructive in determining the extent of the statutory exception....” (quoting *Smith v. United States*, 507 U.S. 197, 204 (1993))).



Conceivably, the facts of a case could still create extraterritorial concerns even if Congress has demonstrated an intent to afford extraterritorial reach to the relevant statute.

This tension in the role of the presumption can be seen concretely in an earlier case at the Court also involving section 271(f), *Microsoft Corp. v. AT&T Corp.*<sup>65</sup> In *Microsoft*, the Court used the presumption as a statutory interpretation tool to afford section 271(f) a narrower scope.<sup>66</sup> The use of the presumption in this fashion seems inconsistent with the *RJR Nabisco* framework: under step one, the presumption is either rebutted or it is not. Section 271(f) demonstrates Congress's intent to afford extraterritorial protection, which seemingly would end the inquiry. The Court's *RJR Nabisco* framework does not seem to contemplate the use of the presumption to interpret the statute, making *Microsoft* potentially an outlier in the law.<sup>67</sup> By skipping step one, the Court avoided these much broader and more complicated issues, leaving them to future cases.

Relatedly, by avoiding analyzing the presumption at step one, the Court failed to address a key unspoken dynamic within the case: is an award of damages for foreign acts different than allowing liability based on foreign acts? Those who support a purely compensatory view of damages, without considering territoriality, effectively treat the two as different concerns. But, as highlighted by Justice Gorsuch's dissent, others would view this scenario as a distinction without a difference.

The presumption against extraterritoriality is justified in part on potential conflicts with foreign law. On the liability side, this concern is clear: holding someone liable within the United States for activities in another country may run afoul of that country's law. The activity may very well be legal there. Moreover, liability can be deemed an affront to the sovereignty of that country. Extraterritorial application of U.S. law allows the tentacles of U.S. law to reach into an area controlled by another sovereign, which can create political

---

<sup>65</sup> *Id.*

<sup>66</sup> *Id.* at 455 (“Applied to this case, the presumption [against extraterritoriality] tugs strongly against construction of § 271(f) to encompass as a ‘component’ not only a physical copy of software, but also software's intangible code, and to render ‘supplie [d] ... from the United States’ not only exported copies of software, but also duplicates made abroad.”).

<sup>67</sup> See Gardner, *supra* note 64, at 145 (“The Court suggested in [*Microsoft*] that the presumption against extraterritoriality continues to apply even when a statute is explicitly extraterritorial....[S]aying the presumption applies after it has been rebutted will only sow confusion.”).

concerns. The implications of triggering liability in the United States based on foreign acts are thus clear: the United States would be effectively regulating behavior in a foreign country.

*WesternGeco* presented the concerns about damages. The damages arose on the high seas, so technically there is no single country whose law would apply. Nevertheless, one can easily view the liability/damages distinction as one without a difference. While the ultimate goal of awarding damages to a party based on foreign conduct would be compensatory in nature, that activity also has the effect of attempting to regulate activity within another country. From the perspective of the liable actor—and likely the foreign country—the impact of the damages award would be to prevent such behavior in the future. The impact of awarding damages based on foreign conduct, therefore, goes far beyond mere compensation. Instead, it reflects another form of regulating foreign conduct, possibly interfering with the sovereignty of another nation.

Justice Gorsuch recognized this potential problem in his dissent, demonstrating that he rejects any distinction between liability and damages. As he noted, an expansive view of patent damages would “effectively giv[e] the patent owner a monopoly over foreign markets through its U.S. patent.”<sup>68</sup> He then expressly recognized the reciprocity concern with the sovereignty of other nations: what would happen if other countries applied a similar rule to activity within the United States? As he explained, “[a] foreign court might reasonably hold the U.S. company liable for infringing the foreign patent in the foreign country. But if it followed *WesternGeco*'s theory, the court might then award monopoly rent damages reflecting a right to control the market for the chip in this country—even though the foreign patent lacks any legal force here.”<sup>69</sup>

I concur with this view of patent damages: the concerns that underlie the presumption against extraterritoriality for liability apply with equal force for damages. An award of damages based on foreign conduct is the same as finding a party liable based on extraterritorial acts. There is no real distinction. As such, the presumption should apply to general remedial provisions. Even though the Court technically side-stepped that issue, Justice Gorsuch's dissent lays the ground work for the presumption to apply generally to both liability and remedial provisions, which I view as the correct outcome. But future cases will have to make that clear.

---

<sup>68</sup> *WesternGeco*, 138 S. Ct. at 2142 (Gorsuch, J., dissenting).

<sup>69</sup> *Id.* at 2143.

***B. The Court Offers Guidance as to Step Two's Focus, Making General Damages Provisions Dependent on How Liability is Defined Elsewhere in the Statute.***

The Court's analysis at step two of the *RJR Nabisco* framework affords insights into how the framework is to operate. First, it confirmed that the presumption against extraterritoriality and the "focus" analysis are actually distinct. The *RJR Nabisco* framework is about more than just the presumption. The focus analysis is something different, grafted into the doctrine to permit some extraterritorial reach even when the presumption has not been rebutted.

Second, by applying the focus analysis of step two in this case, the Court provided guidance for future cases as to how step two relates to remedial provisions. In *WesternGeco*, the Court turned to section 271(f)(2) to assess the focus of the statute; it did not focus on section 284 alone, which contains no territorial limits.<sup>70</sup> The Court noted that the focus of section 284 was "infringement," but that term depended upon the definitions of infringement found in section 271.<sup>71</sup> As a result, the Court reasoned that "[t]o determine the focus of § 284 in a given case, we must look to the type of infringement that occurred. We thus turn to § 271(f)(2), which was the basis for WesternGeco's infringement claim and the lost-profits damages that it received."<sup>72</sup> Because the focus of § 271(f)(2) was domestic, damages were permitted even for acts arising outside of the United States.

Professor Stephen Yelderman of Notre Dame Law School had advocated in an amicus brief for an approach that did not tie section 284 to the specific infringement provision at issue.<sup>73</sup> Nevertheless, he subsequently noted that the Supreme Court "vindicated"<sup>74</sup> the

---

<sup>70</sup> *Id.*

<sup>71</sup> *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129, 2137 (2018)

<sup>72</sup> *Id.*

<sup>73</sup> Amicus Curiae Brief of Law Professor Stephen Yelderman in Support of Petitioner, *WesternGeco LLC v. ION Geophysical Corporation*, 2018 WL 1393832 (U.S.), 5 (U.S., 2018)

<sup>74</sup> Stephen Yelderman (@syelderman), TWITTER (June 22, 2018, 8:31 AM), <https://twitter.com/syelderman/status/1010183516842315776>.

methodology I had suggested both in an amici brief on behalf of intellectual property law professors<sup>75</sup> and in prior work.<sup>76</sup>

In using section 271(f)(2) to inform its analysis of the focus of section 284, the Court made clear that a proper step two analysis of a general damages provision is tied to its corresponding liability-defining provision. The analysis of a general remedies provision in any case thus will depend both on the facts in the case as well as the corresponding liability provisions. In the future, a court will first have to use the liability provision to determine the statute's focus, and then compare that focus to the facts of the case to determine if damages for acts outside of the United States will be available.

This use of step two by the Court is important and transcends patent law: in the future, any effort to obtain remedies for acts outside of the United States will depend on the focus of the liability provision, not merely the general remedial statute.<sup>77</sup> Nothing in the Court's reasoning suggests that this analysis is somehow unique to patent law. Indeed, the Court has generally rejected any exceptional treatment of patent law, instead weaving it into the broader tapestry of law.<sup>78</sup> By turning to the specific infringement provision tied to the general remedial provision authorizing damages awards, the Court has articulated a methodology for general remedial provisions.<sup>79</sup> It is the liability-defining part of the statute, not the general remedy provision, which will be the basis for assessing the focus of the statute.

---

<sup>75</sup> See Brief of Intellectual Property Law Scholars as Amici Curiae in Support of Neither Party, *WesternGeco LLC v. Ion Geophysical Corporation*, 2018 WL 1181857 (U.S.) (March 2, 2018).

<sup>76</sup> Holbrook, *supra* note 12, at 1785 (“The above application of the *RJR* framework demonstrates that damages for extraterritorial conduct will depend both on the infringement provision involved and the nature of the damages sought.”).

<sup>77</sup> *Id.* at 2137 (“To determine the focus of § 284 in a given case, we must look to the type of infringement that occurred.”).

<sup>78</sup> Peter Lee, *The Supreme Assimilation of Patent Law*, 114 MICH. L. REV. 1413, 1455 (2016) (“Perhaps unaware or unimpressed by the unique demands of patent law, the Supreme Court has instead integrated patents within the general legal frameworks with which it is familiar.”); Narechania, *supra* 8, at 1388 (“This universality hypothesis for certiorari thus connects to the Supreme Court's apparent project of reining in patent exceptionalism.”);

<sup>79</sup> It is conceivable that Congress could pass a remedial provision with more details beyond simply providing compensation for a separate liability provision. Or the remedial provision could contain additional restraints, such as specific territorial limits. For example, § 284 could specifically limit damages to activities within the United States. But, if a provision is a general remedial one, then a focus analysis will necessarily turn on the part of the statute that defines liability.

### III. UNANSWERED QUESTIONS AND IMPLICATIONS

*WesternGeco* had the potential to offer sweeping answers to the triumvirate of areas of law implicated by the case. The narrowness of the Supreme Court's decision leaves a variety of questions unanswered. This Section explores those lingering ambiguities and offers insights into what directions courts may go in future cases.

#### A. Do Power Integrations, Carnegie Mellon, and Other Federal Circuit Decisions *Survive* *WesternGeco*?

While *WesternGeco* has garnered considerable attention, it is not actually the first at the Federal Circuit to confront various global theories of patent damages. The Federal Circuit decided two other cases, *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*, which precluded lost profits for foregone overseas sales,<sup>80</sup> and *Carnegie Mellon University v. Marvell Technology Group, Ltd.*, which precluded a reasonable royalty for foreign activity.<sup>81</sup> This Part explores the implications of *WesternGeco* on the methodologies used in those decisions and whether, even if their methodology is wrong, their ultimate conclusions are correct.

##### i. *WesternGeco* uses a different methodology of extraterritoriality analysis from that used by *Power Integrations* and *Carnegie Mellon*.

In *Power Integrations*, the Federal Circuit rejected the patentee's theory of worldwide damages based on a predicate act of domestic infringement.<sup>82</sup> In rejecting damages for acts outside the United States, the Federal Circuit gestured toward the presumption against extraterritoriality.<sup>83</sup> The analysis by the court, though, was thin, effectively creating a bright-line rule against extraterritorial damages, regardless of the particular factual context of the case. The court noted that "the entirely extraterritorial production, use, or sale

---

<sup>80</sup> 711 F.3d 1348, 1357 (Fed. Cir. 2013).

<sup>81</sup> 807 F.3d 1283, 1307 (Fed. Cir. 2015) ("We think that the presumption against extraterritoriality, to be given its due, requires something similar in the present royalty setting.")

<sup>82</sup> 711 F.3d at 1371 ("[T]he underlying question here remains whether *Power Integrations* is entitled to compensatory damages for injury caused by infringing activity that occurred outside the territory of the United States. The answer is no.")

<sup>83</sup> *Id.*

of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement.”<sup>84</sup> Although the court cited the Supreme Court’s decision in *Morrison v. National Australia Bank Ltd.*,<sup>85</sup> the Federal Circuit did not engage with the Supreme Court’s methodology in that decision. Instead, the court seemed to embrace a strict territoriality rule: no damages for foreign acts.

The Federal Circuit extended this strict rule to damages for infringement under section 271(f) in the first iteration of *WesternGeco*, which the court then repeated on remand from the Supreme Court.<sup>86</sup> Additionally, the Federal Circuit embraced a strict territorial rule for damages in *Carnegie Mellon*, extending *Power Integrations* to reasonable royalty damages for infringement under section 271(a).<sup>87</sup> The Federal Circuit in *Carnegie Mellon* elaborated more extensively on the presumption against extraterritoriality, discussing *Morrison*’s requirement for assessing a statute’s focus.<sup>88</sup> The court concluded:

Although all of Marvell’s sales are strongly enough tied to its domestic infringement as a causation matter to have been part of the hypothetical-negotiation agreement, that conclusion is not enough to use the sales as a direct measure of the royalty except as to sales that are domestic (where there is no domestic making or using and no importing). As a practical matter, given the ease of finding cross-border causal connections, anything less would make too little of the presumption against extraterritoriality that must inform our application of the patent laws to damages.<sup>89</sup>

In this trilogy of cases, the Federal Circuit laid out a strict territorial limit on damages, an approach that the petitioner and United States argued forcefully against. The government argued that only proximate cause limits damages, not territoriality. In the United

---

<sup>84</sup> *Id.* at 1371–72.

<sup>85</sup> 561 U.S. 247 (2010).

<sup>86</sup> *WesternGeco L.L.C. v. ION Geophysical Corp.*, 791 F.3d 1340, 1350 (Fed. Cir. 2015), *cert. granted, judgment vacated*, 136 S. Ct. 2486 (2016), *aff’d in part, vacated in part, rev’d in part*, 837 F.3d 1358, 1361 (Fed. Cir. 2016), *rev’d*, 138 S. Ct. 2129 (2018).

<sup>87</sup> *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1307 (Fed. Cir. 2015).

<sup>88</sup> *Id.* at 1306 (“What constitutes a territorial connection that brings an action within the reach of a United States statute must ultimately be determined by examining the “‘focus’ of congressional concern’ in the particular statute.” (quoting *Morrison*, 561 U.S. at 266–67)).

<sup>89</sup> *Id.* at 1307.

States' words, "[c]alculation of lost profits under the Patent Act similarly depends on how much profit the U.S. patentee lost because of the domestic infringement, not the place where the patentee would have earned profits if its U.S. patent had not been infringed."<sup>90</sup> Such language impliedly attacked the Federal Circuit's two other decisions, *Power Integrations* and *Carnegie Mellon*.

The Supreme Court rejected the strict territorial rule articulated in *Power Integrations* and *Carnegie Mellon*. But the Court also declined to go as far as the government argued: the Court did not rely solely on proximate cause doctrine to police patent damages. Instead the Court performed its step two "focus" analysis by relying upon section 271(f)(2). It did not suggest that once liability has been determined, damages from anywhere in the world necessarily flow to the patentee. Confirming that the Court did not embrace the United States' view is footnote three in the opinion, where the Court declined to elaborate whether proximate cause or other doctrines could still limit damages in the case.<sup>91</sup> In making this statement, the Court confirmed that proximate cause is distinct from extraterritoriality and thus implicitly rejected the government's approach. The Supreme Court, therefore, rejected both the strict approach used by the Federal Circuit in the trilogy of extraterritorial damages and the government's approach based solely on proximate cause.

*ii. Notwithstanding the Supreme Court's Decision in WesternGeco, the Federal Circuit's Denial of Damages in Power Integrations and Carnegie Mellon May Be Correct (and the Court's Other Case Law May Be Wrong).*

By rejecting the Federal Circuit's bright-line territorial proscription on foreign damages, the Court's decision in *WesternGeco* implicates the continued viability of *Power Integrations* and *Carnegie Mellon*. Yet, there are reasons to believe that those two cases, while erroneous in their methodology, may nevertheless be correct in their outcomes. Applying the methodology of *WesternGeco* would require an assessment of the relevant infringement provision to determine the statute's focus. In the cases of *Power Integrations* and *Carnegie Mellon*, the relevant infringement provision is section

---

<sup>90</sup> Second Brief for the United States, *supra* note 42, at 13.

<sup>91</sup> *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129, 2139 n.3 (2018) ("In reaching this holding, we do not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases.").

271(a). As I argued before *WesternGeco*, the methodology ultimately adopted by the Supreme Court could lead appropriately to divergent outcomes for cases arising under sections 271(a) and 271(f).<sup>92</sup>

The analysis of the focus at step two is necessarily fact dependent. A court must assess the focus of the statute vis-à-vis the particular extraterritorial or transnational activity involved in the case. For example, in *Morrison v. National Australia Bank Ltd.*, the Court first had to determine the focus of the statute. The Court concluded that “the focus of the Exchange Act is not upon the place where the deception originated, but upon purchases and sales of securities in the United States.”<sup>93</sup> According to the Court, transactions are what the relevant Security Exchange Act regulates, and § 10(b) of the Act applies to exchanges and transactions of other securities that are domestic.<sup>94</sup> The Court made this assessment because of the particular facts of the case: the acts of deception took place within the United States, but the relevant transactions all took place outside of the United States.<sup>95</sup> Because the focus of the statute is on domestic transactions, and not the location of the deception, the Court held that the Act did not cover the acts in this case.<sup>96</sup>

Although the majority in *Kiobel v. Royal Dutch Petroleum Co.* did not expressly address the focus of the Alien Tort Statute (ATS), Justice Alito—the author of *RJR Nabisco*—did so in his concurrence.<sup>97</sup> All of the case’s activities—atrocities including beatings, rape, and killings<sup>98</sup>—took place in Nigeria; the only domestic tie was that some of the plaintiffs, Nigerian nationals, resided in the United States.<sup>99</sup> The majority concluded the presumption against extraterritoriality was not rebutted, precluding

---

<sup>92</sup> Holbrook, *supra* note 12, at 1779-85.

<sup>93</sup> *Morrison v. Nat'l Australia Bank Ltd.*, 561 U.S. 247, 266 (2010).

<sup>94</sup> *Id.* at 267.

<sup>95</sup> *Id.* (“They contend that they seek no more than domestic application anyway, since Florida is where HomeSide and its senior executives engaged in the deceptive conduct of manipulating HomeSide’s financial models; their complaint also alleged that Race and Hughes made misleading public statements there.”).

<sup>96</sup> *Id.* at 273 (“Section 10(b) reaches the use of a manipulative or deceptive device or contrivance only in connection with the purchase or sale of a security listed on an American stock exchange, and the purchase or sale of any other security in the United States. This case involves no securities listed on a domestic exchange, and all aspects of the purchases complained of by those petitioners who still have live claims occurred outside the United States. Petitioners have therefore failed to state a claim on which relief can be granted.”).

<sup>97</sup> 569 U.S. 108, 126 (2013) (Alito, J., concurring).

<sup>98</sup> *Id.* at 113

<sup>99</sup> *Id.* at 111-13.



a suit under the ATS by plaintiffs.<sup>100</sup> Justice Alito, drawing on the reasoning in *Morrison*, addressed the issue of the focus of the statute. According to him, the focus of the ATS was “only conduct that satisfies *Sosa*'s requirements of definiteness and acceptance among civilized nations.”<sup>101</sup> As a result, a cause of action under the ATS “will fall within the scope of the presumption against extraterritoriality—and will therefore be barred—unless the domestic conduct is sufficient to violate an international law norm that satisfies *Sosa*'s requirements of definiteness and acceptance among civilized nations.”<sup>102</sup> Thus, the plaintiffs could not bring their suit because the particular conduct in the case did not fall within that focus for the statute.

Although *RJR Nabisco* formalized the two-step extraterritoriality analysis, it did not provide much analysis as to step two. For the substantive provisions of the Racketeer Influenced and Corrupt Organizations Act (RICO), it found the presumption rebutted at step one, obviating the need to discuss step two.<sup>103</sup> Oddly, in discussing whether RICO's private right of action accommodates extraterritorial activity, the Court held that it did not but never used the word “focus” to assess this provision.<sup>104</sup> Perhaps because the plaintiffs waived their claims for domestic injuries, the Court assumed questions regarding the focus of the statute were not at issue. Thus, the lack of a clear focus analysis is striking in *RJR Nabisco* and makes *WesternGeco* all the more important in the Court's development of its jurisprudence surrounding extraterritorial application of U.S. law.

Unlike *WesternGeco*, *Power Integrations* and *Carnegie Mellon* both involved infringement under section 271(a) of the Patent Act.<sup>105</sup> Of course, the Supreme Court declined to answer whether section 284 alone rebutted the presumption against extraterritoriality at step

---

<sup>100</sup> *Id.* at 124-25.

<sup>101</sup> *Id.* at 126 (Alito, J., concurring) (citing *Sosa v. Alvarez-Machain*, 542 U.S. 692, 723-34 (2004)).

<sup>102</sup> *Id.* at 127.

<sup>103</sup> *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2103 (2016).

<sup>104</sup> *Id.* at 2106.

<sup>105</sup> *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1308 (Fed. Cir. 2015); *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1371 (Fed. Cir. 2013).

one.<sup>106</sup> There is little in the section 284 itself to suggest any intent on the part of Congress to afford damages for foreign activities.

Moreover, if a court were to perform a similar analysis as to step two—looking to the corresponding liability provision to inform the presumption analysis at step one—then one would be hard pressed to argue that the presumption has been rebutted when reviewing section 271(a). The clear language of that provision requires the infringing acts to be “within the United States” or, for imports of the patented invention, “into the United States.”<sup>107</sup> It is hard to imagine a clearer statement of territorial limits.<sup>108</sup> An analysis under *RJR Nabisco* suggests that step one would not be satisfied.

A court would then need to turn to step two, approaching the issue in the same way that the Court did in *WesternGeco*. Because the focus depends on the facts of a given case, some speculation is required to anticipate how such an analysis would play out. There are two cases, however, where the Federal Circuit has addressed transnational forms of infringement that could inform a step two analysis as it relates to section 271(a). The first, *NTP, Inc. v. Research In Motion, Ltd.* involved the use of the Blackberry® email system that had components in both the United States and Canada.<sup>109</sup> Notwithstanding the strong territorial language in section 271(a), the Federal Circuit found the use of the system to be within the United States because users both controlled the system from the United States and benefitted from the use of the system within the United States.<sup>110</sup>

The court did not have the benefit of the *RJR Nabisco* framework at the time, but one can see how the focus analysis would work in this case. All aspects of the system were found in the United States, save

---

<sup>106</sup> *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129, 2136–37 (2018) (“Resolving that question could implicate many other statutes besides the Patent Act. We therefore exercise our discretion to forgo the first step of our extraterritoriality framework.”).

<sup>107</sup> 35 U.S.C. § 271(a) (2018).

<sup>108</sup> See Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 VA. J. INT’L L. 603, 605 (1997) (“Of the three principal forms of intellectual property, patent rights are most explicitly territorial.”).

<sup>109</sup> 418 F.3d 1282, 1317 (Fed. Cir. 2005).

<sup>110</sup> *Id.* The court reached a contrary conclusion for method claims at issue. See *id.* at 1317–18. For an argument that this bifurcated approach to system and method claims is inappropriate, see Timothy R. Holbrook, *Method Patent Exceptionalism*, 102 IOWA L. REV. 1001, 1044 (2017) (“There is no apparent reason why the ‘control and beneficial use’ test could not also apply to method claims.”).

one, the Relay. Section 271(a)'s focus is on uses of patented inventions within the United States, and the primary activity of use did arise in the United States. Thus, while there are certain aspects of the system outside of the United States, the use of the Blackberry system fell within the focus of the statute.<sup>111</sup> In terms of damages, it would seem appropriate, therefore, for the patentee to be awarded damages for those uses within the United States.

A similar expansion of the extraterritorial reach of section 271(a) can be seen with the Federal Circuit's rule with respect to infringing offers to sell the patented invention. The court in *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, concluded that the location of an infringing offer to sell the patented invention was the location of the sale contemplated by the offer and not where the offer was made.<sup>112</sup> In the case, all negotiations for the sale of the patented drilling rig took place in Norway, although delivery was to be within the United States.<sup>113</sup> According to the court, "[t]he focus should not be on the location of the offer, but rather the location of the future sale that would occur pursuant to the offer."<sup>114</sup>

Technically, the court left open the question as to whether offers made within the United States to sell the invention outside of the United States also fell within the scope of section 271(a).<sup>115</sup> In a subsequent case, *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, the Federal Circuit applied the *Transocean* rule and held that an offer made in the United States to sell the invention outside of the United States did not constitute an infringing offer to sell.<sup>116</sup> The case involved negotiations within the United States to sell the patented invention abroad.<sup>117</sup> The Federal Circuit reasoned, "[i]f a sale outside the United States is not an infringement of a U.S. patent,

---

<sup>111</sup> To be clear, this argument could be contested. I offer this analysis as a way of reconciling what the Federal Circuit did in the case with the *RJR Nabisco* framework.

<sup>112</sup> 617 F.3d 1296, 1309 (Fed. Cir. 2010) ("This case presents the question whether an offer which is made in Norway by a U.S. company to a U.S. company to sell a product within the U.S., for delivery and use within the U.S. constitutes an offer to sell within the U.S. under § 271(a). We conclude that it does.").

<sup>113</sup> *Id.* at 1310.

<sup>114</sup> *Id.* at 1309.

<sup>115</sup> See Timothy R. Holbrook, *Territoriality and Tangibility After Transocean*, 61 EMORY L.J. 1087, 1104 (2012).

<sup>116</sup> 831 F.3d 1369, 1378 (Fed. Cir. 2016); accord *Texas Advanced Optoelectronic Sols., Inc. v. Renesas Elecs. Am., Inc.*, 895 F.3d 1304, 1330 (Fed. Cir. 2018).

<sup>117</sup> *Halo*, 831 F.3d at 1380.

an offer to sell, even if made in the United States, when the sale would occur outside the United States, similarly would not be an infringement of a U.S. patent.”<sup>118</sup>

The *Transocean/Halo* approach to infringing offers creates an odd dynamic: because the offer need not be accepted to infringe, a party can be liable for infringement of a U.S. patent even if no activity takes place within the United States.<sup>119</sup> Moreover, a party engaging in activity in the United States would not be liable.<sup>120</sup> Generally, this outcome seems antithetical to the presumption against extraterritoriality as it results in regulation of foreign activity with no connection to the territory of the United States, beyond some tangential economic harm to the patent holder.<sup>121</sup> Meanwhile, acts within the United States are deemed outside the scope of the relevant patent.

Nevertheless, consideration of the focus of section 271(a) pursuant to step two of the *RJR Nabisco* framework would alter the analysis in the *Transocean* and *Halo* cases. Indeed, it likely would lead to a rejection of the *Transocean* test and reintroduce the disagreement that had split the district courts: whether both the offer and contemplated sale had to be within the United States, or just the offer.<sup>122</sup> The *Transocean* rule permits liability when no activity took place in the United States, which would stretch the “focus” analysis beyond recognition. The focus in section 271(a) is on acts “within the United States,” suggesting that at least the offer must be made

---

<sup>118</sup> *Id.*

<sup>119</sup> Holbrook, *supra* note 111, at 1112 (“[U]nder the *Transocean* rule, two parties negotiating, but not reaching an agreement, to potentially sell something in the United States could be liable for infringement of a U.S. patent notwithstanding that no actual commercial activity would take place within the United States.”).

<sup>120</sup> *Id.* (“Thus, two parties – even two *American* companies--could hold negotiations in Ohio regarding an invention to be used in Hungary, and notwithstanding that such commercial activity is taking place within the United States –activity that could be of considerable value to the patent holder – these two companies would be immune to an infringement suit.”).

<sup>121</sup> In this way, the *Transocean* rule appears to be a sort of effects-based test for extraterritoriality. See Timothy R. Holbrook, *Extraterritoriality in U.S. Patent Law*, 49 WM. & MARY L. REV. 2119, 2154-57 (2008) (discussing tests where extraterritorial reach is appropriate if the foreign activity has some effect in the United States).

<sup>122</sup> *Compare* *Cybotronics Ltd., v. Golden Source Elecs, Ltd.*, 130 F. Supp. 2d 1152, 1167-71 (C.D. Cal. 2001) (both offer and sale must be within the United States) with *Wesley Jessen Corp., v. Bausch & Lomb Inc.*, 256 F. Supp. 2d 228, 233-34 (D. Del. 2003) (only offer need be in the United States). See generally Timothy R. Holbrook, *Territoriality Waning? Patent Infringement for Offering in the United States to Sell an Invention Abroad*, 37 U.C. DAVIS L. REV. 701, 733-41 (2004) (discussing this split in authority).

within the United States. One could support the *Transocean* rule in this way: the “offer to sell” provision is concerned with “generating interest in a potential infringing product to the commercial detriment of the rightful patentee.”<sup>123</sup> If the relevant detriment accrues within the United States due to offers to sell the invention, then such harm seems to arise within the United States. Such an approach to the focus of the statute, though would embrace a variation of an effects-based test, where the effect of foreign activity flows into the United States.<sup>124</sup> Such an approach, however, does not hold up to the clear language of *RJR Nabisco*. The Supreme Court noted that the relevant conduct must be within the United States, not the effect:

If the *conduct* relevant to the statute’s focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad; but if the *conduct* relevant to the focus occurred in a foreign country, then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory.<sup>125</sup>

The stronger argument in light of *RJR Nabisco* is that the territorial limits in section 271(a) are specific to the conduct at issue, not the flow of the harm. As such it appears that the *Transocean* rule is wrong under a focus analysis. Instead, the conduct at issue—offering the invention for sale—would need to be within the United States. This potentially renders the *Halo* rule also incorrect because there was domestic activity in that case—offers to sell the invention. Whether the contemplated sale must also be within the United States, however, is not clear, opening the door to the aforementioned split. It may be that *Halo* articulates the right rule but for the wrong reason. If a court were to utilize the now-suspect approach to the presumption articulated in *Microsoft v. AT&T Corp.*, it might suggest that both the offer and the sale must be within the United

---

<sup>123</sup> 3D Sys., Inc. v. Aarotech Labs., Inc., 160 F.3d 1373, 1379 (Fed. Cir. 1998).

<sup>124</sup> See William S. Dodge, *Understanding the Presumption Against Extraterritoriality*, 16 BERKELEY J. INT’L L. 85, 124 (1998) (discussing extraterritorial application of U.S. law when foreign conduct affects domestic concerns).

<sup>125</sup> *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2101 (2016); see *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129, 2138 (2018) (“The conduct in this case that is relevant to that focus clearly occurred in the United States, as it was ION’s domestic act of supplying the components that infringed WesternGeco’s patents.”); see also Dodge, *supra* note 120, at 88 (explaining the “traditional view” that U.S. law should apply only to *conduct* that occurs within the United States, regardless of the location of any resulting effects).

States.<sup>126</sup> Nevertheless, the focus analysis could lead to the conclusion in *Transocean*.

The scenarios in *Power Integrations* and *Carnegie Mellon* are different. Both dealt with damages based on foreign activities that arose subsequent to an act of domestic infringement under section 271(a). *Power Integrations* addressed the availability of lost profits, while *Carnegie Mellon* dealt with reasonable royalties. In both cases, there was domestic act of infringement. The exact nature of those acts was are not entirely clear in *Power Integrations*,<sup>127</sup> but it seems to be a given in the case. In *Carnegie Mellon*, the infringer utilized the claimed method within the United States for the purposes of making sales of chips to perform the patented method.<sup>128</sup> Unlike the facts in *WesternGeco*, many of the chips sold in foreign markets were also manufactured overseas.<sup>129</sup> The only tie to the United States, then, was the demonstrative use of the method in the United States. In analyzing the territoriality issue, Judge Taranto, in an act of impressive foresight,<sup>130</sup> actually did assess the focus of the statute. He found that the focus of section 271(a) is on acts within the United States:

Where a physical product is being employed to measure damages for the infringing use of patented methods, we conclude, territoriality is satisfied when and only when any one of those domestic actions for that unit (*e.g.*, sale) is proved to be present, even if others of the listed activities for that unit (*e.g.*, making, using) take place abroad. Significantly, once one extends the extraterritoriality principle to confining how *damages* are

---

<sup>126</sup> 550 U.S. 437, 454 (2007) (“Any doubt that Microsoft’s conduct falls outside § 271(f)’s compass would be resolved by the presumption against extraterritoriality, on which we have already touched.”).

<sup>127</sup> Holbrook, *Boundaries*, *supra* note 12, at 1781 (“It is unclear where the acts of infringement took place in *Power Integrations*, as is the relationship between any infringing acts within the United States and possible extraterritorial losses of sales.”). The parties had stipulated as to devices made or sold in, or imported into, the United States. *See Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, 711 F.3d 1348, 1369 (Fed. Cir. 2013). Beyond that stipulation, it is not clear what the infringing acts were and how they relate to forgone sales in foreign markets.

<sup>128</sup> *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1305 (Fed. Cir. 2015).

<sup>129</sup> *Id.* (Fed. Cir. 2015). Some chips did return to the United States, requiring a different analysis. *Id.*

<sup>130</sup> *RJR Nabisco* had not been decided yet, formalizing the two-step methodology. He gleaned the focus analysis from *Morrison*.

calculated, it makes no sense to insist that the action respecting the product being used for measurement itself be an *infringing* action.<sup>131</sup>

This rule limited the availability of damages for foreign activities regardless of proximate cause. The Supreme Court embraced a similar approach in *WesternGeco* by treating territoriality concerns as distinct from proximate cause.<sup>132</sup> Of course, the Federal Circuit had embraced a bright-line rule against damages arising from foreign damages. That is not the correct approach under *WesternGeco*'s focus analysis because context does matter. For example, damages likely would be available for some activity outside of the United States under the *NTP* and *Transocean* scenarios.

It is thus conceivable that the outcomes in *Power Integrations* and *Carnegie Mellon* could still stand under the reasoning of *WesternGeco*. Others disagree with this assessment, however. Professor Tom Cotter of the University of Minnesota Law School has argued that those two cases are no longer good law. He views damages for the foreign activities in those cases as recoverable because these harms are proximately caused by the focus of the statute – infringement in the United States for section 271(a). As a result, under *WesternGeco*, these damages should be recoverable.<sup>133</sup>

Additionally, the district court in *Power Integrations* recently concluded that *WesternGeco* implicitly overruled the Federal Circuit's territorial rule in that case.<sup>134</sup> The court's reasoning, however, was relatively thin, with no robust consideration of the focus of section 271(a). Instead, the court merely noted, "[t]he Supreme Court's analysis of the patent damages statute, § 284, has

---

<sup>131</sup> *Carnegie Mellon Univ.*, 807 F.3d at 1306. The damages awarded in this case are interesting. Infringement was based on the use of a method claim, yet damages were for sales of chips that perform that method. One could believe that the appropriate measure of damages should be simply for the use of the method, not downstream sales. See Holbrook, *supra* note 106, at 1042.

<sup>132</sup> That did not have to be the case. One could envision territorial limits as being part of the proximate cause analysis: acts outside of the United States would be deemed more remote from the injury from infringement, though it would not require an absolute proscription on damages for those activities.

<sup>133</sup> Thomas F. Cotter, *WesternGeco v. ION: Analysis*, COMPARATIVE PATENT REMEDIES (June 22, 2018), <http://comparativepatentremedies.blogspot.com/2018/06/westerngeco-v-ion-analysis.html>.

<sup>134</sup> *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, No. CV 04-1371 -LPS, 2018 WL 4804685, at \*1 (D. Del. Oct. 4, 2018).

equal applicability to the direct infringement allegations pending here, as governed by § 271(a), as it did to the supplying a component infringement claims at issue in *WesternGeco II*, which were governed by § 271(f)(2).<sup>135</sup> The court concluded that there was “no persuasive reason to conclude that the interpretation of § 284 should differ here” given that “Section 271(a) ‘vindicates domestic interests’ no less than Section 271(f).”<sup>136</sup> Finally, the court felt that because *WesternGeco* at the Federal Circuit “was based almost entirely on the Federal Circuit’s *Power Integrations* decision” then “[it] logically follows that when the Supreme Court expressly overruled *WesternGeco I* it also implicitly overruled *Power Integrations*.”<sup>137</sup> The district court certified the case for interlocutory appeal,<sup>138</sup> and the Federal Circuit has agreed to hear the case.<sup>139</sup> So we will have an answer to this question in the near future.

In my view, the district court’s analysis did not appropriately consider the focus of, and the clear territorial limits in, section 271(a), which are very different from section 271(f)(2). I’m not so sanguine, therefore, that *WesternGeco* requires the rejection of territorial limits on damages available for infringement under section 271(a). The focus of section 271(a) is more dramatically circumscribed territorially. As noted above, the analysis adopted by the Supreme Court in *WesternGeco* requires a court to look to the liability defining provision. For section 271(f)(2), the focus, as noted by the Court, is on domestic conduct—supplying components of the patented invention from within the United States.<sup>140</sup> But part of that focus is supplying from the United States *to outside* of the United States. The contemplated result of infringement under section 271(f)(2) is regulation of events outside of the United States. The statute even contemplates the potential assembly of the invention outside of the United States in a way quite distinct from § 271(a).<sup>141</sup> This express consideration of foreign activity is in sharp contrast to the explicit territorial limits of section 271(a). Section 271(a) does not contemplate any activity outside of the United States, other than the importation of the invention into the United States, the impact of

---

<sup>135</sup> *Id.*

<sup>136</sup> *Id.*

<sup>137</sup> *Id.*

<sup>138</sup> *Id.* at \*3.

<sup>139</sup> See *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, (Fed. Cir. Dec. 3, 2018) (order granting interlocutory review).

<sup>140</sup> *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129, 2138 (2018) (describing focus as “the domestic act of ‘suppl[y]ing in or from the United States.’” (quoting 35 U.S.C. § 271(f)(2) (2018))).

<sup>141</sup> 35 U.S.C. § 271(f)(1) &(2).



which would be domestic. If the Court in *WesternGeco* wanted to embrace a simple rule that, if there is infringement, then all proximate damages should be awarded, there would have been no need to move beyond section 284 in the Court's analysis. The Court could have embraced the broader compensatory view of section 284 and not tie it to the specific infringement provision. Instead, the Court rejected that methodology by turning to § 271(f)(2) for its focus analysis.

***B. Should the Federal Circuit Reconsider the Role of Proximate Cause in Policing Damages?***

Implicit in the discussion about damages and territoriality is the role of proximate cause in policing damages.<sup>142</sup> Professor Yelderman's amicus brief raised this issue, and proximate cause did garner attention during the oral argument. Yet, the Supreme Court did not engage with the issue at all in its decision, relegating it to a footnote: "[i]n reaching this holding, we do not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases."<sup>143</sup>

This language does make clear that the presumption against extraterritoriality and the focus analysis are distinct from proximate cause. One could see how extraterritoriality could simply be folded into the proximate cause analysis: activities outside of the United States would suggest the damages are more remote. It would be a case-by-case analysis to assess whether that location pushes damages beyond the reach of a U.S. patent. The Court, however, did not adopt the view that proximate cause and extraterritoriality are connected, at least not formally.

This part of the Article explores the role that proximate cause may yet play in policing damages for foreign activity that flows from domestic acts of patent infringement. It begins by discussing the scholarly views on this topic, and then offers an assessment of whether the Federal Circuit's approach to proximate has been too capacious.

---

<sup>142</sup> As Professor Dmitry Karshtedt has observed, "But-for and proximate cause do not exhaust the universe of causal principles in law." Dmitry Karshtedt, *Causal Responsibility and Patent Infringement*, 70 VAND. L. REV. 565, 600 (2017). There could be other limits beyond the trio considered here: but-for causation, proximate causation, and territoriality.

<sup>143</sup> *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129, 2139 (2018).

*i. Commentator's Views on proximate cause in policing damages*

In an article published before the Court decided *WesternGeco*, Professor Yelderman provided an interesting way to explore these issues.<sup>144</sup> He identified three dimensions of limits in patent law: time, technical scope, and geographic scope. In terms of liability, all three limits result in fairly hard rules. One cannot infringe a patent before it issues<sup>145</sup> or after it expires; one does not infringe a patent if the accused device falls outside the claims of the patent; and one does not infringe if the activity occurs outside of the United States.<sup>146</sup> These limits are not as strict when it comes to damages, at least as to the first two dimensions of time and technicality. One may be able to receive post-expiration damages in certain circumstances<sup>147</sup> and damages for economic effects on unpatented components or devices.<sup>148</sup> Before *WesternGeco*, however, the Federal Circuit had embraced a strict territorial rule for damages as well, one that Professor Yelderman rejected. Instead, he argued that the limit on compensatory damages should be actual and proximate causation.<sup>149</sup>

I disagree with Professor Yelderman's ultimate conclusion with respect to the outcome of *WesternGeco* being different under proximate cause. These were not lost profits for the sale of the invention, which flows directly from the exportation of the components of the device. Instead, these were lost sales for the services that used the patented invention. That harm is rooted more in an infringing use of the invention, yet those uses are not cognizable as a form of patent infringement in this case. Uses do

---

<sup>144</sup> Stephen Yelderman, *Proximate vs. Geographic Limits on Patent Damages*, 7 IP THEORY 1, 1-2 (2018).

<sup>145</sup> There is a slight loophole here for provisional rights. 35 U.S.C. § 154(d) (2018). Provisional rights permit a patent owner to receive a reasonable royalty if a party knowingly uses the claimed invention after the relevant patent application is published. *Id.* These damages are not available, however, unless the patent actually issues and “unless the invention as claimed in the patent is substantially identical to the invention as claimed in the published patent application.” *Id.*

<sup>146</sup> Yelderman, *supra* note 140, at 1.

<sup>147</sup> See *BIC Leisure Prod., Inc. v. Windsurfing Int'l, Inc.*, 687 F. Supp. 134, 138 (S.D.N.Y. 1988) (permitting damages “for future losses [the patentee] claims it will incur because BIC will reenter the market at a level accelerated by its earlier infringement.”).

<sup>148</sup> *Juicy Whip, Inc. v. Orange Bang, Inc.*, 382 F.3d 1367, 1371 (Fed. Cir. 2004) (“[T]he entire market value rule [is] a principle of patent damages that defined a patentee’s ability to recover lost profits on unpatented components typically sold with a patented item.”).

<sup>149</sup> Yelderman, *supra* note 140, at 7.

infringe, but only if they happen in the United States. For section 271(f)(2), the focus is on the possible combination of the invention outside of the United States, making it akin to an infringing making of the invention. Thus, these harms, while perhaps foreseeable in some sense, are removed from the infringing act.

It is unclear whether the Court is signaling to the Federal Circuit that proximate cause could still be an issue in this case. The Court rejected the bright-line rule against these damages offered by the Federal Circuit, but one could read that footnote to say it is an open issue in this case itself. Of course, given the Federal Circuit's capacious views of proximate cause, it seems unlikely the Federal Circuit would use the doctrine to limit the damages here.

Nevertheless, I do agree with Professor Yelderman that proximate cause could be an appropriate lever by which courts could limit the capaciousness of damages awards for patent infringement. Unfortunately, the Federal Circuit has been, at best, inconsistent in its application of proximate cause. At worst, it has abdicated its role in utilizing proximate cause as a meaningful limit, reducing the inquiry exclusively into a foreseeability analysis. But foreseeability is not the *sin qua non* of proximate cause.<sup>150</sup> Indeed, it may not be a particular great measure of the harm to the patent holder.<sup>151</sup>

*ii. The Federal Circuit's approach to proximate cause has undermined its usefulness as a limit on patent damages*

The genesis for the Federal Circuit's views on proximate cause is its seminal en banc case *Rite-Hite Corp. v. Kelley Co.*<sup>152</sup> In *Rite-Hite*, the Federal Circuit held that a patent owner could obtain lost profits

---

<sup>150</sup> Roger D. Blair & Thomas F. Cotter, *Rethinking Patent Damages*, 10 TEX. INTELL. PROP. L.J. 1, 71 (2001) ("Courts frequently state that the proximate cause doctrine screens out claims that are 'unforeseeable,' 'indirect,' 'remote,' 'speculative,' or barred for 'policy considerations,' without much analysis beyond the use of these conclusory terms." (footnotes and citations omitted)).

<sup>151</sup> See John W. Schlicher, *Measuring Patent Damages by the Market Value of Inventions--the Grain Processing, Rite-Hite, and Aro Rules*, 82 J. PAT. & TRADEMARK OFF. SOC'Y 503, 527 (2000) ("The reasonable foreseeability test is not sufficient, or even every useful for determining the amount of that reduction. A foreseeability test is useful in tort and contract cases where the law is trying to create appropriate financial incentives to avoid harming others and to perform contracts. The foreseeability of the effects of patent infringement has little to do with identifying the lost value of an invention and awarding that value to a patent owner.").

<sup>152</sup> 56 F.3d 1538, 1546 (Fed. Cir. 1995) (en banc).

for forgone sales of a device that competed in the same market and whose sales were lost due to the acts of infringement.<sup>153</sup> In so doing, the court embraced an economic-based approach to compensatory damages, reducing proximate cause to the following statement:

We believe that under § 284 of the patent statute, the balance between full compensation, which is the meaning that the Supreme Court has attributed to the statute, and the reasonable limits of liability encompassed by general principles of law can best be viewed in terms of reasonable, objective foreseeability. If a particular injury was or should have been reasonably foreseeable by an infringing competitor in the relevant market, broadly defined, that injury is generally compensable absent a persuasive reason to the contrary.<sup>154</sup>

Because the foregone sales of the patentee's unpatented but competitive product were foreseeable, lost profits for those sales were deemed recoverable. In reaching this conclusion, the court did note that proximate cause and foreseeability represents labels that have been "judicial tools used to limit legal responsibility for the consequences of one's conduct that are too remote to justify compensation."<sup>155</sup> The assessment of such limits is "to be determined on the facts of each case upon mixed considerations of logic, common sense, justice, policy and precedent."<sup>156</sup> Yet the court ignored these other considerations, instead embracing a simplistic test of foreseeability. The court, at times, has built upon this foreseeability principle to afford broad compensatory damages to patent holders.<sup>157</sup>

---

<sup>153</sup> *Id.*

<sup>154</sup> *Id.*

<sup>155</sup> *Id.*

<sup>156</sup> *Id.* (quoting THOMAS ATKINS STREET, 1 FOUNDATIONS OF LEGAL LIABILITY 110 (1906) (quoted in W. PAGE KEETON ET AL., PROSSER & KEETON ON THE LAW OF TORTS § 42, at 279 (5th ed. 1984))); *see also* Thomas F. Cotter, *Transformative Use and Cognizable Harm*, 12 VAND. J. ENT. & TECH. L. 701, 726 (2010) ("Tort law doctrines such as proximate cause and limitations on the recovery of noneconomic damages, for example, can be thought of as embodying the principle that certain harms flowing from a defendant's breach of duty should not be compensable for various policy reasons.")

<sup>157</sup> *See, e.g.*, *Micro Chem., Inc. v. Lextron, Inc.*, 318 F.3d 1119, 1120 (Fed. Cir. 2003) (lost sales of unpatented micro-ingredient compensable); *Stryker Corp. v. Intermedics Orthopedics, Inc.*, 96 F.3d 1409, 1414 (Fed. Cir. 1996) (lost sales of unpatented products recovered); *Minco, Inc. v. Combustion Engineering, Inc.*, 95 F.3d 1109, 1118 (Fed. Cir. 1996) (permitting damages for lost sales of product of patented process);

Nevertheless, the embrace of this approach for lost profits is in tension with the court's other holdings in the case: that patentees are not entitled to lost sales of unpatented complements of the patented invention unless the patented invention and those complements operated as a functional unit:

Thus, the facts of past cases clearly imply a limitation on damages, when recovery is sought on sales of unpatented components sold with patented components, to the effect that the unpatented components must function together with the patented component in some manner so as to produce a desired end product or result. All the components together must be analogous to components of a single assembly or be parts of a complete machine, or they must constitute a functional unit.<sup>158</sup>

The court precluded such damages even if these foregone sales of complementary products were foreseeable.<sup>159</sup> The court grafted a policy-based limitation on the availability of damages, in sharp contrast to the capacious foreseeability test for lost profits on unpatented, competitive products.<sup>160</sup> The court offers no clear justification for the disparate treatment of these two scenarios, as highlighted by the dissenting opinions.<sup>161</sup> In developing this latter doctrine, known as the entire market value rule, the court has struggled with any consistent application of concepts of proximate cause.<sup>162</sup>

---

<sup>158</sup> *Rite Hite Corp. v. Kelly Co.*, 56 F.3d 1538, 1550 (Fed. Cir. 1995).

<sup>159</sup> Blair and Cotter recognize the vagueness of this test, though they argue that the functionality test may be a decent proxy for proximate cause under their approach. Blair and Cotter, *supra* note 141, at 86-87 (“Somewhat surprisingly, the Federal Circuit’s vague ‘functionality’ test may be as good as any to delimit the circumstances under which the patentee should recover lost profits on sales of complementary goods.”).

<sup>160</sup> *Id.* at 72 (noting that it is foreseeable “when the infringement causes the patentee to lose profits on sales of complementary goods”).

<sup>161</sup> Somewhat ironically, Judge Wallach compared proximate cause with the functional unity rule for the entire market value rule, viewing them as consistent. *See WesternGeco L.L.C. v. ION Geophysical Corp.*, 791 F.3d 1340, 1358 (Fed. Cir. 2015) (Wallach, J., dissenting) (“Although discussions of convoyed sales and the entire market value rule are generally addressed to products, there is no statutory or doctrinal reason to exclude functionally related services, as this court has acknowledged.”).

<sup>162</sup> *Warsaw Orthopedic, Inc. v. NuVasive, Inc.*, 778 F.3d 1365, 1375 (Fed. Cir. 2015) (denying damages because products were being sold together for convenience and business advantage, not because they were a functional unit).

Proximate cause remains an important lever for courts to limit broad damages theories, yet the Federal Circuit's approach to proximate cause has been at best inconsistent. The Supreme Court's gesture to proximate cause may be a sign that it is time for the Federal Circuit to revisit the expansiveness of its doctrine. As Professor Yelderman noted, a strong case can be made for why proximate cause should preclude damages in both *Power Integrations* and *Carnegie Mellon*. My view is that the damages in *WesternGeco* are similarly quite attenuated from the act of infringement. Nevertheless, the blanket "foreseeability" test is prone to abuse and actually is an ever-changing standard. As markets shift globally, what may not have been foreseeable in the past may now be foreseeable. The crossing of territorial lines, in my view, suggests that such damages should be deemed more remote.<sup>163</sup>

### CONCLUSION

To the casual observer, *WesternGeco* likely seemed like an odd, esoteric case involving a fairly narrow aspect of patent law. In reality, the case presented a host of vital issues not only to patent law but to the broader development of the presumption against extraterritoriality. Instead of a sweeping opinion, however, the Supreme Court provided a more nuanced, narrow decision. Nevertheless, the decision has broader implications for the extraterritorial application of U.S. law generally and for the law of compensatory damages as to patent law. The decision will create waves well beyond the issues presented within it, and future litigants would do well to take heed of its language and reasoning.

---

<sup>163</sup> Another way to deal with these concerns would be to formally consider potential conflicts with foreign law. *See, e.g.* Holbrook, *supra* note 12, at 1785-90; Holbrook, *supra* note 117, at 2163-85 (offering formal proposal for considering conflicts of patent law in extraterritorial settings); Sapna Kumar, *Patent Damages Without Borders*, 25 TEX. INTELL. PROP. L.J. 73, 109-12 (2017).