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Proximate vs. Geographic Limits on Patent Damages

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INTRODUCTION

The exclusive rights of a U.S. patent are limited in two important ways. First, a patent has a *technical* scope—only the products and methods set out in the patent's claims may constitute infringement.[1] Second, a patent has a *geographic* scope—making, using, or selling the products or methods described in the patent's claims will only constitute infringement if that activity takes place in the United States.[2] These boundaries are foundational features of the patent system: there can be no liability for U.S. patent infringement without an act that falls within both the technical and geographic scope of the patent.

Once liability has been established and a court's attention turns to remedies, the continued relevance of these boundaries is not so clear. If all the infringing activity and all the resulting harm are within the technical and geographic scope of the patent, there is no problem. But, sometimes, activities within the technical and geographic scope of a patent cause harm to the patentee somewhere outside that scope. For example, a defendant's infringing sales of a patented product may cause the patent holder to lose some sales of an unpatented product too. Or, as another example, a defendant's infringing activity in the United States might cause a patent holder to lose sales somewhere else. Are these harms—to sales of a different product, or in a different country—cognizable for purposes of measuring the patent holder's damages? Or do the basic limits on patent scope apply to questions of remedy just as they do to questions of liability?[3]

The Federal Circuit has resolved this puzzle differently depending on which boundary is at issue. When it comes to technical scope, the Federal Circuit has long held that patent holders may recover for all the harms actually and proximately caused by the infringement.[4] As a result, if the defendant's infringing actions divert sales from the patent holder, the patent holder can potentially

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[1] *See* Festo Corp. v. Shokestu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722, 731 (2002).

[2] *See* Microsoft Corp. v. AT & T Corp., 550 U.S. 437, 441 (2007). Applying this geographic limit on the scope of patent liability can be much more complicated than it might first seem. *See* NTP, Inc. v. Research in Motion, Ltd., 418 F. 3d 1282, 1314-24 (Fed. Cir. 2005).

[3] Patent rights are limited in another important way as well: by time. *See* Kimble v. Marvel Entertainment, LLC, 135 S. Ct. 2401, 2406–07 (2015). This third limitation on patent scope raises analogous questions about when a patent holder may recover for harms that arise *after* patent expiration as a result of a defendant's actions *before* expiration. It appears the Federal Circuit has not yet squarely addressed the question. For a district court opinion permitting a patent holder to present evidence of future lost profits on the theory that in-term infringement would allow the defendant to enter the market more quickly upon expiration, *see* BIC Leisure Prods, Inc. v. Windsurfing Int'l, Inc., 687 F. Supp. 134, 138 (S.D.N.Y. 1988).

[4] *See* Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1546 (Fed. Cir. 1995) (en banc).

recover all of those lost sales, whether or not they fall inside or outside the technical scope of the patent at issue.[5]

When it comes to harms beyond a patent's geographic scope, however, the Federal Circuit has taken a different approach. In a series of recent cases, the court has developed a hard-and-fast geographic limit, categorically denying recovery of any foreign losses that were caused by the domestic infringement.[6] As a result, if infringing activity inside the United States causes lost sales outside the United States, those losses are simply left to lie where they fall—even if they were actually and proximately caused by the infringing act.

Under the Federal Circuit's current approach, then, the technical scope of a patent is applied only once in a patent case—to determine whether the defendant can be held liable as an infringer. In contrast, the geographic scope of a patent does a kind of double duty, applying first to the question of liability, and a second time to the question of damages.

This Essay argues that the same approach adopted at the edge of technical scope should apply at the geographic boundary as well. Specifically, patent holders should recover for the injuries actually and proximately caused by domestic acts of infringement, even if those injuries arise outside the technical or geographic scope of the patent. The Federal Circuit has correctly decided cases in which damages fall across the line of technical scope, but erred when it comes to damages that happen to cross a geographic boundary.[7]

I. THE ROLE OF THE RIGHTFUL POSITION IN ASSESSING PATENT DAMAGES

The Patent Act's damages provision is straightforward: "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."[8] The statute goes on to permit trebling of damages; other provisions authorize awards of attorneys' fees[9] and issuance of injunctions.[10]

Congress did not draw the words "damages adequate to compensate for the infringement" from the ether. Those words have a long provenance at common law, and, in choosing those words, Congress indicated that a particular remedial model was mandatory in cases in which patent infringement had been proven. Prevailing patent holders no longer had the option of receiving an accounting for profits, as they had prior to 1946.[11] Nor were patent holders entitled to statutory damages, as copyright holders then enjoyed under the Copyright Act of 1909.[12] Rather, from the

[5] *Id.* at 1547.

[6] *See* WesternGeco L.L.C. v. ION Geophysical Corp., 791 F.3d 1340 (Fed. Cir. 2015), *cert. granted*, 138 S. Ct. 734 (Jan. 12, 2018) (No. 16-1011); Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd., 807 F.3d 1283 (Fed. Cir. 2015); Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348 (Fed. Cir. 2013).

[7] For prior commentary on the cross-border damages question, *see generally* Timothy R. Holbrook, *Boundaries, Extraterritoriality, and Patent Infringement Damages*, 92 Notre Dame L. Rev. 1745 (2017) (arguing that geographic limits on damages should depend on the plaintiff's theory of infringement and the nature of the damages sought); Sapna Kumar, *Patent Damages without Borders*, 25 Texas Intell. Prop. L.J. 73 (2018) (arguing for a geographic limit on patent damages guided by a flexible balancing test).

[8] 35 U.S.C.A. § 284 (2012 & Supp. 2017).

[9] 35 U.S.C. § 285 (1952).

[10] 35 U.S.C. § 283 (1952).

[11] *See* R.S. § 4921, as amended, 42 Stat. 392; Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 505–06 (1964) (plurality opinion) (explaining 1946 amendments).

[12] *See* Pub. L. No. 60-349, § 25(b), 35 Stat. 1075, 1081 (1909); Feltner v. Columbia Pictures Television, Inc., 523 U.S. 340, 349–54 (1998) (recounting the history of statutory damages in copyright).

menu of familiar remedial schemes, Congress selected *compensatory* (or "actual") damages in particular, and in so doing made an informed choice to bring along the accompanying doctrines that applied at common law.

By using the words "damages adequate to compensate for the infringement," Congress did two things. First, it provided a principle of measurement to guide fact-finders in their assessment of patent damages. Specifically, a prevailing patentee should be restored to her "rightful position"—that is, the pecuniary position she would have enjoyed absent the infringement. Second, Congress incorporated a well-developed body of law informing how that principle of measurement should be implemented. These doctrines—comprising causation requirements, evidentiary burdens, and prudential rules—channel, and in some instances limit, the availability of compensatory damages in patent cases.

The central tenet of compensatory damages is that the plaintiff should be restored to the position she enjoyed prior to the wrong. As Lord Blackburn famously explained, these damages are "that sum of money which will put the party who has been injured, or who has suffered, in the same position as he would have been in if he had not sustained the wrong for which he is now getting his compensation."[13] In a patent case, the measure of compensatory damages is thus "the difference between [the patentee's] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred."[14] The proposition that actual damages should return the plaintiff to the pecuniary position she would have been in but-for the wrong is unimpeachable; in fact, it is no exaggeration to say it is the founding principle of the compensatory damages remedy. As the Supreme Court recognized as early as 1867, "The general rule is, that when a wrong has been done, and the law gives a remedy, the compensation shall be equal to the injury . . . The injured party is to be placed, as near as may be, in the situation he would have occupied if the wrong had not been committed."[15]

One way infringement may leave a patentee in an inferior pecuniary condition is through the loss of profits. When the patent holder must compete with an infringer, she may suffer in terms of lower price, lost volume, or both, and as a result may collect a smaller amount of profits than she would have had the infringer respected her patent rights.[16] The rule for this calculation is easy to state. Lost profits are simply "the difference between the money [the patentee] would have realized from such sales if the infringement had not interfered with such monopoly, and the money he did realize from such sales."[17] Such a sum puts the patentee in the pecuniary position she would have

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[13] Livingstone v. Rawyards Coal Co., (1880) 5 App. Cas. 25 (H.L.) 39; *see also* Restatement (First) of Torts § 903 cmt. a (1939) ("Where there has been harm only to the pecuniary interests of a person, compensatory damages are designed to place him in a position substantially equivalent in a pecuniary way to that which he would occupy had no tort been committed.").

[14] Yale Lock Mfg. v. Sargent, 117 U.S. 536, 552 (1886).

[15] Wicker v. Hoppock, 73 U.S. 94, 99 (1867). *See* Birdsall v. Coolidge, 93 U.S. 64, 64 (1876) ("Compensatory damages . . . shall be the result of the injury alleged and proved, and that the amount awarded shall be precisely commensurate with the injury suffered, neither more nor less, whether the injury be to the person or estate of the complaining party."); 2 Simon Greenleaf, A Treatise on the Law of Evidence § 253 (16th ed. 1899) ("[Damages] should be precisely commensurate with the injury, neither more nor less").

[16] *See* McSherry Mfg. Co. v. Dowagiac Mfg. Co., 163 F. 34, 35 (6th Cir. 1908); Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, 1065 (Fed. Cir. 1983); 3 William C. Robinson, *The Law of Patents for Useful Inventions* § 1061 (1890).

[17] Yale Lock, 117 U.S. at 552–53; *see also* Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507 (1964) (plurality opinion) ("[The] question [is] primarily, had the Infringer not infringed, what would [the] Patentee Holder–Licensee have made?").

enjoyed in a world without patent infringement, thus achieving the fundamental purpose of compensatory damages: restoring the plaintiff to her rightful position.[18]

Applying a geographic limit at the remedies stage can cause patent damages to deviate from this intended mark. To illustrate, consider a U.S. patent holder with a well-established business using her patented tool in Texas and Louisiana. Each year, the patent holder earns $2 million in profit by using this tool in Texas and another $1 million in profit by using this tool in Louisiana. A competitor begins making his own version of the patented tool and selling it to customers in Texas, directly infringing the patent under § 271(a). These customers in turn compete with the patent holder by using the tool to perform work in both Texas and Louisiana. As a result of this new competition, the patentee's profits drop to zero for a year. Then infringement ceases, and the patentee's profits return to their $3 million annual level.

No one would dispute that the sum necessary to restore the patent holder to her rightful position is $3 million. Had the other manufacturer not infringed, the patentee would have earned $2 million in annual profits from work in Texas and $1 million in annual profits from work in Louisiana. Instead, she earned nothing. Compensatory damages call for restoring the plaintiff to her rightful position, so the plaintiff should be awarded the full $3 million. On these facts, the *en banc* Federal Circuit would seem to agree.[19]

But if we change the facts slightly so that the patent holder is using her patented tool not in Texas and Louisiana but in Texas and *France*, her quest for full compensation will encounter the Federal Circuit's geographic limit on patent damages. The $2 million loss of profits in Texas would remain cognizable, but the court would deny recovery of the $1 million loss of profits in France.[20] The patentee's total recovery would now be capped at $2 million.

This change in outcome is remarkable, because nothing about the infringing conduct has changed—the other manufacturer is still infringing under § 271(a), at the same volume, still in Texas, through the manufacture and sale of the patented tool. Moreover, the harm those domestic acts of infringement have done to the patentee is the same too—she is still $3 million worse off as a direct result of the infringement. But, because the patent holder's business is now vulnerable in a different market—she is losing profits in Texas and France, not Texas and Louisiana—the Federal Circuit would stop short of restoring her rightful position.

This departure from the rightful position principle is not the product of a peculiar example. Taken to its logical conclusion, damages subjected to a geographic screen will fail to restore the patentee to her rightful position in *all* cases in which some portion of her lost profits would have come from overseas.

To be clear, failing to restore the plaintiff's rightful position does not necessarily mean that damages are undercompensatory as a matter of policy. The rightful position *itself* is defined by the application of patent scope doctrines at the liability stage, and there is no reason to think that all of these lines have been drawn in exactly the right place. Claim scope could be too broad or too narrow; the territorial reach of the patent system could be too sweeping or too constrained; patent term might be too long or too short. There is a complex interplay among all of these, and rewarding invention efficiently requires balancing technical, geographic, and temporal scope to provide the

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[18] See Douglas Laycock, *Modern American Remedies: Cases and Materials*, 14–15 (4th ed. 2010).

[19] *See* Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1547 (Fed. Cir. 1995) (en banc) ("[T]o refuse to award reasonably foreseeable damages necessary to make [the patentee] whole would be inconsistent with the meaning of § 284.").

[20] *See* WesternGeco L.L.C. v. ION Geophysical Corp., 791 F.3d 1340, 1350 (Fed. Cir. 2015), *cert. granted*, 138 S. Ct. 734 (Jan. 12, 2018) (No. 16-1011) ("[U]nder § 271(a) the export of a finished product cannot create liability for extraterritorial use of that product.").

desired level of rewards while imposing the least amount of deadweight loss.[21] Given all this, observing that a particular damages rule fails to restore the plaintiff to her rightful position is not to conclude anything about what the socially optimal level of damages ought to be. And, indeed, applying longstanding principles of actual and proximate causation will sometimes result in damages short of the rightful position as well.[22]

The flaw with the Federal Circuit's approach is not that the resulting damages will necessarily be undercompensatory. Rather, the problem is that the court has replaced a set of generally applicable, flexible tools for limiting damages with a newly crafted, bright-line prohibition that applies only to a particular scope boundary.

II. A GEOGRAPHIC LIMIT ON DAMAGES IS INCONSISTENT WITH LONGSTANDING REMEDIAL PRACTICE

There are at least two things that are peculiar about the Federal Circuit's approach to damages across geographic borders. First, as noted above, the Federal Circuit itself relies on actual and proximate causation to police damages that cross the limits of a patent's technical scope.[23] Second, for a period of approximately 130 years—ended only by the Federal Circuit's 2013 decision in *Power Integrations*[24]—courts consistently used these very same tools to assess damages that happened to cross a geographic boundary. In other words, the longstanding practice has been to treat the geographic limit of patent rights just like their technical limit.

For example, in *Ketchum Harvester Co. v. Johnson Harvester Co.*,[25] the infringer produced the patented machine in the United States, which it then sold both in the United States and abroad. Everyone agreed the act of selling outside the United States did not constitute infringement; the only question was what damages the patentee could receive for each unit that was manufactured domestically but sold abroad. The infringer argued that the patentee should be limited to nominal damages for these units, as any harm suffered by the patentee came from the foreign act of sale, rather than the domestic step of manufacture. Justice Blatchford rejected this geographic limit on evidence of harm, explaining:

> It is true that the sale is the fruition, and gives the profit, and that the sale is abroad, and the patent does not cover the sale abroad. But the unlawful act of making is made hurtful by a sale, wherever made . . . [T]o deprive the patentee of all damages for unlawful making here, because the article is sold abroad, is to deprive him of part of what his patent secures to him.[26]

This holding is directly at odds with the Federal Circuit's rule applying geography as an independent screen at the remedies stage. After all, if the defendant in *Ketchum Harvester* had been making the infringing machines simply for the sake of storing them in a warehouse (or, say,

[21] *See generally* Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1813 (1984); Stephen Yelderman, *International Cooperation and the Patent-Antitrust Intersection*, 19 TEXAS INTELL. PROP. L.J. 193 (2011).

[22] *See infra* Part III.

[23] *See* Rite-Hite, 56 F.3d at 1645.

[24] Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348 (Fed. Cir. 2013).

[25] 8 F. 586 (C.C.N.D.N.Y 1881).

[26] *Id.* at 587.

to use them as firewood), the patentee would have been unable to prove any harm, and thus would have been eligible only for nominal damages.[27] It was the defendant's foreign sale that magnified the harm of the domestic infringement, and it was this same foreign sale that made the patentee eligible for something more than nominal damages. Once a domestic act of infringement is proven, "it is no injustice to attribute to the unlawful act all the consequences which flow from it"—even if those consequences unfold outside the United States.[28]

So the question of how the rightful position principle interacts with the geographic scope of intellectual property is actually quite an old one. And until quite recently, the answer was clear: "The act of infringement having been committed in this country, the subsequent acts abroad are immaterial, *except upon the question of damages*."[29] Indeed, a number of pre-Federal Circuit patent cases, in both law and equity, expressly contemplate awards based on consequences that unfold overseas.[30] And in 1939, the Second Circuit likewise held that copyright owners could look overseas to establish the measurement of their remedy.[31]

But it is not just patent and copyright plaintiffs who have long been permitted to recover damages based on foreign consequences. In fact, cases from many disparate areas of law have consistently reached or implied the same conclusion. For example, by the early twentieth century it was well established in both courts of law and admiralty that a ship owner could recover damages for loss of use of a vessel that was improperly detained or otherwise delayed.[32] If the law of damages recognized a geographic limit on cognizable harm like the Federal Circuit's, the lost profits claims of these ship owners would have encountered it constantly. For example, if damages cannot account for foreign consequences, loss of use of a ship would frequently be limited to profits from domestic ports of call, and forsaken freight charges prorated to account for noncompensable mileage upon the high seas. But none of these cases even hint at such a limit.[33] Nor can this geographic limit be found in any number of tort or contract cases presenting facts

[27] *See id.*; Whittemore v. Cutter, 29 F. Cas. 1123, 1125 (C.C.D. Mass. 1813) (No. 17,600). Note that, at the time of *Ketchum Harvester*, a patentee unable to prove actual harm would have received only nominal damages. However, the Supreme Court later approved use of a reasonable royalty as a fallback method in cases in which other measures of harm defied proof. *See* Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U.S. 641, 648–50 (1915). This reasonable royalty floor is now required by statute. *See* 35 U.S.C.A. § 284 (stating that the court shall award damages "in no event less than a reasonable royalty for the use made of the invention by the infringer"). For an argument that the need to prove harm in order to recover supra-nominal damages survived *Dowagiac*, *see* Oskar Liivak, *When Nominal Is Reasonable: Damages for the Unpracticed Patent*, 56 B.C. L. REV. 1031 (2015).

[28] *See* Ketchum Harvester, 8 F. at 587.

[29] Fishel v. Lueckel, 53 F. 499, 501 (C.C.S.D.N.Y. 1892) (emphasis added).

[30] *See* Ketchum Harvester, 8 F. at 586–87 (awarding non-nominal damages as a result of foreign sales); Goulds' Mfg. Co. v. Cowing, 105 U.S. 253, 254–56 (1881) (accounting for profits of infringing pumps manufactured in U.S. but sold in Canada); K. W. Ignition Co. v. Temco Elec. Motor Co., 283 F. 873, 874, 879–80 (6th Cir. 1922) (accounting for profits of foreign sales (citing *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915))).

[31] *See* Sheldon v. Metro-Goldwyn Pictures Corp., 106 F.2d 45, 52–54 (2d Cir. 1939) (citing *Goulds'* and *Dowagiac* to permit recovery of profits made through foreign use of a domestically manufactured copy), *aff'd*, 309 U.S. 390 (1940).

[32] *See* 1 Theodore Sedgwick, Arthur George Sedgwick & Joseph Henry Beale, *Treatise on the Measure of Damages* § 196 (9th ed. 1912).

[33] *See, e.g.*, Williamson v. Barrett, 54 U.S. (13 How.) 101, 111–12 (1851); Sturgis v. Clough, 68 U.S. (1 Wall.) 269, 271–72 (1863); *The Margaret J. Sanford*, 37 F. 148, 149–52 (C.C.S.D.N.Y. 1888) (evaluating evidence of profits that a ship would have earned if damage suffered in New York had not delayed her return to Bombay); *The Gazelle* (1844) 2 W. Rob. 279, 166 Eng. Rep. 759 (High Ct. of Adm.) ("In estimating the amount of the compensation to be paid for the detention of the vessel . . . the suffering party [should be put] as nearly as possible in the same situation in which he would have been if no collision had taken place.").

where such a limit might have come into play—such as a suit for breach of contract to share the proceeds of a whaling expedition,[34] for lost income of a travelling actor who was waylaid by an assault,[35] for damages against a Texas property owner whose incursions into Rio Grande caused destruction in Mexico,[36] or for loss of use of a defective international airliner.[37]

To be clear, some of these cases involved claims with different geographic scope on the question of liability. But once liability was established, none of these cases applied a geographic screen a second time on the question of damages. The Federal Circuit's double application of the geographic scope limitation appears to have been quite unprecedented.

III. The Alternative: Cabining Damages Based on Actual and Proximate Causation

If the geographic scope limitation applies only to the question of liability, what (if anything) should serve as the limiting principle on the question of damages? The alternative to double reliance on the geographic scope of patents is to turn to generally applicable principles of actual and proximate causation. This is how the Federal Circuit has long assessed damages for harms across technical scope. The same tools are capable of constraining damages for harms across geographic scope as well.

A. Actual Causation (Causation-in-fact)

It is a well-established principle of tort law that a plaintiff must prove that her claimed injury was actually caused by the wrongful act.[38] When it comes to claims of lost profits, proof of actual causation is a persistent challenge, since there is no way of knowing for certain what might have been in the counterfactual universe in which the defendant did not commit the tort.[39] Despite this evidentiary difficulty, a patent holder nonetheless cannot obtain lost profits without proof of actual causation. As the Eighth Circuit has explained, "There is no presumption that [the patentee] would have sold its devices to those who purchased the infringing articles."[40]

Even in a case of purely domestic competition, the existence of multiple suppliers and non-infringing substitutes can make it quite difficult to prove lost profits.[41] For example, when there

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[34] *See* Dennis v. Maxfield, 92 Mass. (10 Allen) 138 (1865).

[35] *See* Welch v. Ware, 32 Mich. 77 (1875).

[36] *See* Armendiaz v. Stillman, 54 Tex. 623, 627–28 (1881).

[37] *See* Koninklijke Luchtvaart Maatschaapij, N. V. v. United Technologies Corp., 610 F.2d 1052, 1053–56 (2d Cir. 1979).

[38] *See* Carey v. Piphus, 435 U.S. 247, 254–55, 261–64 (1978) ("The cardinal principle of damages in Anglo-American law is that of compensation for the injury caused to plaintiff by defendant's breach of duty." (internal citation and quotation marks omitted)); Simon Greenleaf, A Treatise on the Law of Evidence Vol. 2 § 254 (16th ed. 1899) ("All damages must be *the result* of the injury complained of; whether it consists in the withholding of a legal right, or the breach of a duty legally due to the plaintiff." (emphasis in original)).

[39] *See* 1 Sedgwick et al., *supra* note 32, § 173 ("Where an injured party claims compensation for gain prevented, the amount of loss is always to some extent conjectural; for there is no way of proving that what might been, what would have been.").

[40] Oil Well Improvements Co. v. Acme Foundry & Mach. Co., 31 F.2d 898, 901 (8th Cir. 1929); *see also* Seymour v. McCormick, 57 U.S. (16 How.) 480, 490 (1854).

[41] *See* Grain Processing Corp. v. Am. Maize-Prods. Co., 185 F.3d 1341, 1350 (Fed. Cir. 1999) ("To prevent the hypothetical from lapsing into pure speculation, this court requires sound economic proof of the nature of the market and likely outcomes with infringement factored out of the economic picture."); Mentor Graphics Corp. v. Eve-USA, Inc., 851 F.3d 1275, 1284–86 (Fed. Cir. 2017) (collecting recent Federal Circuit cases and academic commentary to

are a number of competing products on the market, both infringing and non-infringing, it may be "impossible to say how many, if any, of the sales made by [the infringer] were sales lost by [the patentee]."[42] Even when the patentee and the infringer were the only manufacturers of the patented product at the time, the patentee may still need to bring customer-by-customer evidence to show that her own offering would have been preferable to the non-infringing substitutes on the market.[43] When proof of sales diversion is tough to come by, the patentee may be left to recover lost profits based on only a tiny portion of the infringer's actual sales.[44]

Tall as this order may be in an ordinary case, a patentee seeking the profits from sales lost abroad will face an even steeper climb. An obvious question—likely to arise almost any time a patentee attempts such a feat—is why couldn't the defendant have just manufactured and sold the accused product abroad and thus exploited the invention without ever encountering the U.S. patent system?[45] In some cases, this question may sound the death knell for a patentee's quest for foreign lost profits. But in other cases, a patentee might have satisfactory answers. For example, other intellectual property rights, customer relationships, and domestic manufacturing advantages may prevent complete expatriation from being a realistic alternative for the accused infringer.[46] Given all this, proving foreign lost profits may never be easy. But when the U.S. patent holder *can* make that case—when she can show that the foreign lost profits really were the result of the domestic infringement—there is no reason to ignore this evidence of actual causation.

B. Proximate Causation

In addition to causation-in-fact, the patentee must show that the defendant's infringing acts were the proximate cause of the claimed lost profits. As the Supreme Court recently explained, "For centuries, it has been a well-established principle of the common law, that in all cases of loss, we are to attribute it to the proximate cause, and not to any remote cause."[47] At heart, this is a "judicial tool[] used to limit a person's responsibility for the consequences of [his] own acts,"[48] rooted in the recognition that it would be impossible to trace the consequences of events ad infinitum.[49]

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show difficulty of proving but-for causation), *petition for cert. filed*, 86 U.S.L.W. 3299 (U.S. Nov. 30, 2017) (No. 17-804).

[42] McSherry Mfg. Co. v. Dowagiac Mfg. Co., 163 F. 34, 35 (6th Cir. 1908).

[43] *See* Power Specialty Co. v. Conn. Light & Power Co., 80 F.2d 874, 875–77 (2d Cir. 1936).

[44] *See* Oil Well Improvements, 31 F.2d. at 901.

[45] *Cf.* Grain Processing, 185 F.3d at 1350–51 ("[A] fair and accurate reconstruction of the 'but for' market also must take into account, where relevant, alternative actions the infringer foreseeably would have undertaken had he not infringed.").

[46] *See* Dorsey Revolving Harvester Rake Co. v. Bradley Mfg. Co., 7 F. Cas. 946, 947 (C.C.N.D.N.Y. 1874) (No. 4,015) ("A patentee may find it greatly to his advantage, and greatly profitable, to supply a foreign demand for an article of American manufacture, and may be able successfully to compete with foreign machinists in the making . . . [H]is actual monopoly does include all making and selling here, with all the advantages which are incident thereto.").

[47] Lexmark Int'l, Inc. v. Static Control Components, Inc., 134 S. Ct. 1377, 1390 (2014) (internal quotation marks and modifications omitted); *see also* Southern Pac. Co. v. Darnell-Taenzer Lumber Co., 245 U.S. 531, 533–34 (1918) ("The general tendency of the law, in regard to damages at least [is not to] . . . attribute remote consequences to a defendant so it holds him liable if proximately the plaintiff has suffered a loss.").

[48] Holmes v. Securities Investor Protection Corp., 503 U.S. 258, 268 (1992).

[49] *See* Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters, 459 U.S. 519, 532 n.24 (1983).

Proximate cause limitations have been an established feature of patent remedies for well over a century.[50] Though the earliest cases are vague about the limits of proximate cause in patent law, the 1937 edition of Deller's *Walker on Patents* recites the following theories of harm as being too remote to serve as the basis for compensatory damages:

* The infringement "so unexpectedly reduced the business in the patented article as to make it necessary for [the patentee] to sell unpatented property at less than its real value, or to borrow money at more than a proper rate of interest";

* The infringement "encouraged other persons to infringe, from whom, by reason of insolvency or other obstacle, no recovery can be obtained";

* The infringement "caused the patentee so much trouble and anxiety that he incurred loss from inability to attend to other business";

* The infringement "caused [the patentee] to suffer competition and loss, in business outside the patent infringed."[51]

The first three of these examples have clear antecedents in the general law of damages and seem to have required little explication in the context of patent law. For example, the first is a straightforward application of the well-known rule that a plaintiff may not recover damages on the grounds that the defendant's actions forced him to sell goods at a loss or resulted in a loss of credit.[52] The fourth, however—that the infringement "caused [the patentee] to suffer competition and loss in business outside the patent infringed"—is by its terms specific to patent law, and so calls for some patent-specific line drawing.

An early circuit court case illustrates how this particular limit on proximate cause has long operated in patent law. In *Piper v. Brown*,[53] the patentee sought an accounting of profits from an infringer of his patented fish preservation process. In addition to the profits the infringer earned in the market for preserved salmon, the patentee sought to obtain the profits the infringer earned in the market for fresh (or "green") salmon. The theory, in short, was that the two output markets were tied by a common input market—that by using the patented preservation method, the infringer was able to take more wild salmon out of circulation and thus was able to raise prices in the market for green salmon as well.[54] The court held that these profits depended "upon future bargains or speculations, or future states of the market" and therefore were too "remote and contingent" to be recoverable.[55]

Although additional development may be necessary as future litigants present novel theories, the proximate cause requirement stands ready to prevent patentees from obtaining foreign lost profits that are too far removed from the domestic acts of infringement. For example, suppose a patentee tried to claim that the defendant's domestic infringement had impacted the global supply of components, and thus had reduced the profitability of the patentee's sales in foreign markets.

[50] *See* Carter v. Baker, 5 F. Cas. 195, 202 (C.C.D. Cal. 1871) (No. 2,472); Buerk v. Imhaeuser, 4 F. Cas. 594, 595 (C.C.S.D.N.Y. 1876) (No. 2,107) ("The damages in such a case must be confined to the direct and immediate consequences of the infringement, and not embrace those which are both remote and conjectural.").

[51] 3 ANTHONY WILLIAM DELLER, WALKER ON PATENTS § 832 (1937).

[52] *See* 1 Sedgwick et al., *supra* note 32 §§ 126c & 127

[53] 19 F. Cas. 722 (C.C.D. Mass. 1873) (No. 11,181).

[54] *Id.* at 723.

[55] *Id.*

Even if the patentee could show actual causation on the facts, this damages theory would be foreclosed under the principle of *Piper v. Brown*—a shared input market may not serve as the connection between patented and unpatented output markets. Likewise, a patentee could not invoke domestic infringement as the cause of lost foreign sales on the theory that the infringement had distracted management, deprived the firm of capital, or otherwise increased its operating costs.[56]

Notably, several of the recent cases in which the Federal Circuit has curtailed damages by employing its geographic screen were cases in which the patent holder had likely failed to establish that the claimed losses were proximately caused by the defendant's domestic acts of infringement. For example, in *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*,[57] the patentee sought to collect a reasonable royalty on chips the defendant had both made and sold abroad. Of course, chips made and sold abroad did not themselves infringe the patent, but the patentee claimed these foreign sales would not have been possible without the benefit of certain design, testing, and customer-integration steps performed in the United States. The foreign sales, the theory went, were the direct result of these infringing pre-production activities.[58] This theory was ripe for disposal on grounds of proximate cause. But instead of engaging that question and extending a rule about proximate cause, the Federal Circuit rested on its hard-and-fast geographic limit.[59]

As another example, *Power Integrations*[60] also involved a remote theory of damages, one which the traditional proximate cause requirement was again well-equipped to handle. There, the patentee argued that the defendant could not have made *any* foreign sales without the infringing domestic sales on the theory that most customers would insist on using the same chip in all their devices throughout the world.[61] This claim could have been easily rejected on proximate cause grounds; Federal Circuit precedent already held that a customer preference for purchasing infringing and non-infringing products as a package was too remote a connection to obtain lost profits on the non-infringing products.[62] But, again, the court eschewed a fact-specific proximate cause ruling for a bright-line geographic limit on damages.

This is not simply a matter of words. The problem with replacing the longstanding requirement of proximate cause with a geographic screen is that a bright-line territorial rule is simultaneously under- and over-inclusive. To use *Carnegie Mellon* as an example, if the infringing testing and customer integration steps are too far removed to permit damages based on the non-infringing sales of the completed design, the same should be true whether or not a national border is in the way. Whether those eventual chip sales are non-infringing because they occur overseas or because the chips themselves do not embody the claimed invention, they should not be used in the ultimate damages calculation. Likewise, if the only connection between infringing sales and non-infringing sales is a customer preference to purchase in bulk (the causal theory at the heart of *Power Integrations*), that connection should also be rejected as too remote when the bundled sales occur entirely within the United States. A blinkered view of geography overlooks the real concern with damages in many of these cases and creates the possibility of providing *too much* compensation once the geographic obstacles go away.

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[56] *See* DELLER, *supra* note 51, at § 832.

[57] 807 F.3d 1283 (Fed. Cir. 2015).

[58] *Id.* at 1309–11.

[59] *See id.* at 1306–07

[60] Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348 (Fed. Cir. 2013).

[61] *See* Brief for Plaintiff-Cross Appellant Power Integrations, Inc. at 44, Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348 (C.A. Fed. 2013) No. 2011-1218, 2011 WL 2827447, at *44.

[62] *See* American Seating Co. v. USSC Grp., Inc., 514 F.3d 1262, 1268 (Fed. Cir. 2008).

Moreover, asking the wrong question can lead to the wrong answer in the other direction as well. For example, in *WesternGeco v. ION Geophysical*, the patent holder made an extremely strong showing of proximate causation: the defendant infringed by supplying components of the patented invention to the patentee's direct competitors, who in turn used those very components to take business from the patentee.[63] Under almost any understanding of proximate cause, these losses would be considered sufficiently direct to be recoverable. But, because the Federal Circuit used geography as the limiting principle instead of proximate cause, the court denied recovery.[64]

Admittedly, deciding cases on grounds of proximate cause will sometimes require a more nuanced inquiry, at least compared to applying a hard-and-fast geographic screen. But doing so is more faithful to the goal of providing damages "adequate to compensate for the infringement,"[65] and allows a court to implement that goal in a manner consistent with established remedial practice.

CONCLUSION

The technical and geographic limitations on patent scope are often at the center of a dispute over patent liability. But after infringement is found, those doctrines have done their work, and a different set of tools, long developed at common law, take the stage for purposes of assessing remedy.

Once the hard-and-fast geographic limit on patent damages is out of the way, a certain doctrinal harmony can emerge through neutral application of the proximate cause limit across different kinds of scope boundaries. Courts assessing out-of-scope injuries in the future should be conscious of developing a unified jurisprudence of proximate cause, one that can transcend the particular kind of scope boundary at issue in a given case.

[63] *See* WesternGeco L.L.C. v. ION Geophysical Corp., 791 F.3d 1340, 1349 (Fed. Cir. 2015), *cert. granted*, 138 S. Ct. 734 (Jan. 12, 2018) (No. 16-1011).

[64] *Id.* at 1351.

[65] 35 U.S.C.A. § 284 (2012 & Supp. 2017).