

Federal Circuit Expands the Potential for Recovering Damages Based on Foreign Sales In Patent Cases

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In a precedential decision issued on March 27, 2024, the United States Court of Appeals for the Federal Circuit clarified that patent owners may recover reasonable royalty patent damages for foreign sales if an act of infringement under the patent statute occurs domestically and was the proximate cause of the foreign sales. *Brumfield, Tr. for Ascent Tr. v. IBG LLC* (2022-1630) (“*Brumfield v. IBG*”).

Trading Technologies International, Inc. (“TT”), the predecessor in interest to the plaintiff-appellant, sued IBG, LLC (“IBG”), alleging that IBG’s commodities exchange software trading tool infringed its patents directed to improved graphical user interfaces for commodity trading and methods for placing trade orders using those interfaces.

At the district court, TT’s damages expert offered a theory of recovery based on a per-user, per-month reasonable royalty, whereby TT would receive a fixed amount per active user of IBG’s accused software. The district court excluded certain portions of the expert’s opinions, specifically her calculation that included foreign active users of IBG’s accused software product, which IBG made in the United States. Under this excluded basis of recovery, the expert stated that IBG designed, made, and developed the accused software product in the United States and that TT should receive compensation for the foreign users’ use of copies of the accused software.

The expert opined that TT was entitled to worldwide patent damages for harm that was the foreseeable but-for result of infringing activity in the United States. The district court excluded the expert’s opinion, relying on the Federal Circuit’s decision in *Power Integration, Inc. v. Fairchild Semiconductor International, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), which held that U.S. patent law does not provide compensation for a defendant’s foreign exploitation of a patented invention, which is “not infringement at all.”

On appeal, TT argued that the district court should have applied the extraterritoriality analysis articulated by the Supreme Court in *WesternGeco LLC v. ION Geophysical Corp.*, 585 U.S. 407 (2018). In *WesternGeco*, the accused infringer manufactured certain components domestically and exported those components abroad to companies that used them in assembling the accused systems and then used the systems to compete with the patent owner. The Supreme Court held that the patent owner could recover for lost foreign profits proximately caused by domestic acts of indirect infringement (*i.e.*, making-and-exporting components from the United States to an overseas location).

The Federal Circuit agreed with TT, confirming that the *WesternGeco* framework is not limited to the specific domestic acts of infringement in that case – making-and-exporting; but rather applies likewise broadly to domestic acts of infringement constituting making, using, offering to sell, and selling accused products. In addition, the Federal Circuit held that *WesternGeco* applies to a reasonable-royalty measure of damages, not just to lost-profits. The Federal Circuit cautioned, however, that application of the *WesternGeco* framework “must reflect the established difference in standards for the two types of awards.” In particular (emphasis added):

[T]he hypothetical negotiation [undergirding a reasonable royalty damages analysis] must turn on the amount the hypothetical infringer would agree to pay to be permitted to engage in the domestic acts constituting the infringement. If the patentee seeks to increase that amount by pointing to *foreign conduct that is not itself infringing*, the patentee must, at the least, show *why that foreign conduct increases the value of the domestic infringement itself*—because, e.g., the domestic infringement enables and is needed to enable otherwise-unavailable profits from conduct abroad—while respecting the apportionment limit that excludes values beyond that of practicing the patent.

The Federal Circuit stated that this kind of “agreement-to-pay” causal connection is “a necessary beginning” for a foreign-conduct analysis in a reasonable royalty case. Notably, however, the court expressly declined to say whether such a causal connection is “sufficient,” and it left open the question as to whether the “reasonable, objective foreseeability” presumptive standard for lost profits, is applicable to a reasonable royalty damages analysis.

Turning to the facts of the case, the Federal Circuit – while agreeing that the *WesternGeco* framework applied – nevertheless affirmed the district court’s exclusion of TT’s damages expert’s opinion. The court reasoned that, regardless of the precise standard for establishing a causal connection, the expert failed to focus on the domestic acts of infringement. Specifically, TT’s patent claims included two groups: claims to a method and claims to a computer readable medium (CRM). Therefore, infringement of those claims was limited to making, using, offering to sell, selling, or importing a method or a CRM. The expert’s opinion, however, did not focus on one of those acts.

Regarding the method claims, TT did not, and could not, argue that IBG made the claimed methods as there is no recognition in patent law of direct infringement by “making” a “method.” Regarding the CRM claims, TT and its expert did not focus on making an individual memory-device unit (e.g., a memory stick or a hard drive or server), instead referring to the accused software itself, detached from any medium. The Federal Circuit noted that there is a critical distinction between software (in the abstract) and a particular copy of it on a CRM and, moreover, the software itself was not claimed in the patents. Thus, the expert’s opinion did not “start from an act of infringement – making a claimed CRM (or method) – in asserting the required causal connection to the foreign conduct for which the proposal seeks royalty damages.”

In patent cases, global extraterritorial damages may be significant. Unresolved questions regarding the specific level of causation required to collect damages for foreign sales undoubtedly will be addressed in future cases. In the meantime, litigants should create an evidentiary record through discovery that either supports or refutes a strong and compelling causal link connecting foreign damages to domestic acts of infringement.