



## ALERTS

### Crossing The Border: Federal Circuit Confirms Patent Owner's Ability To Recover A Reasonable Royalty Based On Foreign Activity

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#### Highlights

Patent owners may seek reasonable royalty damages based on foreign activity in connection with domestic acts of infringement

A patent owner must establish the causal relationship between any foreign conduct on which damages are based and acts of infringement within the U.S.

The ways a patent owner can show proximate cause in the context of a reasonable royalty analysis to capture foreign activity is an open issue that will require navigating fundamental tenets of patent law and the standards that guide damages

On March 27, the U.S. Court of Appeals for the Federal Circuit issued a precedential opinion in *Brumfield, Trustee for Ascent Trust v. IBG LLC*,<sup>(1)</sup> clarifying the scope of potentially available damages based on foreign conduct in patent cases. Specifically, the court held that if a causal relationship between a domestic act of infringement and the foreign conduct is established, a patent owner can obtain reasonable royalty

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damages based on that foreign activity.

While this holding extends the U.S. Supreme Court's decision on foreign lost profits in *WesternGeco LLC v. ION Geophysical Corp.*, it expressly left open several questions. Most importantly, the Federal Circuit did not resolve how to show in the context of a reasonable royalty analysis that a domestic act of infringement proximately caused damages from foreign activity without violating other core tenets of patent law.

## Background

Less than a decade ago, the idea that patent owners could recover damages for lost profits abroad seemed implausible. For example, in *Power Integrations, Inc. v. Fairchild Semiconductor, International, Inc.*, the Federal Circuit made clear that the Patent Act did not "provide compensation for a defendants' exploitation of a patented invention." Relying on the general presumption against the operation of U.S. patent laws extraterritorially, the court held that "the entirely extraterritorial production, use, or sale 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."

But in 2018, *WesternGeco* opened the door to foreign lost profits for an act of infringement under 35 U.S.C. 271(f)(2) – that is, where the infringer "ships components of a patented invention overseas to be assembled there." Looking to 35 U.S.C. § 284, the Supreme Court concluded that the "overriding purpose" of the Patent Act's general damages provision is to "afford patent owners complete compensation for infringements." It further found that "[t]he conduct that § 271(f)(2) regulates – i.e., its focus – is the domestic act of 'suppl[y]ing] in or from the United States.'" Because the conduct relevant to the statute's focus – the act of exporting components – occurred within the United States, the Supreme Court held that the foreign lost profits damages that "were awarded to *WesternGeco* were a [permissible] domestic application of § 284."

## Extending *WesternGeco* to 35 U.S.C. § 271(a) and a Reasonable Royalty

Now, six years later, the Federal Circuit has applied the framework and reasoning set forth in *WesternGeco* to authorize reasonable royalty damages based on foreign activity where the patent owner has demonstrated that the activity bears a causal relationship to the acts of infringement under 35 U.S.C. § 271(a) – that is, the import, manufacture, use, sale, or offer for sale of the claimed technology. However, the precise contours of this proximate causation requirement are, at best, murky.

For example, the Federal Circuit expressly left open the question of how causation can be shown in the context of a reasonable royalty analysis. It questioned the role, if any, that the presumption against the extraterritorial reach of the Patent Act should play in assessing causation. It further questioned whether the foreseeability standard for causation could apply in the context of reasonable royalty damages given, among other things, the hornbook principle that such damages cannot exceed the incremental value of the claimed invention over noninfringing alternatives.

Undoubtedly, these questions will be hotly litigated in future cases.

One thing, however, is clear: the Federal Circuit demands that patent

owners identify the specific act of domestic infringement and analyze how that act is causally related to any foreign conduct for which the patentee seeks recovery. In *Brumfield*, because the patent owner's damages expert failed to focus on the proper, specific act of domestic infringement, any attempt to capture damages based on foreign use and sales of the claimed technology was doomed. More specifically, Trading Technologies International, Inc. (TT) (succeeded by the named plaintiff-appellant, Harris Brumfield) sued IBG LLC and its subsidiary Interactive Brokers LLC (collectively, IBG), alleging infringement under 35 U.S.C. § 271(a) of several patents related to improved graphical user interfaces for commodity trading that allowed for the efficient placement of trades in volatile markets where speed is critical.

Ultimately, TT asserted two groups of claims: claims to a method and claims to a computer readable medium (CRM) containing computer code. But the only act of domestic infringement identified by TT's damages expert was the "making" of the accused product. First, the Federal Circuit held that, because patent law does not recognize direct infringement by "making" a "method," only the CRM claims could serve to prove causation based on domestic "infringement." Second, as to the CRM claims, TT's expert did not focus on "making an individual memory-device unit, whether freestanding (like a memory stick) or a part of a larger physical unit (like a hard drive in a personal computer or server)," but rather on the domestic designing and programming of software. Yet the "software itself is not claimed[.]"

Moreover, even assuming that IBG had to actually make CRMs or use the claimed method domestically in the process of designing and developing the software, the court said those "makings" would not constitute infringement because they indisputably would have occurred before the asserted claims issued. And TT made no showing as to how any post-issuance "making or using" could be tied to value derived abroad yet attributable to the asserted claims. As a result, the Federal Circuit concluded that "[t]here is, in short, an apparent deficiency over and above the fundamental" failure to identify an act of domestic infringement.

## Takeaway

The Federal Circuit's *Brumfield* decision opens yet another door to recovery of damages for patent infringement in the form of a reasonable royalty. However, patent owners must pay careful attention to the types of claims at issue (e.g., method claims, device claims, etc.), the specific acts of domestic infringement alleged, and the relationship between those acts and any alleged damages based in part on foreign activity. Ultimately, how proximate causation between a domestic act of infringement and foreign activity is shown in the context of a reasonable royalty analysis will require precision with respect to the infringement issues and thoughtful consideration of the broader body of law regarding the purpose of and limitation on reasonable royalty damages under 35 U.S.C. § 284.

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(1) *Brumfield, Tr. for Ascent Tr. v. IBG LLC*, No. 2022-1630, 2024 WL 1292151 (Fed. Cir. Mar. 27, 2024).