Written Materials for Advanced Patent Law Institute: Global patent remedies: Current state of monetary damages and injunctive relief

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***Brumfield v. IBG LLC*, 97 F.4th 854 (Fed. Cir. 2024)**

Short overview: In pertinent part, *Brumfield* addressed an ambiguity left after the Supreme Court's decision in *WesternGeco* as to (1) whether damages could arise under § 271(a)[1] for wholly foreign sales; and (2) whether the reasonable royalty calculation can incorporate foreign damages. *Brumfield* held that *WesternGeco* applied to § 271(a) and reasonable royalties, and that a patentee could reasonable royalty damages on wholly foreign sales, where domestic infringement is a "proximate cause" of those foreign sales.

Background

Trading Technologies ("TT") sued IBG asserting four patents. The district court held two of the patents invalid under § 101, and the jury found the remaining two infringed. TT appealed and challenged three rulings, and the CAFC affirmed on all grounds:

1. The district court's grant of summary judgment of invalidity under § 101 as to two of the four patents;
2. The district court's exclusion of an expert witness's damages theory that incorporated foreign sales into a reasonable royalty calculation; and
3. The district court's denial of a post-verdict motion for new trial on damages because IBG allegedly misrepresented how it calculated damages figures presented to the jury.

Only the second is relevant to this remedies panel. The district court excluded a portion of an expert opinion under F.R.E. 702 that calculated a reasonable royalty based on "'making' the accused products in the United States with foreign damages." *Brumfield*, 97 F.4th at 865. The district courted noted that it "understood *WesternGeco* to hold that 'a patent owner claiming infringement under [] § 271(f)(2) may recover lost foreign profits proximately caused by domestic infringement.'"[2] *Id.* at 865 (quoting *WesternGeco LLC v. ION*

[1] Section 271(a) states that an entity infringes when it "*makes, uses, offers to sell, or sells* any patented invention, within the United States" or when it "imports [the patented invention] into the United States." (emphasis added).

[2] Section 271(f)(2) governs infringement cases where an infringer "supplies or causes to be supplied in or from the United States any component of a patented invention . . . intending

Geophysical Corp., 585 U.S. 407, 417 (2018)). The district court, however, "was reluctant to conclude, on its own, that *WesternGeco* displaces *Power Integrations* as the required framework of analysis . . . involving [] § 271(a) and a reasonable royalty." *Id.* at 870-71. As such, the district court applied the more restrictive *Power Integrations* approach—which predated *WesternGeco*—and excluded the "making the accused product" damages theory.[3]

Existing legal frameworks

The leading case is the 2018 *WesternGeco* decision that held that under § 271(f)(2)—*i.e.*, supplying a component of an infringing product for foreign assembly—a patentee "may recover lost foreign profits proximately caused by domestic infringement." *Brumfield*, 97 F.4th at 866 (quoting *WesternGeco*, 585 U.S. at 417). The Supreme Court reasoned that "the infringement remained domestic even though foreign conduct . . . contributed to [patentee's] loss of sales abroad[, and that] such 'overseas events were merely incidental to the infringement'; [] those events 'do not have 'primacy' for purposes of the extraterritoriality analysis.'" *Id.* at 873-74 (quoting *WesternGeco*, 585 U.S. at 416).

Prior to *WesternGeco*, the CAFC addressed foreign damages under § 271(a)—*i.e.*, making, using, selling, importing a patented object in the United States—in *Power Integrations, Inc. v. Fairchild Semiconductor Intern., Inc.* and held that *even if* "those foreign sales were the direct, foreseeable result of [] domestic infringement," "there exists [no] legal basis sufficient to" support damages. 711 F.3d 1348, 1371-72 (Fed. Cir. 2013). The CAFC recognized 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." *Id.* at 1371-72; *see also id.* at 1371 ("[Patentee] has not cited any case law that supports an award of damages for sales consummated in foreign markets, *regardless of any connection to infringing activity in the United States.*" (emphasis added)).

As such, there was an open question after *WesternGeco* as to how much it abrogated the more restrictive *Power Integrations*. Whether or not *WesternGeco*'s more pervasive approach governed § 271(a) was precisely the issue the district court in *Brumfield* was "reluctant to conclude, on its own." *Brumfield*, 97 F.4th at 870-71.

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that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States."

[3] The district court, however, "permitted [TT] to present its evidence based on the making of a copy for the foreign user via a domestic server and the making of a domestic sale via a Customer Agreement between the foreign user and IBG." *Id.* at 867. IBG did not appeal these holdings.

WesternGeco applies to § 271(a)

Ultimately, the CAFC held that it "must follow the Supreme Court's analysis [in *WesternGeco*], which now governs in place of the analysis of *Power Integrations*." *Id.* at 871. The CAFC held that "[u]nder *WesternGeco* we must examine the particular acts alleged to constitute infringement under particular statutory provisions to determine if the allegations *focus on domestic conduct*." *Id.* at 875 (emphasis added). The CAFC then held that "[i]f the exporting covered by § 271(f)(2) is a domestic act for purposes of the extraterritoriality analysis, as *WesternGeco* held, so too are the § 271(a)-covered acts at issue in this case." *Id.* at 875. Accordingly, a patentee could recover foreign damages based on § 271(a) infringement, but when doing so the *focus must be on domestic conduct*.

WesternGeco and proximate cause applies to reasonable royalty

Further, the CAFC addressed whether "the *WesternGeco* framework applies to a reasonable-royalty award, not just a lost-profits award," as was the case in *WesternGeco*. *Brumfield*, 97 F.4th at 875. The CAFC held that it did and noted that "the Court's statutory analysis [in *WesternGeco*] did not distinguish the forms of damages." However, "the hypothetical negotiation must turn on the amount the hypothetical infringer would agree to pay to be permitted to engage in the domestic acts constituting 'the infringement.'" *Id.* at 877. The CAFC concluded that "[i]f the patentee seeks to increase that amount [of reasonable royalty] 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." *Id.* at 877. Put simply, a patentee still cannot "ignore the well-recognized differences between lost-profits and reasonable-royalty damages, conceptually and in the formulations governing their availability and calculation." *Id.* at 876.

Moreover, the CAFC recognized that "*WesternGeco* establishes a new framework, of which causation is a necessary part." *Id.* at 877. The CAFC "recognized that 'proximate' causation is required and that proximate causation requires but-for causation plus more, including the absence of remoteness." *Id.* While the CAFC left the specific analysis of proximate cause unresolved, it noted that at least "in the lost-profits setting, that 'reasonable, objective foreseeability' is 'generally' sufficient for proximate causation." *Id.* at 877.

Even though foreign damages were possible, the CAFC excluded them in this particular case

Even though the CAFC held that TT *could* recover reasonable royalty damages for foreign sales, the CAFC still held that in this specific case the damages theory was still improper. Specifically, the CAFC noted that "there [we]re two groups of claims at issue: claims to a method; and claims to a computer readable medium (CRM) containing the computer code." *Id.* at 879.

Because the excluded damages theory focused on "making the accused product," the method claims could not apply. *See id.* ("There is no established recognition in patent law of direct infringement by 'making' a 'method' . . . .").

As to "the CRM claims," TT "pointedly [did] *not* focus[] on making an individual memory-device unit," but focused on the "software itself." *Id.* (emphasis added). The CAFC recognized that there is an "important distinction between software and a particular copy of it on a CRM," and that "the software itself [was] not claimed in the [asserted] patents." *Id.* at 880. As a result, the damages theory was "legally insufficient, even under the *WesternGeco* framework, for the simple reason that, though it claims a 'making,' it does not start from an act of 'infringement'—making the claimed CRM (or method)." *Id.*

Furthermore, "even putting aside the mismatch between the proposal and the claims," the theory was deficient because "TT presented no focused, coherent explanation of the required causal connection to domestic infringement." *Id.* Even though "making of [] CRMs . . . could be infringing, of course, and properly be subject to a royalty," TT was *already* "permitted to introduce evidence that some foreign users [] obtained their copies from domestic acts of making a copy and selling." *Id.* "The only disallowed proposal therefore had to involve making of copies abroad for foreign users (and foreign sales)." *Id.* at 880-81. And "TT [did] not offer[] a concrete, coherent account of why, in the hypothetical negotiation, the royalty for new domestic acts of making claimed CRMs . . . would have properly been increased to reflect the prospective *making and sale of CRMs abroad for use abroad*." *Id.* at 881 (emphasis added).

Additional materials

- DLA Piper, "Precedential Brumfield opinion clarifies recovery of damages based on foreign sales"
- Ropes & Grey, "*Brumfield v. IBG LLC* Creates Potential to Recover Damages Based on Wholly Foreign Sales"
- McDermott Will & Emery, "Reasonable Royalty Available for Foreign Activities (But Not This Time)
- Law360, "Winning Foreign Patent Damages Just Became A Lighter Lift"

***EcoFactor, Inc. v. Google LLC*, 104 F.4th 423 (Fed. Cir. 2024) (en banc rehearing pending)**

Short Overview:

EcoFactor sued Google in the Western District of Texas alleging patent infringement. The case was heard by a jury that found that Google infringed the asserted patent and awarded damages. Google appealed three of the district court's orders, including the denial of Google's motion for a new trial on damages. The CAFC affirmed the court across the board on June 3, 2024 in *EcoFactor, Inc. v. Google LLC*, 104 F.4th 423 (Fed. Cir. 2024).[4] Google petitioned for rehearing en banc, which the CAFC granted on September 25, 2024. The CAFC limited the rehearing en banc to the issue of whether the district court violated F.R.E. 702 and the *Daubert* standard by not excluding EcoFactor's damages expert, who assigned a per-unit royalty rate based on three, allegedly comparable, lump-sum licenses to broader patent portfolios. Google has already filed its en banc brief on November 12, 2024. EcoFactor's response is due in late January 2025 and concluding briefing for the rehearing en banc.

Background

The case stems from EcoFactor's lawsuit against Google that alleged that Google's Nest thermostats infringed on a patent related to smart thermostat technology. The heart of pending dispute is the damages calculation, wherein EcoFactor's damages expert proposed a per-unit royalty rate based on allegedly "comparable licensees," comprising three settlement license agreements with three different third-party manufacturers.

Despite these agreements explicitly stating that lump sum payments were not based on sales or royalties, EcoFactor's damages expert claimed they reflected a specific per-unit rate. The district court declined to exclude EcoFactor's damages expert, and the jury initially awarded EcoFactor $20,019,300 in damages for infringing a single patent claim. Following a divided CAFC decision affirming the district court's ruling, Google successfully petitioned for an en banc rehearing specifically to address the damages calculation issue.

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[4] For the appeal decided on June 3, 2024, Google was represented by Keker, Van Nest & Peters LLP, with Robert A. Van Nest leading the team. EcoFactor was represented by Russ August & Kabat, with Reza Mirzaie leading their team. For the *en banc* proceedings, Google is represented by Vincent Y. Ling and Evan Mann from Munger, Tolles, & Olson LLP, along with Ginger D. Anders and Robert A. Van Nest *et al.* from Keker, Van Nest & Peters LLP.

Existing Legal Framework: Rule 702 and Daubert

F.R.E. 702 "assign[s] to the trial judge the task of ensuring that an expert's testimony both rests on a reliable foundation and is relevant to the task at hand." *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 597 (1993). Further, under *Daubert*, a District Court cannot dismiss an expert opinion by simply claiming that reliability issues affect the weight of the evidence rather than its admissibility. Instead, the court must determine, based on a preponderance of the evidence standard, that the proposed testimony satisfies the requirements outlined in F.R.E. 702.

Google argues that the district court's failure to exclude EcoFactor's damages expert did not comply with F.R.E. 702 because of: 1) an insufficient factual foundation, and 2) a failure to properly apportion.

1. Google argues there was an insufficient factual foundation for EcoFactor's experts' opinion that lump-sum licenses reflected the licensees' agreement to apply the alleged royalty rate

Google argues that EcoFactor's damages expert ignored critical license provisions that disclaimed the use of any royalty rate, and, instead, EcoFactor's expert improperly relied solely on assertions that the lump sum amounts reflected the set royalty rate.

Before admitting expert testimony, the district court must ensure that all F.R.E. 702 preconditions are met. Specifically, F.R.E. 702 states that an expert witness may testify only if "the proponent demonstrates to the court that it is more likely than not that": (a) the expert's technical or other specialized knowledge "will help the trier of fact to understand the evidence or to determine a fact in issue"; (b) "the testimony is based on sufficient facts or data"; (c) "the testimony is the product of reliable principles and methods"; and (d) "the expert's opinion reflects a reliable application of the principles and methods to the facts of the case." In the pending en banc, F.R.E. 702 factors (b)-(d) are particularly relevant.[5]

(b) "the testimony is based on sufficient facts or data"

It is black-letter law that an expert's damages analysis must be based on "sufficient, verifiable data," and that relying instead on a party's untested assertions renders an expert unreliable. *See Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.,* 711 F.3d 1348, 1372 (Fed. Cir. 2013).

[5] The arguments for factor (d) are lumped together with the arguments made for factor (c).

EcoFactor's damages expert pointed to three licenses—each which involved a lump-sum payment, rather than a running royalty. However, Ecofactor offered its damages expert to establish that the lump-sum payment agreed to in each license was calculated using a "net returns royalty" ("NRR") rate, and that the three licenses granted rights to similar technology as what is at issue here. The damages expert took the NRR rate from a unilateral "whereas" clause that was found in each of the agreements. *See EcoFactor*, No. 23-1101, Dkt. No. 131 (filed Nov. 26, 2024) (herein "EcoFactor En Banc Opening Br.").

The three licenses that EcoFactor's damages expert relied on include:

1. Daikin Industries Inc., license – EcoFactor granted Daikin a license to EcoFactor's entire patent portfolio in exchange for a lump sum. The parties agreed that "[s]uch amount is not based upon sales and does not reflect or constitute a royalty." EcoFactor's damages expert relied on a specific "whereas" clause," that stated that "[EcoFactor] has agreed to the payment . . . based on what Ecofactor believes is a reasonable royalty calculation of [$ NRR] per-unit for estimated past and Daikin's projected future sales of products accused of infringement in the Litigation."

2. Schneider Electric, USA, Agreement – EcoFactor granted Schneider a similar license (lump sum payment for license to EcoFactor's current and future patent portfolio). The agreement, however, also contained a clause that "nothing in this clause should be interpreted as agreement by Schneider that NRR per unit is a reasonable royalty." Moreover, the body of the agreement featured language stating that the lump-sum amount "is not based upon sales and does not reflect or constitute a royalty."

3. Johnson Controls, Inc., ("JCI") Agreement – EcoFactor also granted JCI a similar license. The agreement, however, did not contain explicit refutation of using an NRR rate, as was found in the Daikin and Schneider licenses.

EcoFactor's damages expert did not attempt to show that the lump sum payments in these agreements ever applied an NRR rate. The expert testified that he had never seen any sales or calculation data that showed how the lump-sums were determined for any of the agreements. Instead, he relied on the testimony of EcoFactor's CEO—who also had never seen any calculations and who testified that he did not believe that anyone at EcoFactor had this information. *See EcoFactor*, 104 F.4th at 252-53.

(c) "the testimony is the product of reliable principles and methods"

Reliable methods for evaluating an allegedly comparable license can include examining the license itself and "[providing a] mathematical analysis to derive" the royalty rate from the lump sum. *MLC Intell. Prop., LLC v. Micron Tech., Inc.*, 10 F.4th 1358, 1368 (Fed. Cir. 2021).

Google criticizes the CAFC's initial decision on this point. Google argues that the CAFC panel applied an incorrect legal standard by treating challenges to EcoFactor's damages experts' reliance on the "whereas" clauses and on EcoFactor's CEO testimony as matters of weight rather than admissibility. Google also argues that the CAFC panels' reliance on the opportunity for cross-examination were improper under *Daubert*. *See* EcoFactor En Banc Opening Br. at 37. Google reasons that the purpose of *Daubert* exclusion is to protect juries from being swayed by dubious scientific testimony and that even thorough cross-examination may not ensure reliability or relevance.

In a similar case, *MLC Intell. Prop.*, a patentee's expert sought to translate a lump-sum payment amount in an allegedly comparable license to a running royalty rate while ignoring the lump-sum amount and declining to use sales data to calculate a royalty rate from the lump-sum. *See* 10 F.4th at 1363-64 (The court held that the experts' testimony was unreliable because he did not attempt to "provide mathematical analysis to derive" that rate "from the lump-sum payments"). The Court in *MLC* held that royalty-rate testimony was "not 'based on sufficient facts or data' and [was] not 'the product of reliable principles and methods.'" *Id.* at 1367 (quoting F.R.E. 702(b)-(c)).

2. <u>Google argues that the EcoFactor's damages expert failed to properly apportion for the value of the patent when relying on lump-sum settlement licenses that covered numerous additional patents.</u>

Damages owed to the patentee must be apportioned to reflect the value of *only* the patented improvement. *See Omega Pats., LLC v. CalAmp Corp.*, 13 F.4th 1361, 1376 (Fed. Cir. 2021). It is well-established that comparable licenses can be used to calculate a reasonable royalty rate. However, this analysis is only reliable if the experts account for the "technological and economic differences between th[e] licenses' and a hypothetical negotiation over a single, specific patent." *Id.*

Google argues that Ecofactor's damages experts' conclusion that Google should pay EcoFactor the same NRR royalty rate as that derived from the three allegedly comparable licenses, *regardless* of which patents were included in those licenses. Google asserts that this renders the expert opinion unreliable "because it was untethered to the facts of this case and irreconcilable with th[e CAFC's] apportionment precedents." EcoFactor En Banc Opening Br. at 42.

Google also argues that the proffered licenses are significantly different from the hypothetical negotiations, namely that all of the licenses "(i) conveyed dramatically different rights, including a license to EcoFactor's worldwide portfolio of 30+ patents, plus any future patents and applications, (citations omitted) and (ii) settled active litigation in which EcoFactor had asserted different subsets of patents." *Id* at 46. Indeed, two of the three licenses list seven patents (including the patent-at-issue here), and the third license lists a different subset of four patents, which did *not* include the patent-at-issue here.

Google argues that EcoFactor's damages expert applied generic "upward" and "downward" adjustments without analyzing the value of additional patents covered in the licenses. EcoFactor's damages expert testified that the additional patents would put "downward pressure" on the royalty rate, which would then be cancelled out by "upward pressure" exerted by the knowledge that the patent-at-issue here is valid and infringed. Google argues that this lack of specificity in the damages experts' opinion renders it unreliable for multiple reasons.

First, Google argues that the failure to address the additional patents in allegedly comparable licenses is irreconcilable with the CAFC's apportionment case law, which establishes that apportionment is a patent-specific inquiry that examines the "incremental value that the patented invention adds to the end product." *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014).

Second, Google argues that EcoFactor's experts failed to assess the value of the specific additional patents which rendered his alleged "downward pressure" testimony a "generic proposition that would be true in every case involving a patent portfolio." EcoFactor En Banc Opening Br. at 50. Indeed, the CAFC has found the notion of "generic pressure" to be unreliable. *See Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1313 (Fed. Cir. 2011) (holding expert testimony inadmissible for relying on "an arbitrary, general rule, unrelated to the facts of th[e] case"); *see also Apple Inc. v. Wi-LAN Inc.,* 25 F.4th 960, 972-973 (Fed. Cir. 2022) (rejecting expert testimony that the royalty rate of a portfolio license was attributable to a few "key patents," with the rest of the portfolio thrown in).

Third, Google argues that EcoFactor's damages expert opinion failed to "properly account for the fact that the licenses were settlement licenses." EcoFactor En Banc Opening Br. at 53. Google argues that EcoFactor's expert failed to consider whether the effect of assuming validity and infringement in a hypothetical negotiation might be offset by a licensees' willingness to pay to avoid litigation costs. *Id*. Furthermore, the expert did not reliably consider how factors such as the relative size or exposure risk of the licensees, or the stage of litigation at which each settlement occurred, may impact the amount they were willing to pay compared to Google in a hypothetical negotiation.

Amicus briefing

Given the potential impact the *EcoFactor* en banc rehearing may have on reasonable royalty calculations, the CAFC has received multiple amicus curiae briefs. One brief came from fourteen "patent and evidence law professors" and strongly argues in favor of Google. *EcoFactor*, No. 2023-1101, Dkt. No. 131 (filed Nov. 26, 2024). This brief took note of overarching trends and stated that, despite the requirement of apportionment, "many courts have been backsliding from the principle of apportionment." *Id*. at 2. "As a result, patentees can use allegedly comparable licenses with apportionment already 'built-in' to skip the apportionment step entirely." *Id*. at 2-3. The brief argues that this en banc rehearing "provides th[e CAFC] a critical opportunity to correct the panel's errors and to ensure that the appropriate patent balance is not disrupted by improper application of Rule 702 to apportionment or comparable-license testimony." *Id*. at 3. The brief made several substantive points reinforcing Google's position, *see generally id*. at 2-24, and ultimately the professors concluded that "[f]ailing to rigorously apply Rule 702 and Daubert and admitting unreliable and irrelevant evidence like the testimony presented in this case—testimony that potentially confuses or misleads a jury—circumvents proper apportionment and undermines the balance of the patent system," *id*. at 25. Various other entities, such as large technology companies, have also filed amicus briefs.

Additional Materials

- Patently-O, "Federal Circuit Grants En Banc Rehearing in EcoFactor v. Google, Limiting Damages Expert Testimony"
- McDermott Will & Emery, "Rewind: Federal Circuit Grants En Banc Rehearing Over Royalty Damages"
- IPWatchDog, "Full Federal Circuit Grants Google's Request for Rehearing of Precedential Ruling on Expert's Damages Testimony"