

LITIGATING PATENT DAMAGES

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Topics

1. Selecting and Working With Damages Experts
2. Comparable Licenses and Alternative Damages Theories
3. FRE 702 Amendments and “Daubert” Developments



Topics

1. **Selecting and Working With Damages Experts**
2. Comparable Licenses and Alternative Damages Theories
3. FRE 702 Amendments and “Daubert” Developments



Selecting and Working With Damages Experts

- Considerations for corporate counsel in selecting and working with damages experts:
 - Cost management
 - Outside counsel's experience and comfort level with the expert
 - Expert's background: Accounting? Ph.D. in Economics? Industry experience?
 - Prior FRE 702 challenges



Selecting and Working With Damages Experts

- Other considerations in selecting damages experts:
 - Does the expert complement the rest of your witnesses and trial team?
 - Has the expert testified on behalf of your client before? How many times?
 - What is the expert's experience before the judge in your case? In the district where your case is venued?
 - Does the expert have connections to your venue? How important are they to jurors in your venue?
 - Is the expert available during critical periods in the case?



Selecting and Working With Damages Experts – Early Retention – Plaintiff Perspective

- Engaging an expert early allows you to be efficient with your case by bringing on the right experts and ensuring they have the right evidence to do effective work from the get-go
 - What is your theory of harm, and what kind of experts do you need?
 - General approaches (Market Approach, Income Approach, Cost Approach) require different expertise -- economist, accountant, both?
 - Do you need an industry/market expert to inform the economist's work, separate from technical and infringement experts?
 - Once you have expert needs identified, what kind of evidence will they need?
 - Experts can assist early in the discovery process to ensure necessary evidence is requested and produced in the first instance



Selecting and Working With Damages Experts – Early Retention – Defendant Perspective

- Is it really better for the Defendant to wait until it sees the Plaintiff's damages report before beginning to work with a damages expert? Advantages of early retention include:
 - *Identifying vulnerabilities*: experts can generally predict what a plaintiff will argue given the evidence available, even before they see the plaintiff's expert's report; an expert can work on perceived vulnerabilities to have best work ready when reports are due
 - *Exploring NIAs*: discussing potential NIAs and especially the economic implications of them ensures that the Defendant's expert will have the appropriate evidence to understand the economics of the but-for world
 - *Clarifying approach*: evaluating when the Defendant should develop its own model/opinion instead of simply critiquing the Plaintiff's
 - *Reducing cost*: gaining familiarity with the evidence and arguments early on could be less costly in the long run than having an army of people jump on the issues in a compressed timeframe



Selecting and Working With Damages Experts – Early Retention – Either Side of the Aisle

- Often a scoping analysis early-on can help frame a legal theory
 - Ex: Theory of Lost Profits—Diverted sales? Price erosion? Loss of collateral/convoyed sales? Loss of Future sales?
- Experts can also aid counsel in tailoring (and responding to) discovery requests to ensure the experts have the right information and can most efficiently provide sound testimony.
- Best value for \$\$ - engaging experts early allows counsel to line up their preferred experts (before they are potentially conflicted or their calendars have been set). Engaging experts early affords better project planning, more realistic budgets, and less waste.



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Comparable Licenses and Alternative Damages Theories

- What is a comparable license?

- Federal Circuit Bar Association Model Patent Jury Instruction 5.9:

Whether a license agreement is comparable to the license under the hypothetical license scenario depends on many factors, such as whether they involve comparable technologies, comparable economic circumstances, comparable structure, and comparable scope. If there are differences between a license agreement and the hypothetical license, you must take those into account when you make your reasonable royalty determination.

- When there are comparable licenses, they can be evaluated under the *Georgia-Pacific* factors. But what if no comparable licenses are available?
 - This is becoming more common. Why?



Comparable Licenses and Alternative Damages Theories – (1) Hypothetical Negotiation

- An economist can analyze the hypothetical negotiation in three steps:
 - Calculate the plaintiff's minimum willingness to accept—their expected profit loss from granting a license to the defendant (often zero)
 - Calculate the defendant's maximum willingness to pay—their expected profit gain from taking a license from the plaintiff
 - Calculate the bargaining split—the amount above the plaintiff's willingness to accept that the parties would actually agree to in a hypothetical negotiation



Comparable Licenses and Alternative Damages Theories – (1) Hypothetical Negotiation

- Methods to calculate the bargaining split
 - Rules of thumb (25%, 50/50 Nash Bargaining) are inadmissible because they fail to tie damages to the facts of the case at issue (*Uniloc*)
 - Economic bargaining models that predict a split based on the facts of the case at issue, including:
 - Rubinstein (or “alternating offers”)
 - Total Value Contribution




Comparable Licenses and Alternative Damages Theories – (1) Hypothetical Negotiation

- Rubinstein model: the party that is more willing or able to prolong negotiations has more leverage; that party will get a relatively better deal in the hypothetical negotiation.
 - Emphasizes an adversarial (but reasonable) negotiation.
 - Major drivers are parties' discount rates, the time until patent expiry, and market conditions during the negotiation.



Comparable Licenses and Alternative Damages Theories – (1) Hypothetical Negotiation

- Total value contribution: parties are compensated proportionally to the *total* assets they bring to the agreement.
 - Not grounded in economic theory
 - Maybe considered more “fair” – but what do I know about fairness, I’m an economist.
 - You do see this method occasionally, but it’s hard to justify as a primary methodology



Comparable Licenses and Alternative Damages Theories – (2) Incremental Value

- Identifying incremental value attributable to the patent(s) at issue
 - Clearly important—reference Rex Medical \$1 damages verdict from September
 - Patent statistics can measure the relative value of asserted patent(s) vs defendant's own IP practiced in the accused products. Economic studies consistently find that:
 - Firms with more patents are more valuable
 - Patents with more forward citations are more valuable (patent-to-patent or family-to-family)
 - Patents with applications in more jurisdictions are more valuable (family size)
 - What does an economist need, and how can in-house counsel help?
 - Identification of relevant body of patents: which of the defendant's patents are relevant for the product at issue? Patent marking documents, patents practiced by accused products



Comparable Licenses and Alternative Damages Theories – (3) Value Shares of Patents in a Portfolio

- What if the only licenses available are portfolio-wide licenses?
- The “value shares” theory uses historical data on the relative value of patents in various portfolios across different industries to calculate the value of a particular patent in any given patent portfolio, e.g., a patent that is more valuable than 90% of the patents in the portfolio is worth a particular percentage of the portfolio’s total value.
 - This percentage can then be applied to the royalty payment under a portfolio-wide license or, potentially, to revenues generated by the accused product.
- Issues:
 - Requires a technical expert to opine on the relative value of the patent-in-suit in relation to the other patents in the portfolio or, alternatively, the relative value of an accused feature in relation to the other features in the accused product.

Putnam, Value Shares of Technologically Complex Products (Apr. 16, 2014)

Innovative Memory Sys., Inc. v. Micron Technology, Inc., C.A. No. 14-1480-RGA, 2022 WL 4548644 (D. Del. Sept. 29, 2022)

TCL Commun. Tech. Holdings, Ltd v. Telefonaktiebolaget Lm Ericsson, Case No. SACV 14-341 JVS(DFMx), 2018 WL 4488286 (C.D. Cal. Sept. 14, 2018)



Comparable Licenses and Alternative Damages Theories – (4) Cost Savings

- Consider a theory that calculates the costs the defendant saved by using the patented invention compared to the next best noninfringing alternative.

Metaswitch Networks Ltd. v. Genband US LLC, Case No. 2:14-cv-744-JRG-RSP, 2016 WL 874737 (E.D. Tex. Mar. 5, 2016)

- **Issues:**
 - What is the next best noninfringing alternative?



Comparable Licenses and Alternative Damages Theories – (5) Hedonic Regression

- Regression analysis that attempts to determine the relationship between the presence of the accused features in the accused product and the price of the accused product.

Huawei Techs. Co. v. T-Mobile US, Inc., Case No. 2:16-CV-00052-JRG-RSP, 2017 U.S. Dist. Lexis 218166 (E.D. Tex. Sept. 10, 2017)

- **Issues:**
 - It may be difficult to isolate, and perform the regression solely on, the accused features of a multi-feature product
- The model is at issue in *VLSI v. Intel Corp.*, No. 2022-1906 (Fed. Cir.), which was argued on October 5, 2023.
 - Hedonic regression was used to support the \$2.2 billion verdict
 - Oral argument touched on inclusion of non-infringing alternative



Comparable Licenses and Alternative Damages Theories – (5) Hedonic Regression

- Hedonic regression models can identify the relative pricing difference in products with and without the patented feature
 - Requires patented features to be consumer salient
 - Works similarly to conjoint survey analysis, except that it uses consumer sales data instead of a consumer survey
 - And just like a conjoint survey analysis, you need to embed the results of the hedonic regression into a model of the market for the accused product—otherwise, you can get erroneous results



Comparable Licenses and Alternative Damages Theories – (5) Hedonic Regression

- Ex: Brattle Motor Works is a highly-regarded automobile manufacturer. We sell cars with two different trim packages: Basic and Premium. Premium has a 25% higher top speed but costs 25% more.
- The owner of a patent on automobile fuel injectors claims that all my cars infringe on their fuel injector patent, and that their fuel injector design increases a car's top speed by 10%.
- Their expert analyzes my sales data using hedonic regression, estimating that a 10% increase in a car's top speed implies a 10% increase in the price that I can charge. The expert concludes that without the infringing fuel injector design, my cars would be 10% slower AND I would charge 10% less.



Comparable Licenses and Alternative Damages Theories – (5) Hedonic Regression

- The problem is that even if my cars would be 10% slower without the fuel injector design, I wouldn't necessarily lower my prices by anywhere near 10%:
 - Some of my sales come from my brand value, and even if my cars were 10% slower, they would continue to buy my cars and pay similar prices
 - If customers only care about having the fastest car, and my cars are still faster than competitors' even without the fuel injector, I might not lose many sales or lower prices much at all
 - You need a market model to make this useful—who are the competitors? What do customer substitution patterns look like? etc.



Comparable Licenses and Alternative Damages Theories – (6) Royalty Databases

- Some experts have tried to rely on royalty rate industry studies that can be found in royalty databases (*e.g.*, RoyaltySource Royalty Reports)
- This may be problematic because doing so requires a showing that the studies relate to patent licenses that bear a reasonable relationship to the patent-in-suit in a particular case.

McGinley v. Luv N' Care, Ltd., Case No. 17-CV-00821, 2023 WL 6289977 (W.D. La. Sept. 26, 2023)



Comparable Licenses and Alternative Damages Theories – How Can In-House Counsel Help?

- What does an economist need, and how can in-house counsel help?
 - Information to calculate minimum willingness to pay, maximum willingness to accept – similar to lost profits or profit disgorgement
 - Strong understanding of NIAs and each party's next-best alternative to a license
 - Requires investment of time and effort by technical experts
 - Parties' beliefs and information at the time of the hypothetical negotiation
 - What factors matter? How can in-house counsel assist?



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FRE 702 Amendments and “Daubert” Developments

- Effective December 1, 2023, FRE 702 will be amended to confirm the standard for the admissibility of expert witness testimony
- The amended rule will read as follows:

Rule 702. Testimony by Expert Witness

A witness who is qualified as an expert by knowledge, skill, experience, training, or education may testify in the form of an opinion or otherwise if **the proponent demonstrates to the court that it is more likely than not that:**

- (a)** the expert’s scientific, 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 has reliably applied~~ **expert’s opinion reflects a reliable application of the** principles and methods to the facts of the case.



FRE 702 Amendments and “Daubert” Developments

- The amendment clarifies that:
 - The court must decide admissibility; the sufficiency of an expert’s basis and the application of an expert’s methodology go to admissibility (for the court), not weight (for the jury)
 - The proponent of the expert testimony must demonstrate admissibility by a preponderance of the evidence; there is no "presumption" of admissibility and there is no “liberal standard” for admissibility



Latest Trends in FRE 702 Motions

- Trends in successful FRE 702 motions
- Trends in unsuccessful FRE 702 motions
- Options available after an FRE 702 motion is granted



Failure to Conduct an Apportionment Analysis for Reasonable Royalty

- Expert opinions that fail to apportion will be excluded:
 - “[D]amages awarded for patent infringement ‘must reflect the value attributable to the infringing features of the product, and no more.’”

Commonwealth Sci. & Indus. Rsch. Organisation v. Cisco Sys., Inc., 809 F.3d 1295, 1301 (Fed. Cir. 2015) (citations omitted)

- Failure to account for noninfringing uses of accused devices (and thus failure to apportion) may result in exclusion.

Niazi Licensing Corp. v. St. Jude Medical S.C., Inc., 30 F.4th 1339, 1356-58 (Fed. Cir. 2022)



Unsupported Reliance on Portfolio License

- Expert must support a claim that litigated patents are “crown jewels” of a portfolio:
 - In *Wi-LAN*, an expert relied on three licenses that included more than just the two litigated patents
 - Expert sought a similar royalty rate as the licenses, arguing that the two litigated patents accounted for most of the value of the portfolio
 - Expert argued that the two patents were “key patents” and accounted for 75% of the licensed royalty rate
 - Court rejected this assertion as contrary to the evidence

Apple Inc. v. Wi-LAN Inc., 25 F.4th 960, 971-73 (Fed. Cir. 2022)



Unsupported Reliance on Portfolio License

- Evidence that litigated patents are not “key” to proposed licenses:
 - Patents not discussed during negotiations
 - License does not list patents as topics of negotiation
 - Multiple “key” patents exist in portfolio
 - Litigated patents not distinguished from “non-key” patents

Apple Inc., 25 F.4th at 973-74



Unsupported Reliance on Portfolio License

- To rely on a royalty payment in portfolio license, the expert must account for the value of unasserted patents.

Rex Medical, L.P. v. Intuitive Surgical, Inc., C.A. No. 19-005,
2023 WL 6142254 (MN) (D. Del. Sept. 20, 2023)



Opinion Untethered to Evidence

- Expert testimony using subjective or arbitrary models or royalty rates will be excluded:
 - In *MLC*, an expert concluded that 0.25% was a reasonable royalty rate based on what he “understood” two agreements used as a royalty rate
 - Agreements used lump-sum payments, not royalty rates
 - Expert’s conclusion came from broad inferences on what a most-favored customer clause supposedly implied

MLC Intellectual Property, LLC v. Micron Tech., Inc.,
10 F.4th 1358, 1367-69 (Fed. Cir. 2021)



Opinion Untethered to Evidence

- Court rejected arbitrary damages model:
 - Rather than using accepted scientific techniques, the expert made inferences beyond the scope of the comparable agreements to reach a 0.25% royalty rate
 - Expert did not provide any calculations to derive the royalty rate from the two lump-sum agreements

MLC Intellectual Property, 10 F.4th at 1367-69



Use of Unreliable Methods

- Courts may reject an opinion that is based on unreliable inputs:
 - In *Innovative Memory*, expert's model required an estimate of how the patented feature ranked in value among other features of the accused products
 - The expert, an economist with no technical background, concluded that the patented feature was valued in the top 10% of customer-facing features and quantified the number of such features
 - Expert did not have the expertise to make this determination, and did not use a discernable methodology to reach this conclusion

Innovative Memory Sys., Inc. v. Micron Tech., Inc., C.A. No. 14-1480-RGA, 2022 WL 4548644, at *17-19 (D. Del. Sept. 29, 2022)



Use of Unreliable Methods

- Courts may reject an opinion that is based on unreliable inputs:
 - Court rejected expert’s top 10% conclusion as unreliable, so any calculations using this assumption would also be unreliable
 - Court excluded “testimony on a mathematical calculation that uses inputs obtained from unreliable methods. Numbers have power—they sound authoritative and tend to mask unreliable estimates and assumptions.”

Innovative Memory, 2022 WL 4548644, at *18-19



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Challenge Based on Comparable License Date

- FRE 702 challenges based solely on date of comparable license agreements may be rejected:
 - Experts can rely on license agreements executed several years after date of hypothetical negotiation
 - Expert needs to provide detailed facts to support conclusion that license is technically and economically comparable

CAO Lighting, Inc. v. General Elec. Co., C.A. No. 20-681-GBW, C.A. No. 20-690-GBW, 2023 WL 1930354, at *9-10 (D. Del. Jan. 30, 2023)



Challenge Based on Comparable License Date

- Courts may allow expert testimony on licenses executed significantly after hypothetical negotiation:
 - Some experts have been permitted to use agreements executed 6 years after date of hypothetical negotiation
 - Expert can avoid exclusion by showing that the factual circumstances at the time of comparable license were similar to that of the hypothetical negotiation

Willis Elec. Co., Ltd. v. Polygroup Macau Ltd. (BVI), Case No. 15-cv-3443 (WMW/DTS), 2023 WL 112733, *4-6 (D. Minn. Jan. 5, 2023)



Attacking Conclusions Instead of Methodology

- While improper methodology may be excluded, some courts hold that conclusions should be attacked on cross-examination:
 - Simply disagreeing with an expert's assumptions or valuations in a hypothetical negotiation is not a basis to exclude
 - If an expert uses a reliable analytical technique, challenges to the conclusion go to weight

See Image Processing Techs., LLC v. Samsung Elecs. Co., Ltd., Case No. 2:20-cv-00050-JRG-RSP, 2020 WL 3414675, at *2-4 (E.D. Tex. June 22, 2020)



Arguing Failure to Consider Every Comparable License

- Opinions not excluded for failing to address all other potentially comparable licenses:
 - In *Shopify*, the expert relied on a single settlement agreement to rebut the opposing expert's opinions
 - Court held that the expert did not need to discuss all other agreements

See Shopify Inc. v. Express Mobile, Inc., Civil Action No. 19-439-RGA, 2021 WL 4288113, at *29 (D. Del. Sept. 21, 2021)



Arguing Lack of Patent Damages Experience

- Courts have rejected FRE 702 challenges that a damages expert lacks sufficient experience as a damages expert in the patent context:
 - Damages expert can rely on technical experts for background on patents and technology

Sioux Steel Co. v. Prairie Land Mill Wright Services, Case No. 16-cv-2212, 2022 WL 17184469, at *9 (N.D. Ill. Nov. 23, 2022)



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Reliance on Adverse Party's Damages Expert?

- Some courts permit a party to use its adversary's damages expert to present a damages case:
 - Court may discretionarily allow party to call adversary's damages expert, even if not called by adversary

Shure Inc. v. ClearOne, Inc., Civil Action No. 19-1343-RGA,
2021 WL 5014770 (D. Del. Oct. 28, 2021)



Proceed Without An Expert?

- Some courts have stated that "a patent plaintiff is not required to present expert testimony to recover damages under the Patent Act"

Daedalus Blue LLC v. SZ DJI Tech. Co., Ltd., W-20-CV-00073-ADA,
2022 WL 831619, at *5 (W.D. Tex. Feb. 24, 2022)

- Other courts have determined that general factual evidence alone, without an expert opinion, is insufficient to establish a reasonable royalty

Shure, 2021 WL 5014770, at *1



Are “Do-Overs” Permitted?

- Some courts have allowed a damages expert to “cure” problems in an excluded opinion
 - May be limited to curing deficiencies and can add no information on other points
 - Likely will be on an abbreviated timeline
 - May be given only a single chance to fix deficiencies

Digital Reg of Texas, LLC v. Adobe Sys., Inc., No. C 12-1971 CW,
2014 WL 4090550, at *4 (N.D. Cal. Aug. 19, 2014)



Serving Addendum Opinions?

- Other courts have allowed experts to serve a short addendum:
 - In *PayPal*, the court allowed the damages expert whose opinion had been excluded to serve a 10-page addendum report
 - Court stated that absent such relief, plaintiff would have to proceed to trial without a damages case

IOENGINE v. PayPal Holdings, Inc., Civil Action No.
18-452-WCB, Dkt. 528 (D. Del. June 23, 2022)



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