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BEST PRACTICES FOR WORKING WITH IP DAMAGES EXPERTS BASED ON AN UNPRECEDENTED STUDY OF CASE OUTCOMES

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AGENDA

1. Background on IP damages

2. Working with an IP damages expert

3. The study findings

4. Impact of recent amendments to FRE 702

5. Practical takeaways

01

BACKGROUND ON IP DAMAGES

BACKGROUND ON PATENT DAMAGES

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.
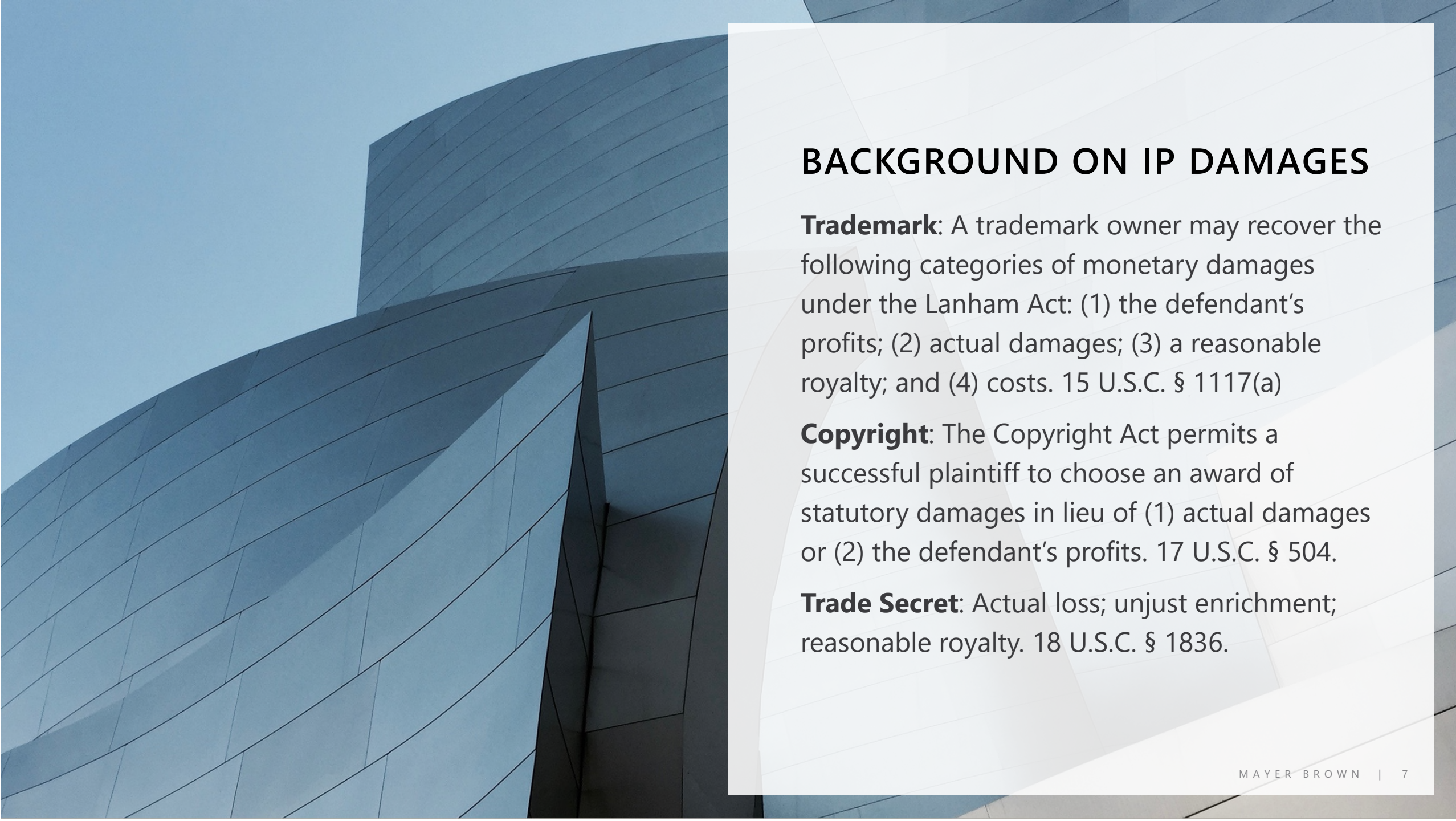
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The court may receive **expert testimony** as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

35 U.S.C. § 284

BACKGROUND ON PATENT DAMAGES

- Lost profits

  – "But for" analysis: Goal is to place the patentee in the same position it would have occupied had there been no infringement.

  – *Panduit* test: The patentee is entitled to lost profit damages if it can establish: (1) demand for the patented product, (2) absence of acceptable non-infringing alternatives, (3) manufacturing and marketing capability to exploit the demand, and (4) the amount of profit it would have made.

- Reasonable royalties

  – Hypothetical negotiation between the patentee and the accused infringer just prior to the alleged infringement.

  – *Georgia-Pacific* factors

BACKGROUND ON IP DAMAGES

Trademark: A trademark owner may recover the following categories of monetary damages under the Lanham Act: (1) the defendant's profits; (2) actual damages; (3) a reasonable royalty; and (4) costs. 15 U.S.C. § 1117(a)

Copyright: The Copyright Act permits a successful plaintiff to choose an award of statutory damages in lieu of (1) actual damages or (2) the defendant's profits. 17 U.S.C. § 504.

Trade Secret: Actual loss; unjust enrichment; reasonable royalty. 18 U.S.C. § 1836.

BACKGROUND ON DAUBERT AND FRE 702

- FRE 702 governs the admissibility of expert testimony and sets the standard that the proponent must meet.

- In *Daubert*, the Supreme Court set forth enumerated factors to consider when deciding admissibility under FRE 702. *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993).

  – The expert's technique or theory can be tested and assessed for reliability;

  – The technique or theory has been subject to peer review and publication;

  – The known or potential rate of error of the technique or theory; and

  – The existence and maintenance of standards and controls.

- In response to Daubert and its progeny, FRE 702 was amended in 2000 to reflect these changes.

- FRE 702 was amended again at the end of 2023 to address concerns about inconsistent application of the rule by the district courts.

02

WORKING WITH AN IP DAMAGES EXPERT

BEST PRACTICES

- When to retain?

- How to search?

- How to select the best expert?

- Preparing expert reports

- Collaboration between technical and damages experts

- Preparing for testimony

CHALLENGES TO AN IP DAMAGES EXPERT OPINION

- What is usually challenged?

- What is the timing for challenges?

- What is the vehicle for a *Daubert* challenge?

- What is the timing for resolution?

03

THE STUDY

THE STUDY

- **Title:** A Detailed Study of Court Decisions on Admissibility of Intellectual Property Damages Experts

- **Citation:** 32 Tex. Intell. Prop. L.J. 45 (2023)

- **Authors:** Deepa Sundararaman & Cleve B. Tyler

DATA USED IN STUDY

- Federal court orders on Daubert challenges

  – All types of IP cases from 2015-2020

- Recorded descriptive data

  – Plaintiff, Defendant, IP Type, judge name, expert name, district, date, case number

  – Type of damages, whether the expert was retained by plaintiff or defendant

- Definitions

  – Ruling: the overall order (305)

  – Expert-order: portions of ruling related to an expert (403)

  – Decision: findings related to type of challenge (1,294)

DECISION CATEGORIZATION

Tier 1	Tier 2	Tier 3
Quals and Relevance, Royalty Base, Royalty Rate, Lost Profits, Disgorgement, Lost Business Value	Contingent on Tier 1 value For Tier 1 Royalty Rate: NIA, Licenses, Apportionment, Hypothetical Negotiation Setup, Methodology, Georgia-Pacific Factors, FRAND, Bargaining	Contingent on Tier 1/Tier 2 value

- Three tiers, total

- 112 unique category combinations

- For each decision: Excluded, or not?

OVERALL EXCLUSION RATES

Year	Decisions			Excluded Decisions			% Decisions Excluded		
	Plaintiff	Defendant	Total	Plaintiff	Defendant	Total	Plaintiff	Defendant	Total
2015	156	70	226	39	14	53	25%	20%	23%
2016	116	58	174	29	17	46	25%	29%	26%
2017	178	55	233	48	12	60	27%	22%	26%
2018	141	45	186	31	8	39	22%	18%	21%
2019	175	68	243	41	24	65	23%	35%	27%
2020	157	75	232	31	17	48	20%	23%	21%
Total	923	371	1,294	219	92	311	24%	25%	24%

- Exclusion rate overall is 24%

- More decision on plaintiff experts

- Similar exclusion rate for plaintiff and defendant experts

EXCLUSION RATES BY TIER 1 CATEGORY

Watershed Damages Approach Category	Decisions			Excluded Decisions			Percent Excluded		
	Plaintiff	Defendant	Total	Plaintiff	Defendant	Total	Plaintiff	Defendant	Total
Reasonable Royalty	582	253	835	148	62	210	25%	25%	25%
Lost Profits	178	48	226	24	7	31	13%	15%	14%
Unjust Enrichment	54	20	74	13	5	18	24%	25%	24%
Scope/Basis for Damages, Incl. Legal Opinion	42	20	62	16	11	27	38%	55%	44%
Relevance	35	13	48	11	3	14	31%	23%	29%
Qualifications	13	14	27	-	4	4	0%	29%	15%
Impairment of Business	10	-	10	7	-	7	70%	N/A	70%
N/A	9	3	12	-	-	-	0%	0%	0%
Total	**923**	**371**	**1,294**	**219**	**92**	**311**	**24%**	**25%**	**24%**

- Lost profit analyses – lower exclusion rates (14%)

- Expert reaching legal conclusion – higher exclusion rates (44%)

REASONABLE ROYALTY EXCLUSIONS

Watershed Reasonable Royalty Analysis Type Category	Decisions			Excluded Decisions			Percent Excluded		
	Plaintiff	Defendant	Total	Plaintiff	Defendant	Total	Plaintiff	Defendant	Total
Market Approach/Licenses	109	81	190	33	23	56	30%	28%	29%
GP Analysis	121	63	184	24	17	41	20%	27%	22%
Apportionment	144	32	176	47	5	52	33%	16%	30%
Income/Cost Approach	47	10	57	11	-	11	23%	0%	19%
Base Issues (non-Apportionment)	38	4	42	11	1	12	29%	25%	29%
N/A	464	181	645	93	46	139	20%	25%	22%
Total	923	371	1,294	219	92	311	24%	25%	24%

- Most exclusions of reasonable royalty opinions occur for one of the following reasons:

  – Comparable licenses

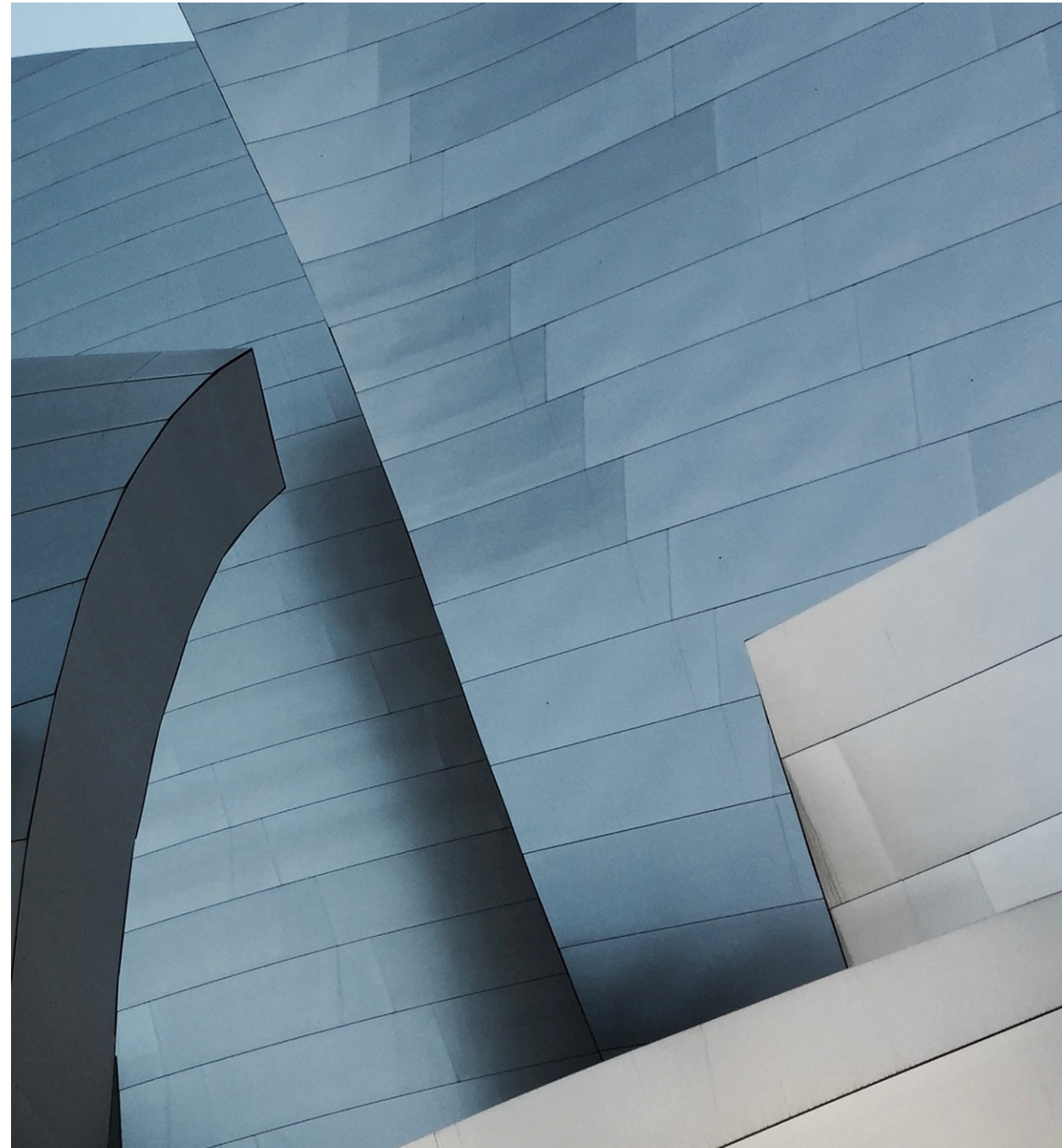 – Apportionment

  – Application of Georgia-Pacific Factors

RECENT FEDERAL CIRCUIT CASES ON APPORTIONMENT/COMPARABILITY

- *VLSI Tech. LLC v. Intel Corp.*, 87 F.4th 1331 (Fed. Cir. 2023)
  - This is an appeal after a jury verdict in favor of VLSI.
  - VLSI's damages expert performed a calculation to determine the incremental technical benefit attributable to Intel's infringement.
  - The court found that VLSI's expert made a "readily identifiable error" in his methodology, one that "departed from the essential logic of the value-of-the-patented-technology assessment." Specifically, the expert used data from testing a function that did not fall under the infringement at issue.
  - Because the court could not say that the above error would have no change in the result, the court set aside the damages award and remanded the case for a new trial.

RECENT FEDERAL CIRCUIT CASES ON APPORTIONMENT/COMPARABILITY

- *Finjan LLC v. SonicWall, Inc.*, 84 F.4th 963 (Fed. Cir. 2023)

  - District court granted SonicWall's motion to exclude Finjan's expert apportionment analysis.

  - On appeal, the Federal Circuit affirmed because:

    - Expert labeled certain features of the accused products as top-level functions and sub-features, but expert did not analyze how the sub-features related, if at all, to the asserted patents;

    - Expert did not analyze whether defendant's customers derived value solely from patent features of top-level functions or whether those functions included unpatented features; and

    - Expert admitted that he presented no analysis to assess the value of the sub-features of the top-level functions.

RECENT FEDERAL CIRCUIT CASES ON APPORTIONMENT/COMPARABILITY

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

  - This is an appeal after the second damages trial in which Wi-LAN prevailed.

  - Wi-LAN's damages expert reviewed more than 150 Wi-LAN agreements and chose to rely on three of them, which he deemed comparable.

  - The court reversed and ordered a third damages trial

    - While the expert attempted to adjust for differences in the comparable licenses, he failed to account for the inclusion of non-asserted patents.

    - The court was troubled by the fact that the expert had opined, without support, that the asserted patents were "key" and attempted to adopt the same rates as the comparable licenses without further analysis.
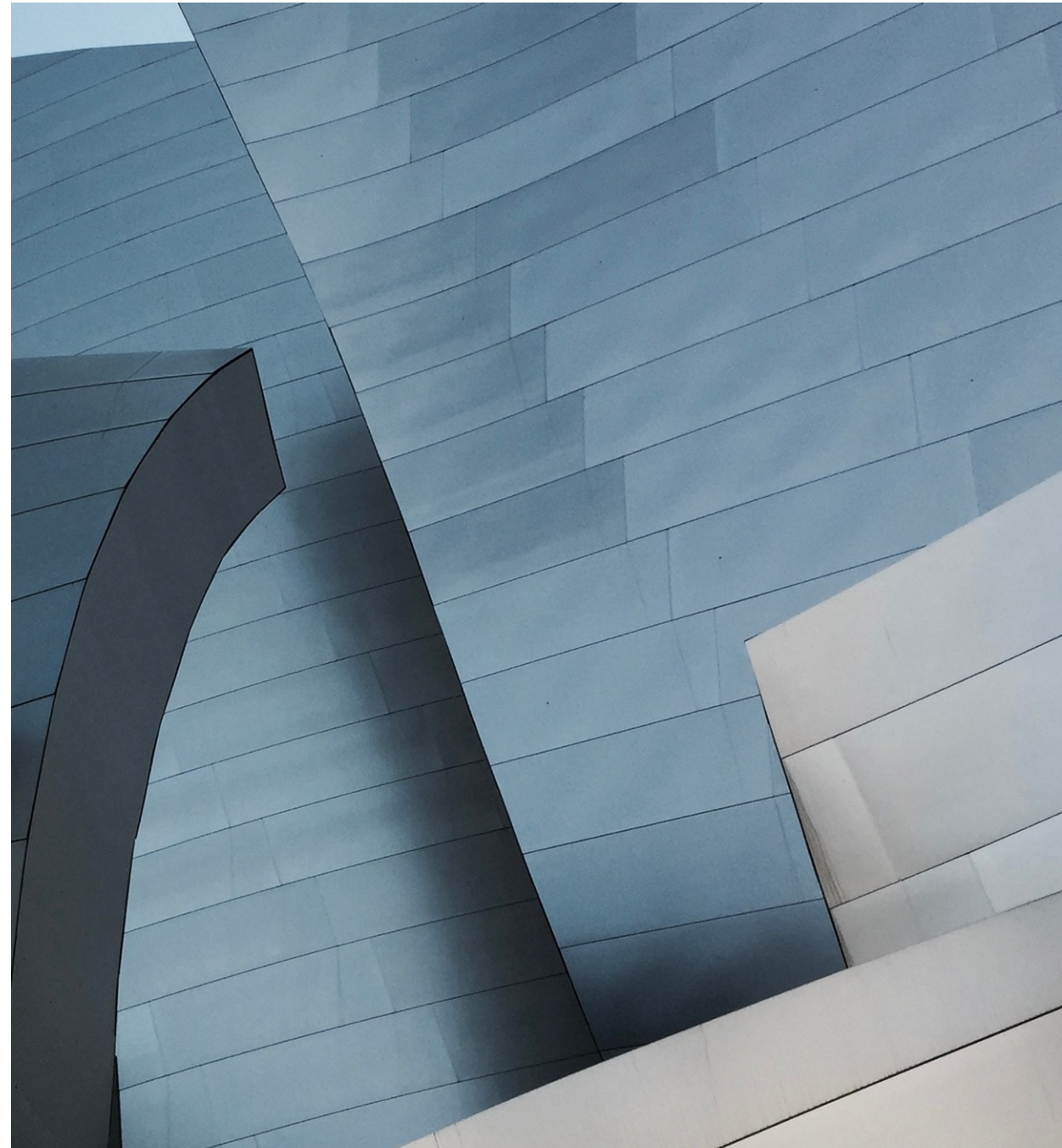
EXCLUSION RATES BY DISTRICT

District	Decisions					Excluded Decisions			Percent Excluded		
	Plaintiff	Defendant	Total	Percent of Total	Cumulative Percentage	Plaintiff	Defendant	Total	Plaintiff	Defendant	Total
Eastern Texas	199	57	256	20%	20%	27	13	40	14%	23%	16%
Delaware	131	76	207	16%	36%	44	16	60	34%	21%	29%
Northern California	136	51	187	14%	50%	51	14	65	38%	27%	35%
Central California	44	17	61	5%	55%	19	4	23	43%	24%	38%
Southern New York	27	24	51	4%	59%	7	12	19	26%	50%	37%
Western Wisconsin	37	14	51	4%	63%	5	2	7	14%	14%	14%
Southern California	33	12	45	3%	66%	5	2	7	15%	17%	16%
Minnesota	23	5	28	2%	68%	2	1	3	9%	20%	11%
Southern Texas	24	3	27	2%	71%	1	-	1	4%	0%	4%
Western Pennsylvania	21	5	26	2%	73%	5	1	6	24%	20%	23%
Top 10 Total	**675**	**264**	**939**	**73%**		**166**	**65**	**231**	**25%**	**25%**	**25%**
All Other Districts	**248**	**107**	**355**	**27%**	**100%**	**53**	**27**	**80**	**21%**	**25%**	**23%**

- EDTX lower than average (16%)

- NDCA greater than average (35%)

- Endogeneity – likely understates true differences

SUPREME COURT'S *HEARTLAND* DECISION

- The Supreme Court rejected the prevailing interpretation of the patent venue statute, 28 U.S.C. § 1400(b).

- Held that a domestic company "resides" only in its "state of incorporation."

- A domestic company may be sued for patent infringement only in its:

  – state of incorporation; or

  – in a district where it allegedly committed acts of infringement and has a regular and established place of business.

EXCLUSION RATES FOR EXPERTS BEFORE AND AFTER *HEARTLAND* TOP TEN DISTRICTS

Exclusion Rates for Experts Before and After *Heartland,* Top Ten Districts
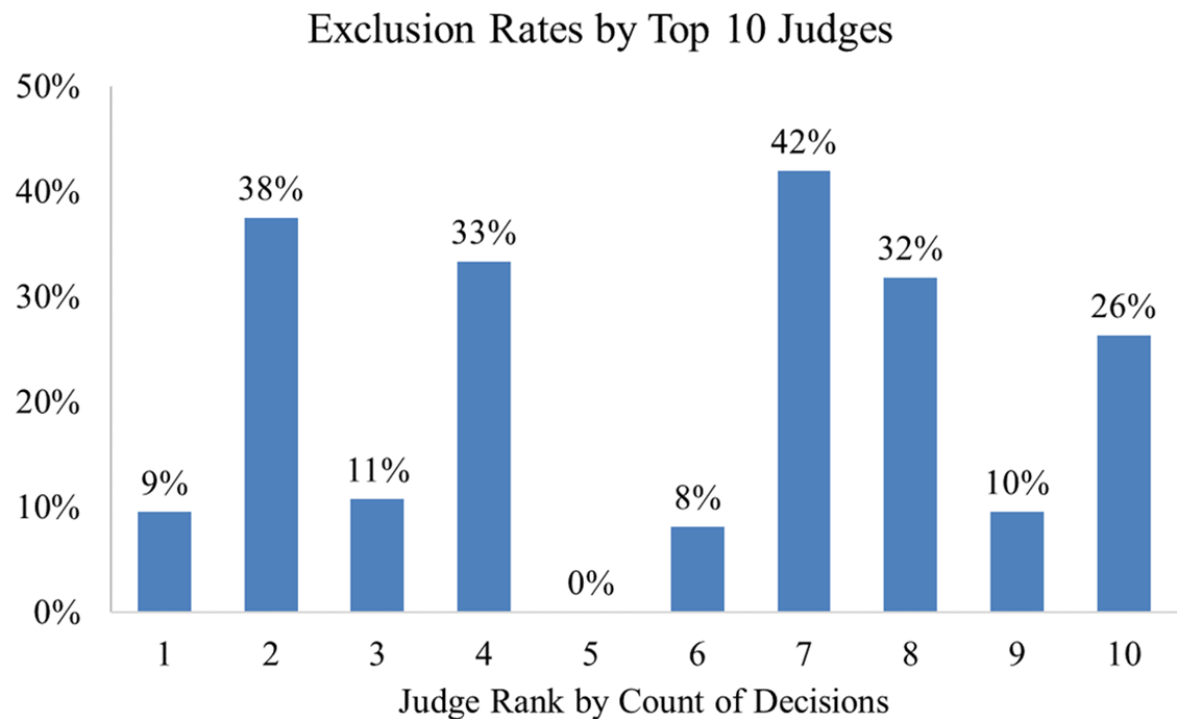
- *Heartland* made venue shopping more difficult.

SUPREME COURT'S *HEARTLAND* DECISION

Exclusion Rate by Expert Type in EDTX Before and After *Heartland*
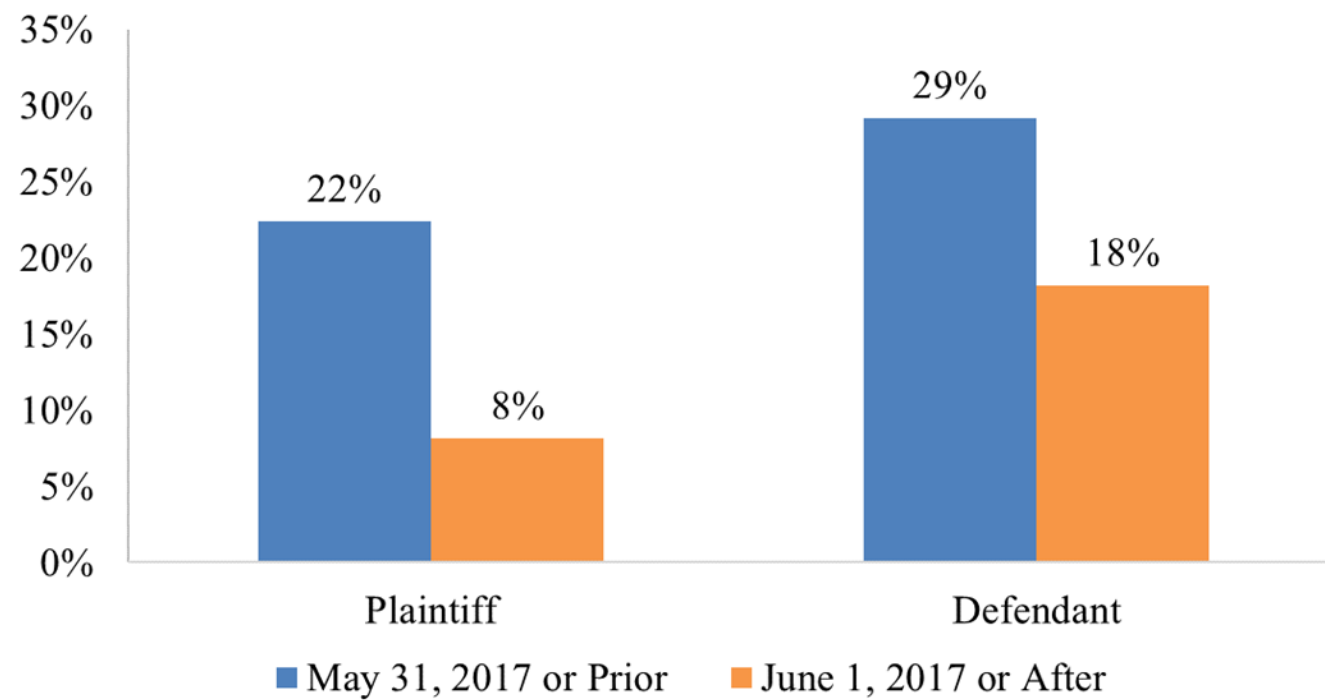
TOP TEN JUDGE EXCLUSION RATES

Exclusion Rates by Top 10 Judges

- Top 10 Judges (about 1,100 judges total) account for 40% of Daubert decisions in data

EXCLUSION RATES BY GENDER

Exclusions by Gender of Judge and Expert

Judge Gender	Expert Gender	Decisions			Excluded Decisions			Percent Excluded		
		Plaintiff	Defendant	Total	Plaintiff	Defendant	Total	Plaintiff	Defendant	Total
M	M	582	204	786	139	46	185	24%	23%	24%
F	M	237	90	327	51	28	79	22%	31%	24%
M	F	69	57	126	20	10	30	29%	18%	24%
F	F	35	20	55	9	8	17	26%	40%	31%

AMENDMENTS TO FRE 702

- The Federal Rule of Evidence governing admissibility of expert testimony was amended in December 2023.

  – 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 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.

PRELIMINARY IMPACT OF AMENDED FRE 702

- Searched for and reviewed district court decisions that met the following criteria:
  - Filed in patent cases
  - At least one party moved to exclude pursuant to Rule 702
  - Court applied amended Rule 702
  - Decision issued during the first four months after Rule 702 amendment became effective
  - Court ruled on the merits
- Search criteria returned seven decisions:
  - In five decisions, the court granted the Rule 702 motion either partially or fully.
  - In two decisions, the court denied the Rule 702 motion.

PRELIMINARY IMPACT OF AMENDED FRE 702

- Reasons cited by courts in granting Rule 702 motions include:

    - Challenged expert used unaccused products as the royalty base to determine damages. *Exafer v. Microsoft*, 2024 WL 1087374 (W.D. Tex. Mar. 7, 2024).

    - Challenged expert did not conduct an apportionment analysis to separate the value of the patented features from the value of the non-patented features. *MGI v. Duplo*, 2024 WL 1136140 (C.D. Cal. Mar. 7, 2024).

- Reasons cited by courts in denying Rule 702 motions include:

    - Arguments raised by Rule 702 motion go to the weight of the testimony rather than its admissibility. *Kenall v. Cooper*, 2024 WL 1115938 (N.D. Ill. Mar. 14, 2024); *BlueRadios v. Kopin*, 2023 WL 9104818 (D. Colo. Dec. 27, 2023); *MGI v. Duplo*, 2024 WL 1136140 (C.D. Cal. Mar. 7, 2024).

    - Concerns with methodology raised by Rule 702 motion rely on facts that remain to be proven. *Centripetal v. Palo Alto Networks*, 2024 WL 380972 (E.D. Va. Jan. 30, 2024); *BlueRadios v. Kopin*, 2023 WL 9104818 (D. Colo. Dec. 27, 2023); *Regents v. AT&T*, 2024 WL 844579 (D. Minn. Feb. 28, 2024).
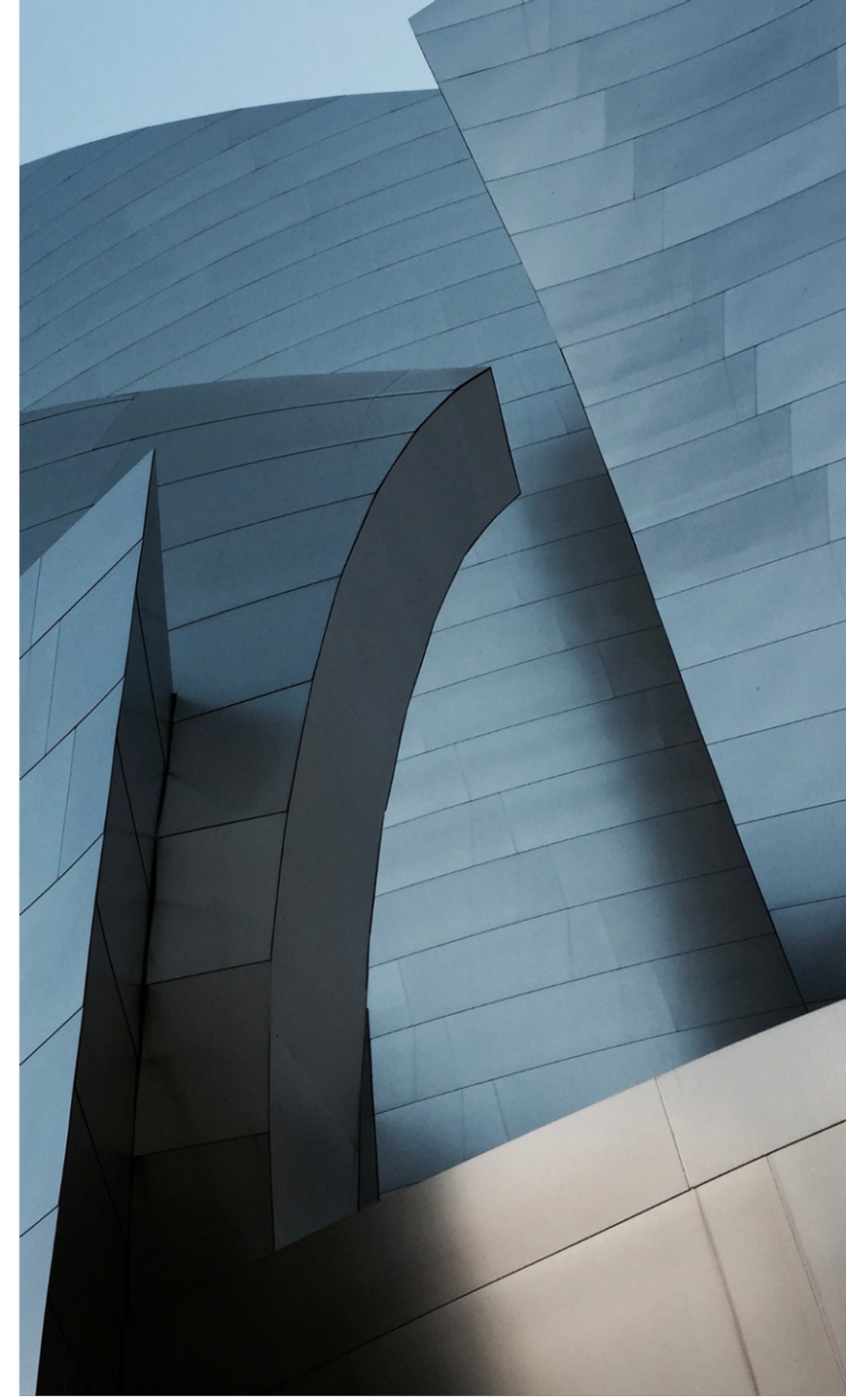
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PRACTICAL TAKEAWAYS

PRACTICAL TAKEAWAYS

1. Engage an IP damages expert early

2. Keep admissibility issues in mind from the start when conducting analyses and developing expert opinions

3. Use research to understand how various factors, including jurisdiction and damages methodology can impact possibility of exclusion

4. Work with experts regarding potential challenges of opposing experts

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