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Patent Damages Recent Trends and Analysis



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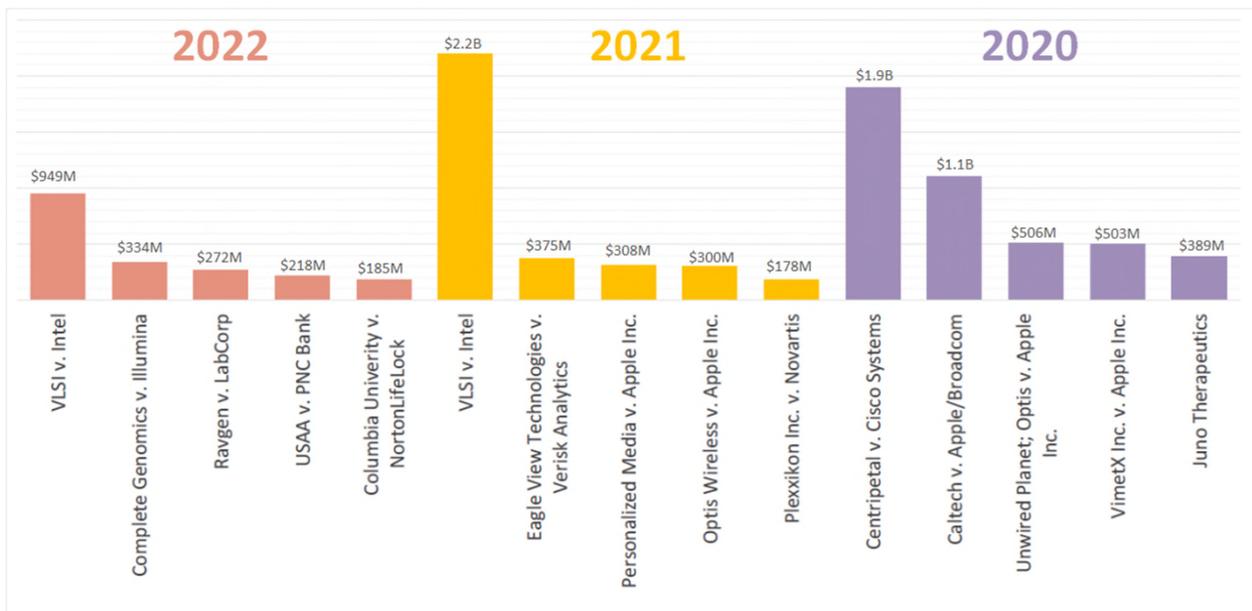
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Agenda

- Comparability and apportionment challenges facing experts
- Patent damages for foreign activities
- Reliance on licenses post-dating hypothetical negotiation
- Potential impact of proposed amendments to FRE 702

Patent Actions Have Yielded 9 and 10-Figure Damages Awards in Recent Years



Date taken from Britain Eakin, The Top Patent Damages Awards of 2022, Law360 (Dec. 22, 2022)

Federal Circuit Scrutiny of Patent Damages Is Increasing

- Last year, the Federal Circuit issued two decisions vacating two large patent damages awards because the underlying expert opinion on damages lacked factual support.
 - In *Apple Inc. v. Wi-LAN Inc.*, 25 F.4th 960 (Fed. Cir. 2022), the court vacated a verdict of \$85 million and remanded the case for a new damages trial.
 - In *California Inst. of Tech. v. Broadcom Ltd.*, 25 F.4th 976 (Fed. Cir. 2022), the court vacated a verdict of \$1.1 billion and remanded the case for a new damages trial.

Background on Patent Damages

- 35 U.S.C. § 284 is the statute governing patent damages.
- Damages for infringement must be “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 fixed by the court.” 35 U.S.C. § 284.
- Reasonable royalties are often determined by considering the results of a “hypothetical negotiation” between the patentee and the accused infringer just prior to the alleged infringement.
- In analyzing a hypothetical negotiation, experts and courts look to the *Georgia-Pacific* factors.

Prior License Agreements Must Be Comparable and Properly Apportioned

- One way to calculate a reasonable royalty rate is by considering prior license agreements.
 - Prior licenses must be economically and technologically comparable to the hypothetical negotiation.
 - When a patent only covers a specific component or feature of a product accused of infringement, the royalty base should include only the value attributable to the patented component or feature.
 - The goal of apportionment is to identify the benefit attributable to the patent, ensuring that the patentee's damages are proportional to the value the patent at issue contributes to the accused infringing product while not including any value attributable to unpatented features.



Comparability and Apportionment Challenges Facing Experts

The Federal Circuit Is Becoming Stricter With Comparability/Appportionment Analysis

- *Apple v. Wi-LAN*, 25 F.4th 960 (Fed. Cir. 2022)
 - Apple sued Wi-LAN for declaratory judgment of non-infringement; Wi-LAN countered with claims of infringement and sought damages.
 - In the first trial, a jury returned a verdict of \$145.1 million in Wi-LAN’s favor; Apple moved for a new damages trial or, alternatively, a remittitur; the district court granted Apple’s motion and gave Wi-LAN the option of a remittitur to \$10 million or a new trial; Wi-LAN chose to have a new trial.
 - At the second damages trial, the jury returned a verdict of \$85.23 million in Wi-LAN’s favor; Apple again moved for a new damages trial arguing that Wi-LAN’s damages expert had failed to properly apportion the comparable licenses to reflect the value of the asserted patents; the district court denied Apple’s motion; Apple appealed; the Federal Circuit reversed.

The Federal Circuit Is Becoming Stricter With Comparability/Appportionment Analysis

- *Apple v. Wi-LAN*, 25 F.4th 960 (Fed. Cir. 2022) (cont'd)
 - 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 Federal Circuit found that the expert’s opinion was unreliable and “untethered to the facts of this case.”
 - While the expert attempted to adjust for differences in the comparable licenses, he failed to account for the inclusion of non-asserted patents.
 - The expert failed to apportion the royalty specifically and solely to the 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.

The Federal Circuit Is Becoming Stricter With Comparability/Appportionment Analysis

- *MLC v. Micron*, 10 F.4th 1358 (Fed. Cir. 2021)
 - MLC sued Micron for patent infringement.
 - Micron filed a *Daubert* motion seeking to exclude MLC's damages expert opinion on a reasonable royalty for failure to apportion; the district court granted Micron's motion; MLC sought interlocutory review.
 - On appeal, the Federal Circuit affirmed the district court's exclusion of MLC's damages expert opinion.

The Federal Circuit Is Becoming Stricter With Comparability/Appportionment Analysis

- *MLC v. Micron*, 10 F.4th 1358 (Fed. Cir. 2021) (cont'd)
 - MLC's damages expert opined that the Hynix and Toshiba license agreements were the most relevant licenses to consider in a hypothetical negotiation.
 - The Federal Circuit found that the expert's analysis of the Hynix and Toshiba licenses was flawed for failure to apportion.
 - The Hynix agreement granted a license to a portfolio of 41 U.S. and international patents and patent applications, and only one of those 41 patents and patent applications is at issue in the hypothetical negotiation.
 - The court also pointed out that MLC's expert conducted no assessment of the licensed technology versus the accused technology to account for any differences.

The Federal Circuit Is Becoming Stricter With Comparability/Appportionment Analysis

- *Omega Patents, LLC v. CalAmp Corp.*, 13 F.4th 1361 (Fed. Cir. 2021)
 - Omega sued CalAmp for infringement.
 - In the first trial, Omega prevailed in some claims; on appeal, the Federal Circuit vacated the judgment as to certain claims and remanded the case for a new trial.
 - At the second trial, the jury found infringement of some claims and awarded a \$5/unit royalty; the district court denied CalAmp’s motion for a new damages trial.
 - On appeal, the Federal Circuit reversed the district court’s denial and ordered a new damages trial.

The Federal Circuit Is Becoming Stricter With Comparability/Appportionment Analysis

- *Omega Patents, LLC v. CalAmp Corp.*, 13 F.4th 1361 (Fed. Cir. 2021) (cont'd)
 - Omega’s damages expert relied on 18 license agreements that generally carried a royalty rate of at least \$5/unit and opined that no apportionment was necessary because it was built in.
 - The Federal Circuit concluded that Omega did not present sufficient evidence to the jury to sustain its damages award.
 - Omega failed to show that its patented improvement drove the demand for the entire accused product.
 - Omega also failed to show the incremental value that its patented improvement added to the accused product as apportioned from the value of any conventional features.

What Discovery Should Be Sought to Assist in Damages Analysis - Documents

- While the specific documents that will aid a damages expert will depend on the facts of the case, some general categories include:
 - Company's licensing policy
 - License agreements and any agreement containing a license
 - Documents and communications reflecting the underlying negotiations for each agreement
 - Financial modelling done in connection with the licenses
 - Documents concerning the customer usage and costs of accused feature
 - Consumer surveys on value placed by users on accused feature
 - Engineering and marketing documents on the value of accused feature to overall product
 - Financial projections for accused product

What Discovery Should Be Sought to Assist in Damages Analysis - Testimony

- While the specific testimony that will aid a damages expert will depend on the facts of the case, some witnesses with potentially relevant information include:
 - Individual(s) involved in the negotiations of the licenses
 - Financial analyst(s) that performed modelling as part of the license negotiation
- It is key to get damages expert involved early on. S/he should be involved in drafting document requests and deposition questions.

Best Practices for Identifying and Using Prior License Agreements

- Analysis is highly case specific, but relevant considerations include:
 - Do the prior licenses cover the patented technology?
 - How does the licensed technology compare the technology used in the accused product?
 - What is the importance of the licensed technology to the accused product?
 - What are the relevant economic considerations?
- Damages expert will need access to relevant documents, company personnel, and the technical expert to aid in this assessment.

Guiding Principles to Apportion in View of Comparable Prior License Agreements

- The damages expert should work with the technical expert to account for the value of the technology at issue.
- There is no universally accepted method of apportionment; the analysis is highly fact specific.
- The key to apportionment is to isolate the value of the infringing features from the value of the accused product's unpatented features.
- Once comparable licenses have been identified, the damages expert should apportion the financial consideration of the licenses to account for economic differences between the licenses and the hypothetical negotiation.



Patent Damages for Foreign Activity

WesternGeco Changed the Law on Foreign Damages for Patent Infringement

- There is a presumption that federal law applies only within the territorial jurisdiction of the US.
- In *WesternGeco*, the Supreme Court created an exception to this presumption in the context of foreign sales of infringing products. *WesternGeco LLC v. ION Geophysical Corp.*, 138 S.Ct. 2129 (2018).
 - Defendant made components of its ocean-surveying products in the U.S. and shipped them abroad where they were assembled into an infringing product.
 - All profits from the infringing products arose from sales outside the US.
 - The Supreme Court held that the patent owner could recover lost profits damages based on foreign activities arising from infringement under § 271(f)(2).

There Is a Growing Trend Toward Allowing Recovery of Patent Damages for Foreign Activity

- *Andrerdx, LLC v. QIAGEN Sciences, LLC*, No. 18-1019 (MN), 2021 WL 3857460 (D. Del. Aug. 30, 2021)
 - Patent holder asserted infringement under § 271(a) and sought damages in the form of lost profits and/or reasonable royalties. The parties had a dispute as to whether the jury instructions should include damages for foreign sales.
 - Court held that “[d]amages may also be awarded on sales of products that practice the patented methods in their normal intended use outside of the United States if, for those products, you find that (1) [accused infringer’s] infringement in the US was a substantial cause of the sale of that product, and (2) [accused infringer] made or sold the product within the US.” *Id.* at 2.

There Is a Growing Trend Toward Allowing Recovery of Patent Damages for Foreign Activity

- *Centripetal Networks, Inc. v. Cisco Sys., Inc.*, 526 F. Supp. 3d 137 (E.D. Va. 2021) (*rev'd and vacated* in part on other grounds by 38 F.4th 1025 (Fed. Cir. 2022))
 - Accused infringer moved for a new damages trial on the ground that the jury's damages award included royalties for worldwide sales due to direct infringement under § 271(a).
 - The court denied the accused infringer's motion on the ground that the reasoning in *WesternGeco*, which addressed § 271(f)(2), applies equally to § 271(a).

There Is a Growing Trend Toward Allowing Recovery of Patent Damages for Foreign Activity

- *Plastronics Socket Partners, Ltd. v. Dong Weon Hwang*, No. 2:18-CV-00014-JRG-RSP, 2019 WL 4392525 (E.D. Tex. June 11, 2019)
 - Accused infringer moved for summary judgment that, *inter alia*, patent holder cannot recover patent damages under § 271(a) in the form of lost profits or reasonable royalties for foreign sales.
 - The court denied the accused infringer’s motion finding that under *WesternGeco* “foreign damages are compensable for domestic infringement under § 271(a), just as they are compensable for domestic infringement under § 271(f)(2).” *Id.* at 5.

Best Practices for the Analysis of Patent Damages for Foreign Activity

- Patent holders should seek discovery early on to explore the locations of all possible infringing acts. For example,
 - Was the accused product made in the US but sold abroad?
 - Was the accused product imported into the US but subsequently sold internationally?
 - Did a domestic sale to a regular customer of the patent holder by the accused infringer supplant foreign sales the patent holder would made to that customer?
 - Were the components of the accused product made in the US but shipped abroad to be combined there?
- Accused infringers may argue that foreign damages are not appropriate because there is no link between the infringement in the US and the foreign acts.



Reliance on Licenses Post-Dating Hypothetical Negotiation

Book of Wisdom Allows Evaluation of Events Post-Dating Hypothetical Negotiation

- The hypothetical negotiation determines the reasonable royalty that a willing licensor and a willing licensee would have agreed to just prior to the alleged infringement.
- In some instances, courts have allowed reference to events occurring after the hypothetical negotiation. This is known as the “book of wisdom” doctrine.
- For example, damages experts have used evidence of the accused infringer’s actual profits as probative of its anticipated profits.

Does the Book of Wisdom Extend to Licenses Post-Dating Hypothetical Negotiation?

- *ActiveVideo Networks, Inc. v. Verizon Commc'ns, Inc.*, 694 F.3d 1312, 1333-34 (Fed. Cir. 2012)
 - ActiveVideo sued Verizon for patent infringement; Verizon counterclaimed for infringement.
 - At trial, the district court prevented Verizon from relying on Cablevision agreement (license agreement that post-dated the hypothetical negotiation date by four years) but permitted ActiveVideo to rely on Gemstar agreement (agreement that post-dated the negotiation date by two years).
 - On appeal, the Federal Circuit affirmed, finding that the district court had a legitimate reason to exclude the Cablevision agreement because it post-dated the hypothetical negotiation by four years and that Verizon did not challenge the admissibility of the Gemstar agreement.

There Is Recent Legal Support for Relying on Licenses Post-Dating Hypothetical Negotiation

- *Willis Elec. Co. Ltd. v. Polygroup Ltd.*, No. 15-cv-3443 (WMW/DTS), 2023 WL 112733, at *6 (D. Minn. Jan. 5, 2023)
 - Willis Elec. sued Polygroup for patent infringement.
 - As part of her reasonable royalty analysis, Willis Elec.’s damages expert relied on a license agreement entered more than six years after the hypothetical negotiation. Polygroup moved to exclude the expert’s opinion. The court denied the motion.
 - The court determined the expert “expressly considered the date of the hypothetical negotiation” and properly tied the late agreement to the hypothetical negotiation by “asserting that certain facts underlying the [late] agreement would have been known and relevant to Polygroup during a hypothetical negotiation.” *Id.*
 - The expert opined that the late agreement was representative of the amount that would be paid for a “bare patent license” to the patented technology, as opposed to unpatented features. *Id.*
 - The expert also reasoned that Polygroup had the ability to implement a noninfringing design at the time of the hypothetical negotiation. *Id.*

Best Practices for Dealing With Licenses Post-Dating Hypothetical Negotiation

- Patent holders should develop evidence that facts underlying post-hypothetical licenses would have been known and relevant to the accused infringer during the hypothetical negotiation, including
 - Evidence that amount in post-hypothetical license is representative of a royalty to the patented features separate from unpatented features;
 - Evidence of licensee's ability to design around the patented technology.
- Accused infringers may argue that reliance on post-hypothetical licenses is inappropriate because they are not economically and/or technically comparable.



Potential Impact of Proposed Amendments to FRE 702

Background on 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 general acceptance of the technique or theory in the scientific community.
- In response to *Daubert* and its progeny, FRE 702 was amended in 2000 to reflect these changes.

Concerns With the Application of FRE 702

- Some courts apply a preponderance standard, while others (incorrectly) apply a presumption of admissibility.
 - In the SDNY, the court has stated that “the Court’s role as gatekeeper is tempered by the liberal thrust of the Federal Rules of Evidence and the presumption of admissibility” and “[u]nder Daubert, expert testimony should be excluded only if its is speculative or conjectural or based on assumptions that are so unrealistic and contradictory as to suggest bad faith.” *Feliciano v. CoreLogic Saferent, LLC*, No. 17 CIV. 5507 (AKH), 2020 WL 6205689, at *2 (S.D.N.Y. June 11, 2020).
 - According to the Ninth Circuit, the reliability inquiry under FRE 702 is “flexible and should be applied with a ‘liberal thrust’ favoring admission.” *Hardeman v. Monsanto Co.*, 997 F.3d 941, 960 (9th Cir. 2021).

Concerns With the Application of FRE 702

- Some courts are foregoing their gatekeeping role in admitting expert testimony.
 - In its review, the Advisory Committee noted that “many courts have held that the critical questions of the sufficiency of an expert’s basis, and the application of the expert’s methodology, are questions of weight and not admissibility,” which are an incorrect application of FRE 702 and 104(a). Comm. on Rules of Prac. of Proc., Agenda Book 892-95 (June 7, 2022).
 - The Fifth Circuit has stated that “[a]s a general rule, questions relating to the bases and sources of an expert’s opinion affect the weight to be assigned that opinion rather than its admissibility and should be left for the jury’s consideration.” *U.S. v. Hodge*, 933 F.3d 468, 478 (5th Cir. 2019), as revised (Aug. 9, 2019).

Proposed Amendments to FRE 702

- 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.
- If approved by the Supreme Court and Congress does not act, the amendments will take effect on December 1, 2023.

Potential Impact of Proposed Amendments to FRE 702

- Some legal commentators have stated that the proposed amendments to FRE 702 are the biggest change to FRE ever.
 - Parties should expect more aggressive challenges to expert opinions, including an uptick in the number of Rule 702 motions.
 - Expert testimony will be subject to a higher admissibility standard and closer review under Rule 702.
 - Courts may take more time to rule on Rule 702 motions.

Best Practices for Dealing With New FRE 702

- While the text of the rule will not change until Dec. 2023, “the more likely than not” standard already applies and the parties should start citing and emphasizing it in their Rule 702 motions.
- Monitor any changes to the local rules and judges’ practices and procedures regarding expert admissibility challenges.
- Consider whether more time is needed for experts to complete reports.
- In motion practice, the parties should closely scrutinize case law in which a court admitted expert testimony under the “weight of the evidence” approach.
- Understand the limits of the proposed amendments.
- When beneficial, bring up issues of expert admissibility into settlement or mediation talks.

Best Practices for Dealing With New FRE 702

- Contact experts sooner to provide more time to develop their opinions.
- Educate your expert on the new requirements of FRE 702. S/he should understand what is expected over and above the technical knowledge.
- Work with your expert to ensure the offered opinions use the appropriate methodology and reflect a reliable application of that methodology.
- Vet your expert's methods and conclusions through mock cross-examinations to anticipate and respond to questions relating to potential admissibility challenges.



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