

Rejecting Laissez-Faire Approach To Patent Damages Experts

By **William Rooklidge** and **Jonathan Jones**

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Patent damages experts, patent litigators and trial judges face two interconnected challenges when measuring reasonable royalty damages, one doctrinal and the other evidentiary.

The doctrinal problem in patent damages jurisprudence, the untethering of the “reasonable royalty” calculation from its compensatory “make the plaintiff whole” roots, found expression in the Federal Circuit’s recent *Mentor Graphics v. Eve-USA*.^[1] There, the court noted that “compensatory damages under the patent statute, which calls for damages adequate to compensate the plaintiff for its loss due to the defendant’s infringement, should be treated no differently than the compensatory damages in other fields of law.”^[2] To truly be “reasonable,” then, a royalty calculation must derive from the available facts on this particular plaintiff and this particular defendant.^[3]

The second, evidentiary challenge must be addressed by litigators and trial judges. Rule 702 and accompanying U.S. Supreme Court precedent allow an expert to “help” the jury explore the “particular issue” at bar through a “reliable” method, “reliably applied” to the facts of the case.^[4] The Federal Circuit recently focused on this requirement in *Prism Technologies LLC v. Sprint Spectrum LP*: “the federal law of evidence is now embodied in the Federal Rules of Evidence, not in earlier Supreme Court decisions except to the extent they are actually reflected in the rules.”^[5]

By adhering to Rule 702’s demands as *Prism* requires, litigators and judges can both limit patent damages expert testimony to factually grounded royalty calculations and supplant the more “laissez-faire” approach to expert testimony expressed in 2015’s *Summit 6 v. Samsung Electronics Co.*^[6] The *Summit 6* opinion said that an expert’s royalty testimony need only use a “reasonable” method “sufficiently tied” to the facts of the case.^[7] This view of Rule 702 erroneously constrains the gatekeeper, suggesting that the judge need only check whether the expert progresses logically from premise to conclusion. Both the Supreme Court’s *General Electric Co. v. Joiner*^[8] opinion and post-*Joiner* amendments to Rule 702 reject this proposition. The *Joiner* court recognized that, because “conclusions and methodology are not entirely distinct from one another,” the gatekeeper should examine both and exclude testimony where there “is simply too great an analytical gap between the data and the opinion proffered.”^[9] Rule 702 has been amended to incorporate this doctrinal shift. Yet



William Rooklidge



Jonathan Jones

arguments over patent damages seem to be running on an earlier version of Rule 702: It's time to download the latest patch.

Logical Does Not Mean "Admissible"

As amended in 2000, Rule 702 allows a trial judge to admit expert testimony only if the expert, "qualified" to render "knowledge" that will help the jury determine "a fact in issue," demonstrates that the opinion is buttressed by "sufficient facts or data"; is rooted in "reliable principles and methods"; and produces an opinion from a "reliable application" of that method to "the facts of the case." [10] Judges often distill Rule 702's "prongs" into three requirements: "qualifications," "reliability" and "fit." [11]

A "qualified" expert has specialized "knowledge, skill, experience, training, or education in the field whose principles and methodology" [12] the expert invokes.

To be "relevant," expert testimony must have a "valid scientific connection to the pertinent inquiry." [13] Where a large "analytical gap" [14] exists between the issue before the jury and the expert's opinion, the gatekeeper may exclude the testimony. Daubert's relevance inquiry is now mandated by Rule 702(d)'s requirement that an expert "reliably applied" the method to "the facts of the case." [15]

Rule 702's "reliability" requirement has been substantially altered since the 1993 Daubert decision. The Daubert court maintained that the gatekeeping inquiry must focus "solely on principles and methodology, not on the conclusions" reached. [16] But four years after Daubert, the Court in Joiner quietly overruled this illusory distinction, recognizing that "conclusions and methodology are not entirely distinct from one another." [17] As amended in 2000, Rule 702 codified Joiner's more demanding gatekeeping inquiry: "the trial court must scrutinize not only the principles and methods used by the expert, but also whether those principles and methods have been properly applied to the facts of the case." [18] By broadening the scope of gatekeeping, the trial judge must ensure that experts do not "misuse seemingly reliable methods to reach a preordained result." [19] By "eschew[ing] the methodology/conclusions distinction," [20] Rule 702 recognizes that an expert's conclusions are "highly dependent on and interactive with the methods used." [21]

Though Daubert no longer controls the scope of the gatekeeping inquiry, its definition of "reliability" still stands. Expert testimony must rest upon "knowledge": the set of "known facts" or "ideas inferred from such facts" accepted in the expert's field. [22] For the Daubert court, "reliable" testimony is trustworthy testimony. [23] The proffering party must prove to the court that the expert's argument "show[s] what it purports to show." [24] The expert's assurances on this point do not control the trial judge's decision: reasoning and opinions "connected to existing data only by the ipse dixit of the expert" [25] are speculation, not science.

When evaluating expert patent damages testimony, courts and litigators must recognize that "reasonableness" and logical coherence are not sufficient guarantors of admissibility. Any "reasonable" method must also be "reliably applied" to the facts of the case. Without evidence tending to show that negotiators in the position of the parties might have considered or used the expert's proffered method for calculating a reasonable royalty, the court cannot evaluate "the reasonableness of using such an approach" to "draw a conclusion regarding the particular matter to which the expert testimony was directly relevant." [26]

Summit 6's Flawed Gatekeeping "Standard"

The 2015 Summit 6 opinion failed to apply Rule 702's rubric to the plaintiff's damages testimony. According to that opinion, the trial judge's "gatekeeping" inquiry need only question whether "the methodology is reasonable and its data or evidence are sufficiently tied to the facts of the case." [27]

In that case, Summit 6 alleged that the "image re-sizing" functionality on Samsung smartphones infringed patent claims on its "Web-based Media Submission Tool," [28] a function that helped the "average technology user" manipulate and share digital content over the internet via multimedia messaging. [29] Summit 6's damages expert opined that Summit 6 would have licensed this feature to Samsung for a \$0.28-per-smartphone royalty. [30] To arrive at this conclusion, he estimated (1) how much wireless carriers paid Samsung to include a camera (\$14.15); (2) how many Samsung customers used the camera function for "infringing features" rather than "other camera-related functions (20.8%); (3) calculated the revenue earned "due to the infringing features" by multiplying (1) and (2) (\$2.93); isolated Samsung's profit off of that revenue (\$.56); and finally, split that profit equally between Summit 6 and Samsung. [31]

So, given that a claimed invention's value can be measured by how many people use it, the percentage of incremental value contributed by the infringing feature equals the percentage of consumers who use that feature. Samsung contended that there was no "basis for assuming that usage is proportional to value," or that smartphone manufacturers and wireless carriers regularly relied upon "usage surveys to determine the value of particular features." [32]

Waving these arguments aside, the Summit 6 opinion ignored Rule 702(d), opting for a laissez-faire gatekeeping approach. Its new inquiry focuses solely on an expert's "methodology," not "conclusions." [33] The opinion "blithely" cited [34] Rule 702 and Daubert for this proposition, but ignored that Rule 702 does require "that the trial court must scrutinize not only the ... [expert's] methods" but also "whether those principles and methods have been properly applied to the facts of the case." [35]

The Summit 6 opinion erred again when it carved out a "safe-space" for assumption-laden, "novel," and/or "untested" methods of calculating a reasonable royalty. The opinion gave Summit 6's expert a pass because the "fact-based nature" of his method made it "impractical, if not impossible, to subject" to scientific or professional scrutiny. [36] The opinion then extended this "novel theory loophole" to any assumption-laden reasonable royalty calculation: "to the extent that [plaintiff expert's] ... factual assumptions have flaws, these flaws go to the weight of the evidence, not to its admissibility." [37]

This unfortunate language brings Summit 6 into direct conflict with the Federal Circuit's 2014 *Virnetx* [38] opinion. There, the court invoked Rule 702 to combat damages experts' use of general theorems, like the Nash bargaining solution, "without sufficiently establishing that the premises of the theorem actually apply to the facts of the case at hand." [39] The "use-equals-value" methodology differs from the Nash theorem only in its lack of professional recognition: Both propositions could be argued to apply across many factual scenarios. Failing to recognize this and the concomitant need for a firm factual grounding, the Summit 6 opinion violated Rule 702's "reliable application" requirement. The Summit 6 opinion opened the gates to speculative damages theories which, though they appear "reasonable," rest on fact-bereft premises rendering them useless for the matter at hand.

Summit 6's indifference to a method's factual grounding undermines the compensatory purpose of patent damages. By adhering to Rule 702, judges check such calculations for "consistency with the legal principles defining a reasonable royalty" [40]: to provide "damages adequate to compensate the plaintiff for its loss due to the defendant's infringement." [41] When using the willing-buyer/willing seller

hypothetical negotiation approach, damages experts must provide to the gatekeeper enough facts from which a jury could reasonably “ascertain the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began.”[42] Absent this threshold evidentiary showing, the gatekeeper risks exposing the jury to appealingly simple, yet woefully circular arguments about who gets what.

Challenging Speculative Reasonable Royalty Calculations in the Lower Courts

Some trial court citations of Summit 6 have further corrupted the reasonable royalty’s core purpose: a “device in the aid of justice” that must “find some basis in the evidence.”[43] But other trial court opinions have resisted this doctrinal erosion.

One such corruption appears in *Finjan Inc. v. Sophos*,[44] where the defendant relied upon Summit 6 to legitimize its expert’s twist on the “use-equals-value” theory. Sophos’ expert opined that “the percentage of malware an infringing part [Sophos’ software] blocks should be equal to the percentage of revenue the infringing part accounts for in the entire product’s revenues.”[45] The trial judge ruled that Summit 6 supported the expert’s “analysis in which he assumes a relationship between the use value of the infringing parts (measured by total percentage of malware blocked) and their relative contribution to the product’s total value.”[46]

Similarly, Summit 6’s blessing of speculative damages theories led to dispensation for the plaintiff in *Ciofietta v. Google*. [47] Citing Summit 6, the court declared that plaintiff expert’s many “factual assumptions” were merely “flaws” that “go to the weight of the evidence.”[48] Where an expert’s “reasoning appears sound,” it is up to the challenging party to provide a “reasoned explanation suggesting otherwise.”[49]

But some courts still insist that damages calculations reliably measure what the plaintiff should receive. In *AVM Technologies v. Intel Corporation*, [50] the plaintiff’s damages expert claimed to calculate the “speed benefit” conferred by plaintiff’s “dynamic logic circuit” upon defendant’s microprocessor chips. [51] The expert “modeled” four “representative” circuits (out of nearly 1 million) in defendant’s microprocessor. In excluding this calculation, the court found “no support in the record” for extrapolating from the circuits chosen the benefit enjoyed by the chip, a fatal flaw which rendered the testimony “necessarily unreliable.”[52]

Likewise, critical factual assumptions undermined the plaintiff’s proffered damages calculation in *Parallel Networks v. IBM Corp.* [53] Parallel Networks’ damages expert calculated IBM’s “incremental profit” from the infringed technology in part by assuming that “the proportional value of the patents-in-suit to the accused products impacts IBM in approximately the same way that it impacts the software market in general.” [54] Excluding the opinion as unreliable, the court noticed that this method failed to consider that “IBM may well not be a typical or average player” in the market, and likely had needs that were “different” from smaller companies. [55] Citing *Joiner*’s eradication of *Daubert*’s methods-conclusion distinction, the court found this testimony representative of those unsupportable “conclusions that do not have an adequate analytical connection to the facts.” [56]

Conclusion

Judges in patent cases struggle with Summit 6, an opinion laced with indifference toward *Daubert*’s — and Rule 702’s — attempt to delineate the “scientific” from the “pseudo-scientific” in American courts of law. [57] Fortunately, the *Prism* and *Mentor Graphics* opinions depict a Federal Circuit moving past

Summit 6. By recognizing and interrogating the problematic assumptions upon which economic and other allegedly “scientific” patent damages models rest, gatekeepers and patent litigators can accelerate this long overdue move toward damages calculations which “correspond better to the facts,” thereby edging us nearer the “main summit” of truth.[58] By ensuring that patent damages testimony reliably rests upon the facts of the case, litigators and judges alike can adhere to the compensatory purpose of reasonable royalties.

William Rooklidge is a partner in the Orange County, California, office of Gibson, Dunn & Crutcher LLP.

Jonathan Jones is a 2017 graduate of the University of Virginia School of Law and is presently sitting for the California bar.

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[1] 851 F.3d 1275, 1284 (Fed. Cir. 2017).

[2] *Id.* at 1284.

[3] Where the plaintiff has acquired the patent since defendant’s infringement began, the plaintiff will stand in the shoes of the then-owner for purposes of a willing buyer/willing seller “hypothetical negotiation” analysis. See, e.g., Oracle Am., Inc. v. Google, Inc., 798 F. Supp.2d 1111, 1116–17 (N.D. Cal. 2011) (patentee at the time, rather than plaintiff that later acquired the patent, was proper party to hypothetical negotiation); Nichols Inst. v. Scantibodies Clinical Lab., No. 3:02-cv-0046-B, ECF No. 808 at 7–10 (S.D. Cal. May 2, 2006) (same).

[4] See Fed. R. Evid. 702(c)-(d).

[5] No. 2016-1456, 2017 WL 877221, at *8 (Fed. Cir. Mar. 6, 2017).

[6] 802 F.3d 1283 (Fed. Cir. 2015).

[7] *Id.* at 1296.

[8] 522 U.S. 136, 146 (1997). See also David E. Bernstein & Eric G. Lasker, *Defending Daubert: It’s Time to Amend Federal Rule of Evidence 702*, 57 Wm. & Mary L. Rev. 1, 6 (2015) (noting that many judges “ignore the revolutionary implications of the Daubert trilogy” and instead rely upon “cherry-picked, permissive-sounding language from Daubert (without regard for Joiner and Kumho Tire)...”).

[9] *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997).

[10] Fed. R. Evid. 702.

[11] See e.g. *Delaware Display Grp., et al. v. Lenovo Grp, Ltd., et al.*, 2017 WL 214079 at *1 (D. Del. Jan. 1, 2017).

[12] Fed. R. Evid 702; see also *Robertson Transformer Co. v. Gen. Elec. Co.*, No. 12-8094, 2016 WL

4417019, at *4 (N.D. Ill. Aug. 19, 2016).

[13] *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 592 (1993).

[14] *Id.*

[15] Fed. R. Evid. 702.

[16] *Daubert*, 509 U.S. at 595.

[17] *Joiner*, 522 U.S. at 146.

[18] Fed. R. Evid. 702, advisory committee note.

[19] David E. Bernstein & Eric G. Lasker, *Defending Daubert: It's Time to Amend Federal Rule of Evidence 702*, 57 WM. & MARY L. REV. 1, 6 (2015)

[20] David Faigman, Christopher Slobogin, & John Monahan, *Gatekeeping Science: Using the Structure of Scientific Research to Distinguish Between Admissibility and Weight in Expert Testimony*, 110 Nw. U. L. Rev. 859, 872 (2016).

[21] *Id.* at 870.

[22] Fed. R. Evid. 702.

[23] *Daubert*, 509 U.S. at 590 n. 9.

[24] *Id.*

[25] See *Joiner*, 522 U.S. at 146.

[26] *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 154 (1999).

[27] *Summit 6, LLC v. Samsung Elecs. Co.*, 802 F.3d 1283, 1296 (Fed. Cir. 2015) (emphasis added).

[28] Order, No. 11-367, 2013 BL 172110 at *3 (N.D. Tex., June 26, 2013).

[29] Basically, the software permits a smartphone user to send photographs via text message. Without this functionality, the image either would not be transmittable via MMS, or would take a long time to download on the recipient's device.

[30] *Summit 6*, 802 F.3d at 1289.

[31] *Id.* at 1296-1297.

[32] Brief of Appellee at *34, *Summit 6, LLC v. Samsung Elecs. Co.*, 802 F.3d 1283 (Fed. Cir. 2015) (No. 13-1651), 2014 WL 2445181 at *34.

[33] *Summit 6*, 802 F.3d at 1295, quoting *Daubert*, 509 U.S. at 595.

[34] See *Defending Daubert*, supra n. 7, at 12 (2015).

[35] See Fed. R. Evid. 702 advisory committee's note.

[36] *Summit 6*, 802 F.3d at 1298.

[37] *Id.* at 1299.

[38] *Virnetx, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308 (Fed. Cir. 2014).

[39] *Id.* at 1332.

[40] *Aqua Shield v. Inter Pool Cover Team*, 774 F.3d 766, 770 (Fed. Cir. 2014).

[41] *Mentor Graphics Corp. v. EVE-USA, Inc.*, 851 F.3d 1275, 1284 (Fed. Cir. 2017) (emphasis added).

[42] *Aqua Shield v. Inter Pool Cover Team*, 774 F.3d 766, 770 (Fed. Cir. 2014) (internal citation omitted).

[43] *Cincinnati Car Co. v. New York Rapid Transit Corp.*, 66 F.2d 592, 595 (1933).

[44] See Order, No. 14-01197, 2016 WL 4560071 (N.D. Cal. Aug. 22, 2016).

[45] *Id.* at *5.

[46] *Id.* (emphasis added).

[47] No. 13-00103, 2017 WL 77395 at *1 (E.D. Tex., Jan. 9, 2017)

[48] *Id.*

[49] *Id.*

[50] No. 15-00033, 2017 WL 1536390 (D. Del. Apr. 27, 2017); see also U.S. Patent No. 5,859,547 (Jan 12, 1999).

[51] See *AVM Techs*, 2017 WL 1536390 at *1.

[52] See *id.* at *4-5.

[53] *Parallel Networks Licensing, LLC v. Int'l Bus. Machines Corp.*, No. 13-2072, slip op. (D. Del. Apr. 17, 2017) (order granting motion to exclude expert damages report).

[54] *Id.* at 11.

[55] *Id.*

[56] *Id.* at 5.

[57] See *Daubert*, 509 U.S. at 593, noting philosopher Karl Popper's definition of what constitutes a

“scientific” theory: a proposition that can be tested, refuted, and falsified.

[58] Id.

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