



CRA Insights: Intellectual Property

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June 2020

CRA Insights: Intellectual Property is a periodic newsletter that provides summaries of notable developments in IP litigation.

Recent trends in Daubert Decisions

In this *Insights*, we update the Daubert Decision trends in last year's *Insights* with 2019 data and highlight new statistics.¹ Daubert Decision trends are based on our review of available court decisions concerning damages experts in patent infringement matters in US districts courts that had sufficient information to analyze. We also provide examples of specific challenges within several Daubert Decisions from 2019.

The number of Daubert Decisions available to analyze in 2019 increased to 124 and the overall exclusion rate for such decisions – where the Court either granted or partially granted a motion to exclude or limit a damages expert's testimony – was 48%. Relative to the previous years, 2019 was comparable to 2015, 2016, and 2017 in terms of number of decisions and overall exclusion rates. 2018 had significantly less decisions and a lower overall exclusion rate.

During the five-year period, Eastern District of Texas, District of Delaware, Northern District of California, and Central District of California courts produced approximately two-thirds of Daubert Decisions. Central District of California had a higher overall exclusion rate than the other courts. Notably, in 2019, 12 of the 14 Central District of California Daubert Decisions were granted or partially granted.

Table A: Daubert Decisions Outcomes by Year²

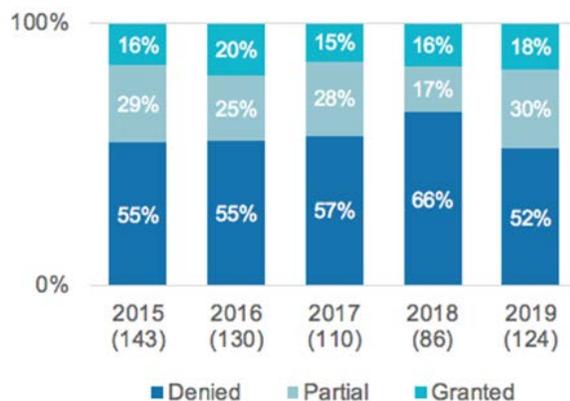
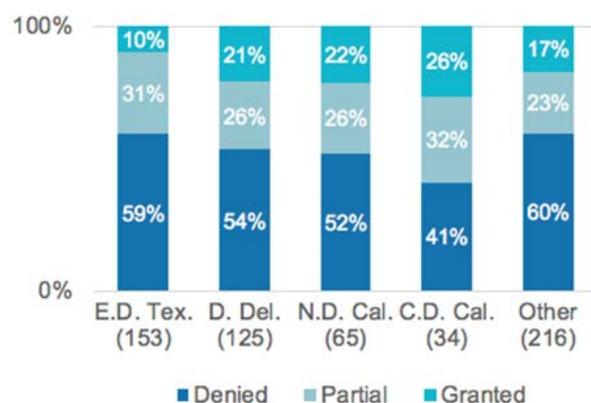


Table B: Daubert Decisions Outcomes by Court



¹ Using PACER and Docket Navigator, we identified court decisions concerning damages experts in motions to disqualify expert, motions to strike expert, and motions in limine in patent infringement matters in US district courts from 2015 to 2019. We analyzed and categorized these court decisions and excluded certain decisions with insufficient information to analyze. Certain exclusion criteria have changed since our February 2019 *Insights*. For example, decisions that are denied without prejudice to renew are now excluded from the analysis. We refer to this available dataset as "Daubert Decisions" in this newsletter. Unless otherwise noted, Daubert Decisions statistics reflect the entire 2015 to 2019 time period.

² Due to rounding, some table figures may not sum to 100%.

As expected, the overwhelming majority of decisions concerned challenges to reliability or relevance of the damages expert's methodology including reasonable royalty and lost profits; roughly 10% included challenges to an expert's qualifications; and about one third included challenges to other topics such as disclosure issues, missed deadlines, and Rule 403 concerns. Challenges to these other topics were the most successful with an exclusion rate over 40%.³

Relative to defendant damages experts, plaintiff damages experts were challenged 1.6 times more and had slightly lower overall exclusion rates (42% for plaintiff experts compared to 46% for defendant experts). Plaintiff experts compared to defendant experts overall exclusion rates also varied by district. For example, overall exclusion rates for plaintiff experts as compared to defendant experts were lower in the Eastern District of Texas (34% compared to 50%), but higher in the Northern District of California (56% compared to 30%).

Table C: Daubert Decisions Outcomes by Topic

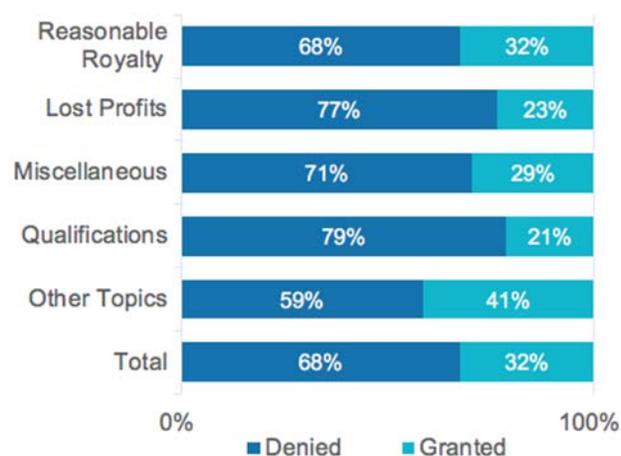
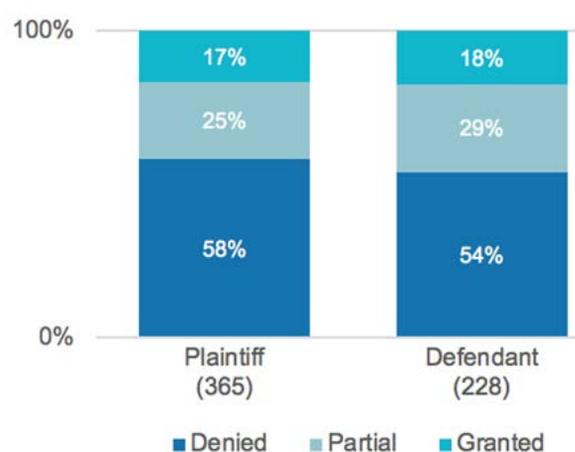


Table D: Daubert Decisions Outcomes by Party



Exclusion rates concerning reasonable royalty, qualifications, and other topics tend to be comparable for plaintiff and defendant experts. Defendant expert qualifications were challenged more frequently than plaintiff experts. For instance, of the 52 decisions on expert qualifications, 30 decisions related to defendant experts. Exclusion rates were somewhat higher for defendant experts relating to lost profits (30% compared to 20%) and miscellaneous (38% compared to 23%) challenges.

³ Decisions were also analyzed by topic, such as those shown in Table C. Partially granted decisions were broken out into challenges on topics that were denied and challenges on topics that were granted. Therefore, the resulting outcomes by topic do not include partial decisions. Outcomes by topic in which the challenge to the topic was granted are referred to as "exclusion rates," which differs from the overall exclusion rate that includes partially granted decisions.

Roy Arterbury, Delwin Cobb, and Cavins Corporation v. Odessa Separator, Inc.⁴

Royalty rate considerations should be comparable to the hypothetical negotiation

In November 2016, Roy Arterbury, Delwin Cobb, and Cavins Corporation (Plaintiffs) asserted a patent against Odessa Separator, alleging that Odessa's Vortex Sand Shield infringed the at-issue patent, which covered wear structures for bore hole separation technologies used in the oil and gas industry.

Odessa filed a motion to exclude the testimony of the Plaintiffs' damages expert asserting that the expert's reasonable royalty and lost profits methodologies were unsupported and unreliable. While the motions to exclude are sealed, the Court's Order did provide insight as to what Odessa argued.

With respect to the reasonable royalty methodology, the Court granted Odessa's motion to exclude the Plaintiffs' expert testimony. The expert put forth a royalty rate ranging from 7% to 10%, averaging 8.5%, but did not provide an explanation for the range. At deposition, the expert suggested that the royalty range was based on the historical royalty payments paid to the inventors, Mr. Arterbury and Mr. Cobb, by Cavins Corporation. However, the Court found that the considerations surrounding the license agreement between the inventors and Cavins would not exist during the hypothetical negotiation. For instance, the license agreement was equivalent to a profit-sharing agreement, requiring Cavins to continue paying 10% royalties beyond patent expiry. Further, the 10% royalty was not solely for use of the patent. Mr. Arterbury testified that the royalty rate was also meant to compensate the inventors for design and outside services. The expert also testified that the royalty rate was consistent with comparable patented technologies in the oil and gas industry but did not identify comparable Cavins or third-party license agreements.

The Court found that the expert concluded without showing sufficient evidence that the royalty rate was comparable to the industry. The Court also noted that the expert did not use or reference the *Georgia-Pacific* factors.

With respect to the lost profits methodology, the Court denied Odessa's motion as these arguments would be addressed through cross-examination.

Court decision on January 30, 2019

Case No. 05:16-cv-00183 filed in Eastern District of Texas

⁴ The following case examples only summarize specific challenges within several 2019 Daubert Decisions. Please refer to the specific decisions and associated filings for a more comprehensive description of each matter.

Manufacturing Resources International, Inc. v. Civiq Smartscapes, LLC et al.

But-for world must make economic sense, and patented features must drive demand to use entire market value rule

In March 2017, Manufacturing Resources International, Inc. (MRI) filed a complaint against Civiq Smartscapes, LLC and others (Defendants) alleging that Defendants' Link product, among others, infringed MRI patents. The Link product, an outdoor city kiosk with a digital display, provided features such as free Wi-Fi, phone calls, and cellphone charging stations. MRI's asserted patents related specifically to the digital display's thermal management technology.

MRI's expert opined that MRI was entitled to lost profits on Defendants' sales of the Link kiosk in New York City, and a reasonable royalty on all other sales of the Link kiosk and other accused products. Defendants filed a motion to exclude the entire lost profits and reasonable royalty opinions, arguing that both methodologies were flawed and unreliable. Defendants challenged MRI expert's use of confidential information, flawed but-for construct, and violation of the entire market value rule.

The Court granted the Defendants' motion to exclude both damages methodologies.

With respect to the lost profits methodology, Defendants argued that MRI's damages expert impermissibly relied on cost and other information provided by Defendants during settlement, which was protected by Federal Rule of Evidence 408 (FRE 408) and a Non-Disclosure Agreement (NDA). The Court agreed, and cited language from FRE 408 that "[e]vidence of prior settlement negotiations in a pending patent infringement matter is generally forbidden under [Rule] 408." In addition, the NDA stated that "the litigation part[y] seeking discovery must obtain the production via the discovery process and not via the exchange of any information hereunder." While the Defendants asserted that the entire lost profits analysis should be excluded for relying on settlement information, the Court concluded that the expert could have provided a lost profits analysis using other information that had been provided in traditional discovery.

The Plaintiff's lost profits analysis assumed that, in the but-for scenario, the Defendants would outsource the manufacturing of the entire Link product to MRI, and then sell the entire product to the customer, rendering the Defendant as a middleman. The Defendants argued there was no support to claim that the Defendants would outsource the entire product manufacturing rather than only the claimed display assembly. The Court agreed with the Defendants, emphasizing that the expert did not explain why demand for the claimed display assembly was interchangeable with demand for the entire Link product. Also, the Court ruled that the but-for scenario, where the Defendants remit all their sales revenues to the Plaintiff and do not generate profit, was flawed.

With respect to the reasonable royalty methodology, the Defendants challenged the expert's use of the entire market value rule, which considered the entire Link product as its royalty base rather than the patented technology. The Plaintiff argued the Link product "would be valueless... if not for the protection provided by the patented thermal management technology." The Defendants argued that this methodology violated the entire market value rule because the patented technology did not drive demand for the entire Link product. The Court agreed with the Defendants, concluding that although the patented feature may have been viewed as valuable or important, the opposing expert had not proven that it was the sole feature driving demand for the entire product.

For completeness, the Defendants also successfully argued that MRI's expert selected a royalty rate that was untethered to the facts of the case. The Court also denied Defendants' motion to exclude the expert's opinions regarding non-infringing alternatives.

Court decision on September 4, 2019
Case No. 01:17-cv-00269 filed in the District of Delaware

Acceleration Bay LLC v. Activision Blizzard, Inc.

Damages expert assumption does not equal technical expertise

In June 2016, Acceleration Bay LLC filed a complaint against Activision Blizzard, Inc., alleging that Activision infringed patents concerning multiplayer and multisystem network technology. Activision allegedly utilized the patented network technology in certain multiplayer games including World of Warcraft, Destiny, and Call of Duty: Advanced Warfare.

Since Acceleration did not assert its patents against Activision's predecessor game versions and technical experts did not opine that the predecessor games were infringing, Activision's damages expert assumed that the prior versions did not infringe the asserted patents. Accordingly, since the prior game versions were assumed to be non-infringing alternatives, Activision argued that the availability of such alternatives limited Activision's reasonable royalties to a *de minimis* amount.

However, as the Plaintiff argued, the expert's conclusion was not based on technical expert testimony, and the damages expert did not have the technical qualifications to review source code and render infringement opinions. In fact, at deposition, counsel asked if an accused game could operate without the infringing network technology, and the expert acknowledged that was a technical question and did not know the answer.

The Court found the expert's non-infringing alternatives opinion was baseless as such opinion was an assumption and not based on a technical expert testimony. According to the Court, "a damages' expert's assumption is not sufficient to support a damages opinion based on a particular non-infringing alternative."

Court decision on September 4, 2019
Case No. 01:16-cv-00453 filed in the District of Delaware

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