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The Comparability Challenges Patent Damages Experts Face

By **Rich Franciosa and Michael Herrigel** (November 10, 2021, 5:50 PM EST)

In August, in MLC Intellectual Property LLC v. Micron Technology Inc., the U.S. Court of Appeals for the Federal Circuit affirmed a district court's ruling to exclude patent damages expert testimony concerning the quantification of a reasonable royalty based upon specific comparable agreements.

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The Federal Circuit explained that the district judge's role is to be a gatekeeper and "to 'ensure that any and all scientific testimony of evidence admitted is not only relevant, but reliable,'"[1] quoting the U.S. Supreme Court's 1993 decision in Daubert v. Merrell Dow Pharmaceuticals Inc. In law, this is referred to as the Daubert standard.

The Federal Circuit rejected the plaintiff's argument that these license agreements were comparable licenses.

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Notably, the Federal Circuit explained that the plaintiff's patent damages expert, when relying on a specific royalty rate disclosed in existing agreements as a direct quantitative input to his reasonable royalty conclusion, did not account for any differences between the comparable licensed technologies and the patent-in-suit, and did not consider that the comparable license was a portfolio license, whereas the hypothetical negotiation would involve a single patent.[2]

For this article, we collected and analyzed Daubert challenges and decisions specifically pertaining to damages expert testimony in patent infringement matters in U.S. district courts from Jan. 1, 2015, to Sept. 30, 2021.[3]

We limited our research to Daubert challenges and decisions concerning the comparability of license agreements, settlement agreements, market studies, and other agreements and data points, collectively referred to as "agreements."

On average, patent damages expert testimony relating to agreement comparability was excluded 31% of the time.

Existing agreements, particularly those involving the parties in suit, are often considered in determining the structure and amount of a reasonable royalty in patent litigation matters.

Such agreements can be relied upon as evidence of the parties' historical licensing practices and preferred payment structures to assist the trier of fact in determining the appropriate structure of a reasonable royalty award. These agreements may also be used as general benchmarks to confirm the reasonableness of reasonable royalty conclusions.

In many cases, patent damages experts attempt to rely upon specific agreements as direct quantitative inputs for a reasonable royalty determination, which requires an analysis of economic and technical comparability of such agreements to the circumstances of the hypothetical negotiation.

There are varying degrees of comparability associated with existing agreements, and the courts often consider these issues to be best addressed at trial through expert testimony and cross-examination.

In some cases, however, the courts have excluded expert testimony relying on the terms of existing agreements as direct inputs to a reasonable royalty conclusion for failure to address the technical and economic comparability of such agreements to the circumstances of the hypothetical negotiation.

We note that each case has a unique set of circumstances, and patent damages experts rely on information produced in the matter as well as publicly available information, which may limit or enhance their expert testimony and potentially impact the courts' decisions.

The following observations and statistics reflect information found in the underlying agreement comparability challenges and decisions over almost seven years.

Agreement Comparability Challenges

Of the agreement comparability challenges reviewed, the vast majority related to the patent damages experts' reliance on license agreements and settlement agreements.

Figure 1 highlights that courts excluded damages expert testimony concerning business context agreements 25% of the time, litigation context agreements 41% of the time and market studies 63% of the time.

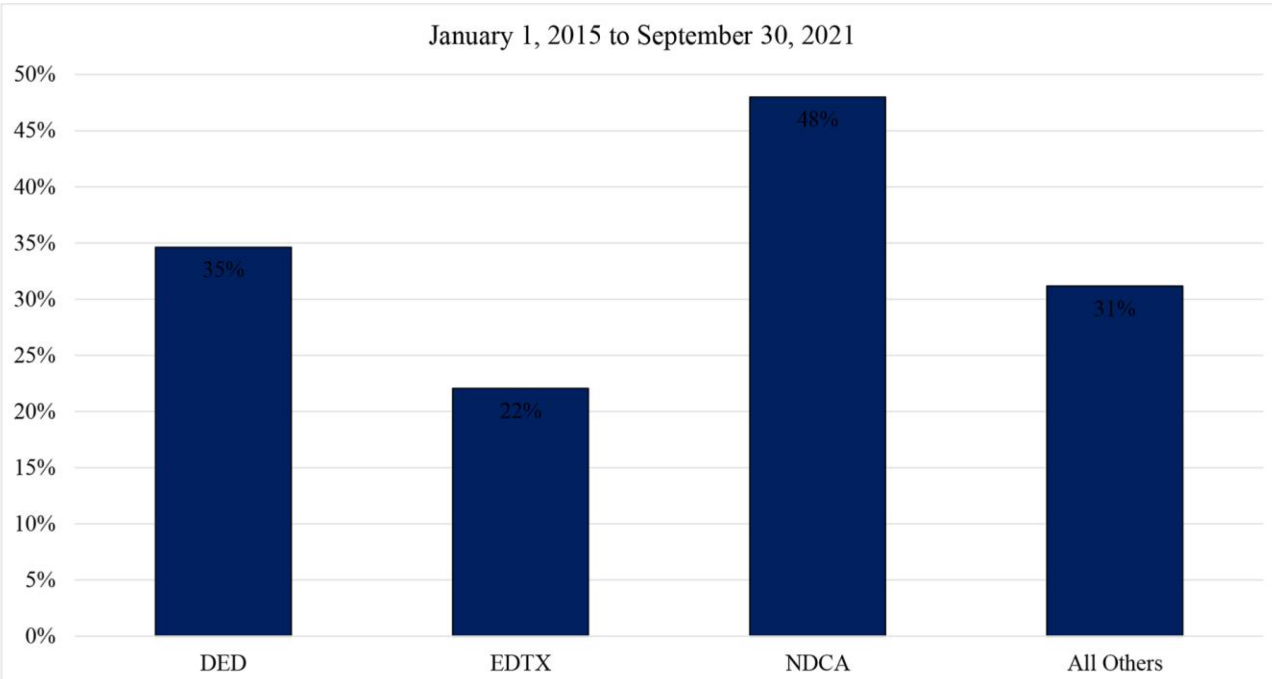
Figure 1: Agreement Comparability Challenges and Exclusion Rates

	January 1, 2015 to September 30, 2021		
Agreements	**Total Challenges**	**Granted Challenges**	**Exclusion Rate**
License Agreements	122	29	24%
License Proposals	15	5	33%
Business Agreements	25	6	24%
Business Context	**162**	**40**	**25%**
Settlement Agreements	75	29	39%
Settlement Offers	6	2	33%
Litigation Verdicts	15	8	53%
Litigation Context	**96**	**39**	**41%**
Market Context	**8**	**5**	**63%**

Roughly two-thirds of these agreement comparability challenges occurred in the U.S. District Courts for the District of Delaware, Eastern District of Texas and Northern District of California. This is not surprising, given that these U.S. district courts handle a large number of patent infringement cases.

Figure 2 displays the agreement comparability exclusion rates for these courts, which range from 22% to 48%.

Figure 2: Agreement comparability exclusion rates by district court



Further, parties challenged economic comparability roughly two-thirds more than technical comparability.

With respect to economic comparability, defendants' damages expert testimony was excluded nearly twice as much as plaintiffs' damages expert testimony when relying on business context agreements and about equally when relying on litigation context agreements.

To establish the economic comparability for agreements to be used as direct quantitative inputs for a reasonable royalty conclusion, patent damages experts often consider a variety of business and economic contextual issues, such as the timing of the agreements; scope of the licensed assets; parties' relative bargaining positioning; and agreement terms, including payment structure, exclusivity and licensed territory, among others.

In 2015, the U.S. District Court for the District of Massachusetts in Skyhook Wireless Inc. v. Google Inc. excluded expert testimony that relied on a comparable agreement as a direct input for a royalty conclusion because the expert did not do any analysis and ignored economic differences between the parties in that license and the parties in the hypothetical negotiation.[4]

To understand the extent to which the agreements are technically comparable to the patent-in-suit, damages experts often rely on technical experts, as damages experts are not qualified to opine on such.

Settlement Agreements

Settlement agreements often provide a defendant with a license to patent, and they usually dismiss parties from litigation.

In some cases, settlement agreements can be considered in connection with a hypothetical negotiation to demonstrate the parties' licensing practices and preferred forms of compensation — e.g., lump sum versus a running royalty — and potentially as direct quantitative inputs for a reasonable royalty determination.

Some courts, often citing the U.S. Court of Appeals for the Federal Circuit's 2010 decision in ResQNet.com Inc. v. Lansa Inc., have stated generally that "settlement agreements [were] permissible as comparable licenses if they [were] the most reliable licenses on the record," as articulated by the U.S. District Court for the Eastern District of Virginia in 2015 in Intelligent Verification Systems LLC v. Microsoft Corp.

Generally, courts excluded damages expert testimony where the expert relied on settlement agreements as direct quantitative inputs for determining a reasonable royalty, but failed to analyze or discuss how the settlement circumstances differed from the hypothetical negotiation.

In some instances, courts have acknowledged that the royalty amounts found in settlement agreements may require an adjustment to reflect the valid and infringed assumptions in the hypothetical negotiation.

Litigation Verdicts

Similar to settlement agreements, litigation verdicts occur in the litigation realm, but are excluded more frequently, as shown in Figure 1.

In certain instances, reliance on a verdict can be a permissible methodology.

For example, in Sprint Communications Co. LP v. Comcast Cable Communications LLC, the U.S. District Court for the District of Kansas in 2016 rejected the "defendants' argument that an expert may never rely on a jury verdict," as the court found no law to support this argument and determined the verdict to be sufficiently comparable to the matter.[5]

On the contrary, in 2018 the U.S. District Court for the District of Delaware opined in Acceleration Bay LLC v. Activision Blizzard Inc. that

[n]o economist would consider a jury verdict as to a hypothetical negotiation about one patent as a reliable basis for determining what the results of an actual arm's length negotiation about a second patent would be.[6]

Notably, most of the decisions concerning litigation verdicts excluded expert testimony for failing to address how the litigation context of a verdict differed from the hypothetical negotiation, or how the verdict used was the most reliable agreement in the record.

Market Studies

Market studies are secondary reports prepared by third parties, and are based upon survey responses or agreements containing license terms for numerous industries.

Generally, patent damages experts relied on such studies as reasonableness checks, baseline royalty rates or support for an upward adjustment to the royalty rate.

Use of such studies was challenged infrequently and excluded often.

It appears that the courts allowed experts to use market studies when the technology at issue was somewhat related to the studied market or industry.

For instance, an expert was permitted to rely on a market study royalty rate in the communications, telecom and mobile system devices industry as a proxy for the at-issue technology — mobile encryption data services on phones and tablets using an operating system.[7]

However, courts excluded expert testimony where experts used royalty rates statistics from broad and nebulous industries, had not reviewed underlying agreements, and failed to explain why such a general industry was comparable to the technology at issue.

Figure 3 provides several excluded examples.

Figure 3: Excluded examples of market study technologies

Market Study Technologies		At-Issue Technologies
All industries	to	Temporary grain storage
Consumer products	to	Device mount
Software and software technology	to	Digital watermarking
Stents and medical devices	to	Inferior vena cava filters
Consumer goods, retail & leisure	to	Cami-bra
All industries	to	Cami-bra

Final Thoughts

In sum, courts want patent damages experts to convey how the comparable agreements are relevant to the at-issue circumstances, as well as the perspectives of the parties in negotiating and structuring a reasonable royalty in the hypothetical negotiation.

In situations in which a patent damages expert is relying on a comparable agreement as a direct quantitative input to a reasonable royalty conclusion, the expert is expected to provide a reasonable analysis of economic comparability and technical comparability with input from technical experts.

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[1] Daubert v. Merrell Dow Pharms., Inc., 1993.

[2] MLC Intellectual Property, LLC, v. Micron Technology, Inc., Fed. Cir., 2021.

[3] Using PACER and Docket Navigator, we identified court decisions concerning damages experts in motions to disqualify expert, motions to strike expert, motions to strike expert designations, and motions in limine in patent infringement matters in US district courts from January 1, 2015 to September 30, 2021. We analyzed and categorized these court decisions and excluded certain decisions with insufficient information to analyze. We also excluded Daubert decisions that were denied as moot or denied without prejudice to renew.

[4] Skyhook Wireless, Inc. v. Google, Inc., U.S. District Court for the District of Massachusetts, 2015.

[5] Sprint Communications Company L.P. v. Comcast Cable Communications, et al., U.S. District Court for the District of Kansas, 2016.

[6] Acceleration Bay LLC v. Activision Blizzard, Inc., et al., 2016.

[7] MAZ Encryption Technologies LLC v. Blackberry Corporation, 2013.