Overlooked Patent Cases: Scrutiny Of Damage Apportionment

By **Daniel Moffett, Clayton Matheson and Dorian Ojemen** (October 27, 2020)

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The requirement that damages experts in patent cases must properly apportion their proposed damages figures to reflect the incremental value provided by the patents-in-suit, and nothing more, is a legal enigma.

Although the U.S. Court of Appeals for the Federal Circuit repeatedly has stressed that ascertaining patent damages necessarily involves speculation and imprecision, it also has indicated that determining a patented invention's footprint in the marketplace requires at least some level of quantitative or mathematic underpinning.

Depending on the facts and circumstances of a given case, how to reconcile these two seemingly conflicting principles may be unclear. This is especially so where specific quantitative evidence that directly bears on the patented invention's economic or commercial value is not readily available.

Where quantitative evidence is lacking, one common approach that damages experts have taken is to marshal available qualitative evidence regarding the patented invention's perceived value — primarily including opinions from technical experts about the invention's benefits over the prior art and any available noninfringing alternatives — and then translate it into a quantitative apportionment figure.

The goal is to derive a number, often expressed as a set percentage, which reflects the portion of the accused product's overall value that is specifically attributable to the patents-in-suit.

A review of several recent — and potentially overlooked — district court cases, however, suggests that district court judges may be giving this percentage-of-the-product's-value approach heightened scrutiny and increasingly rejecting it as unreliable under the U.S. Supreme Court's Daubert v. Merrell Dow Pharmaceuticals Inc. decision.[1] This article surveys three cases that illustrate this trend and then explores potential alternative approaches that may address courts' concerns.

The apportionment requirement is a bedrock principle of patent damages law. It embodies the fundamental principle that unless an allegedly infringing product's entire market value "is properly and legally attributable to the patented feature," the patent owner "must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented ... and the unpatented features."[2]

In other words, to be properly recoverable, a patent damages award must be carefully tied to "the claimed invention's footprint in the market place," such that it "reflect[s] the value attributable to the infringing features of the product, and no more."[3] This "essential requirement" means that the ultimate royalty award "must be based on the incremental value that the patented invention adds to the end product."[4]

The standards for satisfying the apportionment requirement, though, are vague and

incongruous. On one hand, the Federal Circuit has repeatedly stated that estimating patent damages "is not an exact science" and "necessarily involves an element of approximation and uncertainty."[5]

Where the patentee seeks a reasonable royalty, the Federal Circuit also has explained that "there may be more than one reliable method for establishing" the property royalty amount and that "the record may support a range of 'reasonable' royalties, rather than a single value."[6]

The Federal Circuit further has held that a damages expert can satisfy the apportionment requirement "by careful selection of the royalty base to reflect the value added by the patented feature ... by adjustment of the royalty rate so as to discount the value of a product's non-patented features; or by a combination thereof."[7]

At the same time, the Federal Circuit frequently has faulted damages experts whose proposed royalty awards did not involve a mathematically derived apportionment component. The Federal Circuit has made clear, for example, that an expert may not simply walk through and marshal evidence bearing on each Georgia-Pacific Corp. v. U.S. Plywood Corp.[8] factor and then propose a number that is not mathematically based on or otherwise specifically tied to any such evidence. Without at least some quantitative or math-based foundation, any such figure, according to the Federal Circuit, would be "plucked out of thin air."[9]

Of course, where specific quantitative evidence directly bearing on the patented invention's incremental value is available, a damages expert may have no problem satisfying the apportionment requirement — but that is not always an option. The invention at issue may be entirely new and untested, or simply may not lend itself to a mathematical analysis.

And, even if direct quantitative evidence is available, it may not paint an accurate picture of the invention's commercial value. So how can a damages expert in such a case satisfy the apportionment requirement without being accused of plucking his or her proposed royalties out of thin air?

Reliance on Technical Experts and the Percentage-of-the-Product's-Value Approach

One popular apportionment method that damages experts have applied involves converting qualitative information about the patented invention into quantitative data points or so-called apportionment figures. The damages experts then incorporate those figures — which typically are expressed as percentages of the accused products' overall value — into their mathematical calculations of the proposed damage awards.

Experts employing this approach typically rely on opinions from the parties' technical experts regarding the asserted patents' features and technical benefits in relation both to available noninfringing alternatives and the accused product's nonpatented components.

They also frequently rely on statements from the parties' fact witnesses and documents touting the strengths and advantages of the patented features. The damages experts then translate the qualitative evidence into a number — say, 50% — which they assert approximates the portion of the accused product's overall value that is specifically attributable to the patents-in-suit.

Although this percentage-of-the-product's-value approach certainly has never been immune

to Daubert challenges, the case law indicates that it survived such challenges more often than not — until recently, that is. Indeed, several orders issued this year suggest that district courts are becoming increasingly skeptical of a damages expert's ability to reliably translate qualitative evidence about an invention's technical benefits into an assessment of its economic value.

Sherwin-Williams Co. v. PPG Industries Inc. — in which the U.S. District Court for the Western District of Pennsylvania in August excluded a damages expert's proposed 50% apportionment of benefits testimony — is a prime example.[10] The testimony represented the expert's analysis of Georgia Pacific factor 13, pursuant to which he opined "that the profits attributable to the Asserted Patents would be conservatively 50% based on the value of the non-patented features of the [accused product]."[11]

The expert "did not perform a quantitative analysis to determine that the [nonpatented features] constituted 50% of the [product's] market value," however, and instead relied on an undocumented conversation with the defendant's technical expert about the patented invention's technical benefits and capabilities.[12]

The court held that the 50% apportionment figure "appear[ed] to be an arbitrary figure" that was unsupported by "a sufficient economic analysis," since the damages expert did nothing to tie the technical expert's opinions to the accused product's market footprint or the extent to which the patented invention, rather than other features, drove consumer demand for the accused product.[13] The court explained that as such, the jury would have "to speculate about the value of the [product's] nonpatented features."[14]

In May, the U.S. District Court for the District of Delaware in Guardant Health Inc. v. Foundation Medicine Inc. applied similar reasoning to a damages expert's proposed 50% apportionment factor, which reflected his opinion "that the asserted patents contribute at least 50% of the value of the ... accused products."[15]

The damages expert based this opinion exclusively on his discussion with the plaintiff's technical expert, who told him that "the Patents-in-Suit are foundational to the [accused product's] commercial acceptability and success and were "at least as important as all of the non-patented contributions [that the defendant] made to the product."[16]

Finding this analysis inadequate under Daubert, the court held that the proffered apportionment percentage "lack[ed] a sufficiently reliable methodology," since the damages expert failed to explain how purely qualitative considerations about the patents' purported technical value tied to his view about the patents' purported economic value.[17]

The court further emphasized that neither the damages expert nor the technical expert "provide[d] any factual foundation to support the specific 50% figure" or show "why the patented features amount to approximately 50% of what makes the product successful."[18]

Finally, in March, in NetFuel Inc. v. Cisco Systems, the U.S. District Court for the Northern District of California excluded the plaintiff's damages expert's apportionment opinion despite his reliance on what appeared to be reliable apportionment percentages that ranged from 33% to 70% provided by a technical expert.[19]

The plaintiff argued that the percentages were reliable because its technical expert based them on a number of factors, including industry research, his knowledge and understanding of the accused devices and their functionality, and his experience and specialized expertise

in the relevant technical field.[20]

Rejecting this argument, the court held that "vague, qualitative descriptions, without some indication as to the weight or value attributed to each feature, are insufficient to support [the] specific apportionment conclusions."[21] And since the technical expert's apportionment percentages were deemed unreliable, the damages expert's reliance on those percentages rendered his apportionment opinions unreliable as well.[22]

Lessons Learned: Possible Alternative Approaches

In view of courts' apparent increased scrutiny of the percentage-of-the-product's-value approach, experts should consider including at least some independent quantitative analysis to buttress their opinions on the incremental value attributable to the patents-in-suit.

Where clear value-related quantitative evidence is unavailable, recent cases suggest there may be alternative approaches for creating or identifying a quantitative underpinning for satisfying the apportionment requirement and thereby alleviating courts' concerns about experts plucking numbers out of thin air.

In the U.S. District Court for the Eastern District of Texas case GREE Inc. v. Supercell OY in July, for example, the plaintiff's damages expert relied on the results of a scoring-based customer preference survey that was designed to "measure [consumers'] awareness, importance, and usage of features" in the accused product.[23] The expert used the survey data to calculate what he believed was a properly apportioned royalty rate.[24] The court permitted the expert's testimony, finding that the survey data provided an adequate basis for arriving at his proposed royalty.[25]

Of course, surveys themselves often are challenged as unreliable. And parties should carefully consider the risk of bad survey results' being discoverable. Still, a survey may be a good way to build a quantitative or math-based foundation for an expert's apportionment analysis where none otherwise would be available.

Another possible quantitative approach involves step-counting or component-counting. This approach entails identifying the total number of steps in an accused method — or components in an accused device — and then deriving an apportionment number based on the percentage of those steps or components that are covered by the asserted patents.

This approach can provide a math-based data point that, if reasonable, may satisfy a court's desire for quantitative apportionment evidence. Notably, the damages expert in the Guardant Health case discussed above appears to have employed this method after the court rejected his original percentage-of-the-product's-value testimony.[26]

Although the Guardant Health court has not yet ruled on the supplemental opinion's admissibility, step-counting may be a viable approach, particularly where the expert can rely on the opposing party's characterization of the number of overall steps or components in the accused method or device.

To be clear, the percentage-of-the-product's-value approach also may still be viable in a given case, but experts using it should do whatever they can to explain exactly how they arrived at their proposed percentages and why those figures reflect the patented invention's economic value and not just its technical value.

For example, an expert may be able to calculate the percentage of the accused product's

possible applications that implement the patented features, or the percentage of time that the patented features are engaged in an accused process or system.

An expert also might be able to generate an apportionment percentage by weighing or ranking the relative importance of the accused product's patented and unpatented features, ideally with a supporting technical analysis that explains the rankings and how they led to the expert's proposed percentage. The key is to support the percentage with at least some quantitative or math-based component.

Conclusion

Based on recent district court orders, it may no longer be sufficient for damages experts to offer percentage-of-the-product's-value testimony based on technical expert opinions and other qualitative evidence regarding the patented invention's perceived value.

Accordingly, parties should consider asking their experts to buttress their proposed apportionments with independent quantitative assessments, whether through the use of customer surveys, step-counting or otherwise.

Whether or not such quantitative analyses will satisfy a particular court is impossible to say, but the current trends suggest that parties and damages experts would be well-advised to identify a math-based hook for their apportionment positions.

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[1] 509 U.S. 579 (1993).

[2] Garretson v. Clark, 111 U.S. 120, 121 (1884).

[3] VirnetX, Inc. v. Cisco Sys., Inc., 767 F.3d 1308, 1327 (Fed. Cir. 2014); Commonwealth Sci. & Indus. Research Org. v. Cisco Sys., Inc., 809 F.3d 1295, 1301 (Fed. Cir. 2015).

[4] Ericsson, Inc. v. D-Link Sys., Inc., 773 F.3d 1201, 1226 (Fed. Cir. 2014).

[5] Apple Inc. v. Motorola, Inc., 757 F.3d 1286, 1309 (Fed. Cir. 2014), overruled on other grounds by Williamson v. Citrix Online, LLC, 792 F.3d 1339, 1349 (Fed. Cir. 2015) (en banc); Lucent Techs., Inc. v. Gateway, Inc., 580 F.3d 1301, 1325 (Fed. Cir. 2009).

[6] Apple, 757 F.3d at 1315

[7] Ericsson, 773 F.3d at 1226.

[8] Ga.–Pac. Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

[9] LaserDynamics, Inc. v. Quanta Computs., Inc., 694 F.3d 51, 69 (Fed. Cir. 2012).

[10] No. 17-1023, 2020 WL 5077547, at *5 (W.D. Pa. Aug. 27, 2020).

[11] Id.

[12] Id.

[13] Id.

[14] Id.

[15] No. 17-1616-LPS-CJB, 2020 WL 2461551, at *16 (D. Del. May 7, 2020).

[16] Id. at *17.

[17] Id. at *19.

[18] Id. at *18.

[19] No. 5:18-cv-2352-EJD, 2020 WL 1274985, at *6–11 (N.D. Cal. Mar. 10, 2020).

[20] Id. at *6.

[21] Id. at *7–8.

[22] Id. at *11.

[23] No. 2:19-cv-00070-JRG-RSP, 2020 WL 4057640, at *1 (E.D. Tex. July 20, 2020).

[24] Id. at *2.

[25] Id. at *5.

[26] See No. 17-1616-LPS-CJB, Dkt. 455 at 4 (characterizing the expert's use of a 50% apportionment factor in his supplemental report, which was based on his understanding that the asserted patents covered nine of the accused process's 16 steps).