



PATENT HAPPENINGS

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Emerging Challenges in Establishing Patent Infringement Damages

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The last decade has seen a notable increase in the level of scrutiny applied by courts when assessing a party's proof of patent-infringement damages, particularly regarding the methodology employed by damages experts in determining reasonable royalties. In virtually all patent cases, parties submit intricate pre-trial *Daubert*¹ motions attacking the admissibility of each others damages expert's testimony.² Judges do not hesitate to exclude damages opinions that fail to meet the demanding reliability requirements for admissibility when it appears that the expert employed an unreliable or unsupported methodology in forming the damages opinion.³ As litigants continue to push the boundaries for admissibility or exclusion of damages opinions, the legal standards applied by the courts in resolving *Daubert* challenges evolve at a rapid pace. Accordingly, it is crucial for patent attorneys to stay informed of these changes.

¹ *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993).

² U.S. law requires that any expert witness who will provide opinion testimony at trial must submit, prior to trial, a detailed expert report that provides, *inter alia*, "a complete statement of all opinions the witness will express and the basis and reasons for them" and "the facts or data considered by the witness in forming them." FED. R. CIV. P 26(a)(2) (2016). The *Daubert* motion challenges the opinions expressed in the report. *See generally* Robert A. Matthews, Jr., ANNOTATED PATENT DIGEST [hereinafter "APD"] § 44:41 F.R.E. 702 and *Daubert* Factors.

³ *See e.g.*, APD § 44:80.50 Cases Excluding Patentee's Damages Expert's Opinions (collecting cases) and § 44:81.50 Cases Excluding Accused Infringer's Damages Expert's Opinions (collecting cases).



As a general matter, for opinions addressing reasonable-royalty damages, the *Daubert* motion most commonly focuses on three overall items:

- 1) has the expert tied the specific facts of the case to the methodology the expert used to reach its opinion on damages;
- 2) has the expert relied on sufficiently comparable license agreements; and
- 3) has the expert sufficiently apportioned the value of the patented technology from the unpatented aspects of the accused product.

Daubert challenges often focus on subtle nuances on whether the expert’s opinion properly addresses each of these items. In a welcome development for patent litigants, recent cases suggest that for some aspects of the damages analysis, the courts now apply admissibility standards in a more flexible manner. However, for other aspects, new admissibility landmines may now exist that can result in the exclusion of damages opinions should the expert’s opinion fail to account for these new developments. We address nine of the most notable developments below.

1. Tying The Facts of the Case to the Damages Analysis

While U.S. courts recognize that “estimating a reasonable royalty is not an exact science,”⁴ conclusory expert testimony on damages, no matter how prettily dressed up by a well-credentialed expert, will not suffice in today’s patent-litigation environment. To pass muster for admissibility, expert testimony on damages must tie the assumptions used in arriving at the damages opinion to sound factual economic and technical data relevant to the claimed invention and/or the accused product. An expert may not simply spout off comments regarding the fifteen *Georgia-Pacific* factors, and then magically pronounce the patented invention deserves a certain royalty rate. Instead, the “damages experts must not only analyze the applicable factors, but also carefully tie those factors to the proposed royalty rate.”⁵ This generally requires the damage expert provide concrete reasons for how and why the patented invention or accused product, in the expert’s opinion, meets or fails to meet a particular factor relevant in setting the amount of the royalty rate.⁶

⁴ *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1315 (Fed. Cir. 2014).

⁵ *Exmark Mfg. Co., Inc. v. Briggs and Stratton Power Products Gp., LLC*, 879 F.3d 1332, 1350 (Fed. Cir. 2018) (patentee’s damages expert’s opinion should have been excluded because the expert failed to tie her analysis of the factors with the her opinion that a 5% royalty rate should apply, but rather the rate appeared to be “plucked out of thin air”).

⁶ In doing so, damages expert can, and often must, rely on relevant admissible testimony from technical experts. *See e.g.*, *Arctic Cat Inc. v. Bombardier Recreational Prods., Inc.*, 876 F.3d 1350, 1369-70 (Fed. Cir. 2017) (proper for patentee’s damages expert to rely on technical expert’s opinion that certain products were comparable in technological and safety value); *see generally*, APD § 44:46.75 Expert May Rely on Admissible Testimony From Other Experts, and § 44:81.150 Cases Admitting Technical Expert Testimony to Support Foundation for Damage Expert’s Opinions.



Additionally, the expert must “carefully tie proof of damages to the claimed invention’s footprint in the marketplace.” While sometimes overlapping with considerations of apportionment, this factor requires that the damages expert show that any value that the accused product attained from infringing, which the expert relies on to support a royalty rate, must be attributed to the patented features and not other features possessed by the accused product.⁷

Damages opinions that may initially appear outlandish, and most likely a court would have excluded a few years ago, can survive an admissibility challenge if the expert shows that the opinion has a grounding in material relevant facts of the case. For example, a district court recently allowed a patentee’s damages expert to offer a reasonable royalty opinion that resulted in an amount of damages that allegedly equaled 120% of the accused infringer’s alleged total sales revenues.⁸ The court found that the expert had sufficiently tied his opinions to the facts of the case to avoid exclusion by presenting an analysis of public information regarding the accused product showing that the likely sales price of the accused product was approximately four times higher than what the alleged infringer contended in the litigation.

Going the other way, a damages expert’s reliance on speculative evidence can result in exclusion of a damages opinion or a vacatur of a damages award based on that opinion. Illustrating this point, the Federal Circuit recently vacated a damages award because the damages expert relied on speculative evidence in attempting to estimate the amount of infringing product from SEC filings and other annual reports of customers who purchased or acquired any of the alleged infringing products.⁹ Similarly, a party’s failure to offer nothing more than attorney argument to set forth and supposedly tie the

⁷ *E.g. Sound View Innovations, LLC v. Hulu, LLC*, 33 F.4th 1326, 1337-39 (Fed. Cir. 2022) (excluding a patentee’s damages opinion where the expert relied on a study allegedly showing how customer desired a technical feature in the accused product but the expert “did not have an adequate basis for treating the results of the [] study as sufficiently tied to the invention as claimed”); *Apple Inc. v. Wi-Lan Inc.*, 25 F.4th 960, 975-76 (Fed. Cir. 2022) (expert improperly used an unpatented feature of the accused product as the starting point to determine the benefits of the patented invention where the inventors of the patented technology admitted they had not invented that feature).

⁸ *Varta Microbattery GmbH v. Audio P’ship. LLC*, No. 2:21-CV-00400-JRG-RSP, 2023 WL 5434854, *3-*4 (E.D. Tex. Aug. 23, 2023). Generally, a royalty rate should leave the accused infringer with some profit. See APD § 30:93 —Royalty Rate Normally Should Leave Infringer with Some Profit.

⁹ *Cyntec Co., Ltd. v. Chilislin Elecs. Corp.*, 84 F.4th 979, 983, 987-990 (Fed. Cir. 2023) (vacating a patent damage award since the district court erred in admitting the patentee’s damages expert’s opinion on the number of infringing products that were allegedly imported into the U.S., the court finding that the expert’s estimations of the quantity of products imported into the U.S. made with the infringing process was speculative where the expert relied on (SEC) filings or annual reports of customers who purchased or acquired any of the alleged infringing products to calculate a ratio of imported products compared to worldwide sales but failed to account for the fact that the figures reported to the SEC “included sales of irrelevant products and services, and he failed to account for these irrelevant products and services”).



evidentiary facts of the case to the requested amount of damages can also lead to a reversal of a damages award in that party's favor.¹⁰

2. Apportionment

Unless the patented feature in accused product drives its sale, U.S. law requires that “the ultimate reasonable royalty award must be based [only] on the incremental value that the patented invention adds to the end product.”¹¹ This requirement, referred to as apportionment, plays an important role in determining damages where the accused product has multiple components or features. Many damages opinions fall in a *Daubert* challenge for a failure to sufficiently apportion.¹²

A few years ago, as one methodology to apportion the incremental value of the patented features from an overall accused product, U.S. courts began requiring that a patentee had to limit the royalty base to the “smallest salable patent-practicing unit” (SSPU).¹³ However, it soon became evident that the SSPU methodology was not easy or proper to apply in many instances. In some cases, the patented feature was merely one component of the SSPU, and thus an apportionment beyond the SSPU was needed.¹⁴ In other instances, available license agreements were directed only to the overall end product.

In the first steps of bringing some flexibility in the apportionment context, courts recognized that an economist can apportion “in various ways— by careful selection of the royalty base to reflect the value added by the patented feature, where that differentiation is possible; by adjustment of the royalty rate so as to discount the value of a product’s non-patented features; or by a combination thereof.”¹⁵ Following this guidance, recent cases show courts permitting more flexibility in methodologies damages experts can use in determining apportionment; provided that the expert ties the apportionment analysis to the facts of the case. For example, U.S. courts recognize that a sufficiently comparable license agreement

¹⁰ *In re Cal. Expanded Metal Prods. Co.*, No. 2023-1140, 2024 WL 1190943, *2-*3 (Fed. Cir. Mar. 20, 2024) (*nonprecedential*) (where patentee argued to the jury that a reasonable royalty rate should be 20% and the accused infringer argued it should be 3% and the jury awarded 12%, affirming the grant of the accused infringer’s motion for a new trial on damages since no evidence in the record supported the 12% rate, the Federal Circuit ruling that the patentee “failed to carry its burden to prove damages for lack of such explanation of the proper royalty rate in its evidence” where the patentee had only provided attorney argument to support evaluation of the *Georgia Pacific* factors and the 20% royalty figure).

¹¹ *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014).

¹² *E.g. VLSI Technology LLC v. Intel Corp.*, 87 F.4th 1332, 1345-49 (Fed. Cir. 2023) (vacating a \$1.5 billion lump sum damage award, and ordering a new trial on damages, because the expert’s apportionment analysis did not properly “calculate the incremental technical benefit attributable to Intel’s infringement” but erroneously included noninfringing functionality as part of the damages pool)

¹³ *Commonwealth Scientific and Industrial Research Organisation v. Cisco Sys., Inc.*, 809 F.3d 1295, 1302 (Fed. Cir. 2015) (“the smallest salable patent-practicing unit principle provides that, where a damages model apportions from a royalty base, the model should use the smallest salable patent-practicing unit as the base”).

¹⁴ See generally, APD § 30:61.250 Apportioning the Value of the Patent to the Smallest Saleable Unit and Beyond.

¹⁵ *Ericsson, Inc.*, 773 F.3d at 1226.



may have in it a “built in apportionment.”¹⁶ Where an expert can provide nonconclusory testimony showing that a license agreement is comparable to the patented invention and that the agreement has built-in apportionment relevant to the patented technology, the expert does not have to supply a quantitative apportionment analysis in its damages opinion.¹⁷ Parties may also rely on other products, even later developed products, as a “benchmark” in valuing the patented features when determining a reasonable royalty where those benchmark products are shown to be technologically comparable to the claimed features of the asserted patents.¹⁸

In one development likely to add complexity and uncertainty in an apportionment analysis, circumstances may require a patentee to apportion between the various claims of a patent should some of the asserted claims be declared unpatentable in a Patent Office proceedings, such as an *inter partes* review proceeding (IPR), conducted during the pendency of the infringement case. In *Prolitec Inc. v. ScentAir Techs., LLC*,¹⁹ Judge Bryson of the Federal Circuit, sitting by designation in the district court, held that when the independent claims of a patent have been invalidated in an IPR, while dependent claims survive, and the patentee proceeds on the remaining dependent claims in the infringement litigation, the patentee, in its damages analysis, must apportion by limiting the damages to the incremental value added by the dependent claim limitations. In other words, the patentee must treat the subject matter of the invalidated independent claims as being prior art, i.e., publicly available to be used

¹⁶ *Pavo Solutions LLC v. Kingston Technology Co., Inc.*, 35 F.4th 1367, 1380 (Fed. Cir. 2022) (“Built-in apportionment effectively assumes that the negotiators of a comparable license settled on a royalty rate and royalty base combination embodying the value of the asserted patent”).

¹⁷ *Bio-Rad Labs., Inc. v. 10X Genomics, Inc.*, 967 F.3d 1353, 1376-77 (Fed. Cir. 2020) (affirming a \$24 million in reasonable royalty damages based on a 15% royalty rate, and finding that patentee’s damage expert sufficiently apportioned even though the expert did not provide a quantitative apportionment analysis where the expert provided nonconclusory testimony that the comparable license agreements he relied upon had already apportioned in setting the royalty rate at 15%); *Persawvere, Inc. v. Milwaukee Elec. Tool Corp.*, No. 21-400-GBW, 2023 WL 8019085, *9-*10 (D. Del. Nov. 20, 2023) (refusing to strike patentee’s damages experts opinion that relied on a license agreement licensed more than just the asserted patents, the court finding that the expert’s explanation as to how and why he discounted the nonasserted patents because they did not have claims as broad as the asserted patents, and therefore were subsumed into the asserted patents in terms of claim scope or were based only on patent applications, was sufficient to show built-in apportionment). *But cf. Omega Patents, LLC v. CalAmp Corp.*, 13 F.4th 1361, 1379-82 (Fed. Cir. 2021) (reversing denial of accused infringer’s motion for a new trial on damages since the patentee had failed to properly apportion and finding that the patentee failed to show the alleged comparable licenses it used had built-in apportionment, i.e., that the licenses were “sufficiently comparable” in that “principles of apportionment were effectively baked into” the purportedly comparable license”).

¹⁸ *Arctic Cat Inc. v. Bombardier Recreational Prods., Inc.*, 876 F.3d 1350, 1369-70 (Fed. Cir. 2017) (patentee’s damages expert properly used a later developed product of the accused infringer as a “value benchmark” to the accused product where the two products were of “comparable technological and safety value”). *But cf. Sonos, Inc. v. Google LLC*, No. C 20-06754 WHA, 2023 WL 3933071, *1-*6 & *10 (N.D. Cal. Jun. 9, 2023) (striking portion of patentee’s damages theory that sought to base the damages calculation on a premium subscription model of an allegedly comparable computer application called IFTTT as a benchmark since there was insufficient evidence that the IFTTT program was “technologically comparable to the claimed invention”). *See generally*, APD § 30:104.80 Use of “Benchmark” Products.

¹⁹ No. 20-984-WCB, 2023 WL 8697973 (D. Del. Dec. 13, 2023) (Bryson, C.J. sitting by designation).



by the alleged infringer. The damage award, therefore, should only reflect the incremental value added by the additional subject claimed in the dependent claim. According to Judge Bryson, the “damages stemming from infringement of the dependent claims are confined to the value added by those claims, excluding the value associated with the invalidated claims, i.e., ‘the incremental value that the patented invention adds to the end product.’”²⁰ Applying this rule, he struck a portion of patentee’s damages expert opinion because the apportionment was not limited to the value added by the subject matter claimed in the dependent claims, but included the subject matter claimed in the independent claims.²¹

Perhaps softening the impact of *Prolitec*, one district court accepted the argument that when an independent claim falls while a dependent claim survives, the combination of the invalidated subject matter of the independent claim with the novel matter of the surviving dependent claim could be deemed part of the incremental value added by the patented technology for purposes of apportionment.²²

3. Comparability of Licenses

Before an expert can rely on a license agreement as evidence of a proper reasonable royalty, the expert must show how that license agreement is comparable to the circumstances that would exist in a hypothetical negotiation between the patentee and the accused infringer. This requires that the expert show that the license agreement addresses technologically similar subject matter under economic circumstances comparable to what the parties would face in the hypothetical negotiation at the date of the that imaginary negotiation, i.e., the date the accused infringer first infringed the patent.²³

Perfect comparability between a patent license agreement and the hypothetical negotiation for a given case almost never exists. A license agreement may provide for a lump sum payment while the expert seeks to opine that a running royalty should apply. The agreement may address a portfolio of

²⁰ *Id.* at *12.

²¹ *Id.* at *15-16. See also *The Trustees of the Univ. of Penn. v. Eli Lilly and Co.*, No. 15-6133, 2022 WL 3973276, *17-18 (E.D. Penn. Jan. 14, 2022) (denying motion to exclude accused infringer’s damages expert opinion that the reasonable royalty damages should be less than \$600,000 while the patentee’s expert opined that the damages should be \$43 million, the court finding that under the circumstances, the expert’s apportionment looking to the value that the dependent claim’s added limitation allegedly imparted to the drug product compared to the limitations of the invalidated independent claim was admissible, and could be challenged on cross).

²² *Singular Computing LLC v. Google LLC*, No. 19-12551-FDS, 2023 WL 8810187, *4 (D. Mass. Dec. 20, 2023) (denying motion to exclude patentee’s technical expert witness’ opinion on apportionment and rejecting the accused infringer’s argument that because some of the asserted claims were found unpatentable in an IPR, the expert had to discount the value of the invalidated claims since even if the subject matter of those claims is deemed to be conventional, the combination of that subject matter with the novel matter of the surviving claim could still be deemed part of the incremental value added by the patented technology, the court stating that it was “not persuaded by Google’s theory that previously-determined conventional claims should be excised from a valid claim that includes them as component elements”).

²³ See generally, APD § 30:78 Continuity of Economic Factors; § 30:79 Must be Based on Comparable Technology or Comparable Use of the Invention; and § 30:86 Time Period for Assessing Circumstances Relevant to Setting the Royalty Rate.



patents where the infringement case may only address one or two patents from that portfolio. Agreements may address variations in the technical subject matter. Experts who fail to acknowledge these differences, or conclusory opine the differences do not matter, often see their opinions struck. As a consequence of the requirement that the expert tie its opinion to the facts of the case, an expert's conclusory observations on similarities between the relied upon licenses and the circumstances of the hypothetical negotiation will not suffice to establish comparability.²⁴ Recent cases, however, show that experts that identify and acknowledge differences between the license agreement they seek to rely on and the circumstances of the hypothetical negotiation and provide non-conclusory plausible explanations, tied to the facts of the case, for how the relevant differing aspect of the license agreement can be adjusted to fit within the parameters of the case's hypothetical negotiation often survive a *Daubert* challenge as they have established a "baseline comparability."²⁵

4. Settlement Agreements

For many years U.S courts held that due to the multiple factors that impact a decision to settle a litigation, a royalty rate accepted by a patentee to settle an infringement suit does not constitute evidence showing the rate the parties would agree to in a hypothetical negotiation.²⁶ Over the last few years, however, U.S. courts have become more willing to allow an expert to rely on a settlement agreement if

²⁴ *E.g., ADASA Inc. v. Avery Dennison Corp.*, 55 F.4th 900, 914-15 (Fed. Cir. 2022) (striking damages opinion where the expert did not adequately establish the economic and technological comparability, and ruling that the expert's "conclusory observations" were "insufficient to establish comparability").

²⁵ *Bio-Rad Labs., Inc. v. 10X Genomics, Inc.*, 967 F.3d 1353, 1373-76 (Fed. Cir. 2020) (district court properly found that the expert "had met a showing of 'baseline comparability'" and that the "degree of comparability is a factual issue best addressed through cross examination"). *See also Chrimar Holding Co., LLC v. ALE USA Inc.*, 732 Fed.Appx. 876, 887 (Fed. Cir. May 8, 2018) (*nonprecedential*) ("This court has approved reliance on licenses, which often will not be in identical circumstances, as long as reasonable adjustments for differences in contexts are made."). *See e.g., Puma Biotechnology, Inc. v. AstraZeneca Pharmaceuticals LP*, No. 21 C 1338, 2024 WL 1157120, *21-*22 (D. Del. Mar. 18, 2024) (for claims directed to a method of treating a type of non-small cell lung cancer for patients with a particular gene mutation, patentee's damages expert showed a sufficient "baseline comparability" between the asserted patent and the six license agreements the expert relied on, where the expert searched "a comprehensive, peer-reviewed reference database on biopharma alliances consisting of more than 11,000 contracts" to find comparable licenses and selected agreements that "(1) 'all involved running royalties to sell products to treat lung cancer patients,' (2) were entered into within ten years of the hypothetical negotiation between the parties, and (3) involved technology 'at the same or similar stage of development as Tagrisso [the accused product]'" and the expert further "explained in his report and deposition the various adjustments he made to account for the different circumstances of each license"); *Viotech Techs., Inc. v. Adobe, Inc.*, No. 20-358-RGA, 2023 WL 5975219, *6-*10 (D. Del. Sep. 14, 2023) (allowing damages expert's to rely on a first agreement, which was not a patent license but a technology agreement that led to the patented technology, because the expert "analyze[d] both technological and economical comparability and makes various adjustments accounting for differences between the DR Agreement and the hypothetical negotiation," however excluding the expert's reliance on second agreement, a portfolio patent license, since the expert did "not sufficiently establish comparability ... because there is no evidence or analysis of the patents in the portfolio" nor a comparison of the licensed patents to the asserted patent).

²⁶ *See generally*, APD § 30:101 Rates Proposed or Accepted to Settle a Prior Infringement Dispute.



the expert can show that the circumstances under which the settlement was reached are sufficiently comparable to an ordinary licensing negotiation, i.e., settlement was reached after liability was already established,²⁷ or the expert accounts for differences between the circumstances of the settlement agreement and the circumstances of the hypothetical negotiation.²⁸

5. Temporal Considerations

For infringement cases litigated twenty years ago, the law appeared to implicitly assume that a license agreement reached far away in time from the date of the hypothetical negotiation could not be comparable.²⁹ That view no longer prevails. Recent cases show that damages experts may rely on license agreements entered years after or before the hypothetical negotiation date “so long as the expert details the facts and circumstances that led the expert to conclude that the license agreement is technically and economically comparable to the hypothetical license in th[e] case.”³⁰

²⁷ *E.g., Moskowitz Family LLC v. Globus Med., Inc.*, No. 20-3271, 2023 WL 5487662, *12-*13 (E.D. Pa. Aug. 24, 2023) (proper for patentee to rely on a settlement agreement that the accused infringer entered into with a competitor after the accused infringer had been found to have literally infringed the competitor’s three patents)

²⁸ *E.g., Elbit Sys. Land and C4I Ltd. v. Hughes Network Sys.*, 927 F.3d 1292, 1299-301 (Fed. Cir. 2019) (proper for the patentee’s damages expert to rely on settlement agreement the accused infringer made with a third party where that settlement agreement related to similar technology, was only four months after the date of the hypothetical negotiation, and the expert properly accounted for differences between the circumstances of the settlement agreement and the current case); *Centripetal Networks, Inc. v. Cisco Sys., Inc.*, No. 2:18cv94, 2020 WL 5887916, *58 (E.D. Va. Oct. 5, 2020), *vacated and remanded on other grounds* (judge’s disqualification), 38 F.4th 1025, 1027 (Fed. Cir. 2022) (relying on a settlement agreement that had a royalty rate of 10% for competing products “as the only comparable license, as neither party presented any comparable licenses for similar patented inventions or similar infringing products”). *But cf. ViaTech Techs., Inc. v. Adobe, Inc.*, No. 20-358-RGA, 2023 WL 5975219, *15 (D. Del. Sep. 14, 2023) (striking accused infringer’s damages expert’s reliance on a settlement agreement between the patentee and a competitor of the accused infringer since expert, herself, did “not opine that the agreement is comparable,” only the accused infringer argued that point); *Biedermann Techs. GmbH & Co. KG v. K2M, Inc.*, No. 2:18cv585, 2021 WL 6034269, *8-*10 (E.D. Va. Dec. 10, 2021) (striking portion of patentee’s damages expert’s opinion that relied on two patent licenses granted in settling other cases on other patents because the expert had failed to tie the facts of those cases to the current case to show why those settlement agreements should be deemed comparable).

²⁹ *See e.g., Odetics, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1276–77 (Fed. Cir. 1999) (license agreements entered into four years after the date of first infringement were irrelevant in view of “the context of the changing technology and ‘financial landscape’ at issue” made those agreements irrelevant for the hypothetical negotiation analysis).

³⁰ *CAO Lighting, Inc. v. Gen. Elec. Co.*, No. 20-681-GBW, 2023 WL 1930354, *9 (D. Del. Jan. 30, 2023) (cleaned up) (allowing use of license that posted dated the hypothetical negotiation date by five years). *E.g. Willis Elec. Co., Ltd. v. Polygroup Macau Ltd. (BVI)*, No. 15-cv-3443 (WMW/DTS), 2023 WL 112733, *4-*6 (D. Minn. Jan. 5, 2023) (allowing accused infringer’s expert to rely on a license agreement the accused infringer entered into six years after the date of the hypothetical negotiation since the expert opined there were factual circumstances that showed the conditions at the time of the agreement were similar to the conditions on the date of the hypothetical negotiation); *Wonderland Switzerland AG v. Evenflo Co., Inc.*, No. 1:20-cv-00727-JPM, 2023 WL 5574139, *3-*4 (D. Del. Jan. 5, 2023) (allowing patentee’s damages expert to rely on a license agreement that was negotiated over ten years before the date of the hypothetical negotiation, where the expert “took steps to account for the differences between the Meeker Agreements and the facts of the instant action”). *See generally*, APD § 30:86.40 — Licenses Granted Before the Hypothetical Negotiation Date § 30:86.45 — Licenses Granted After the Hypothetical Negotiation Date.



6. Foreign Sales and Causation

The ability to include foreign sales in a royalty base for determining patent infringement damages has undergone wide swings over the years.³¹ Before 2013, Federal Circuit law provided that where the accused infringer made the infringing product in the United States and sold it abroad, a reasonable royalty could include royalties on the foreign sales since a compensable act of infringement – the making – occurred in the United States.³² But in 2013, in *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, a panel of the Federal Circuit, applying a rigid view of causation and the proscription against extra-territorial application of U.S. patent law, essentially rejected the theory that an infringing making of a product in the U.S. permitted awarding damages for infringing products sold in a foreign market.³³ In late March of this year, the Federal Circuit held in *Brumfield v. IBG LLC*,³⁴ that the intervening Supreme Court opinion in *WesternGeco L.L.C.*³⁵ effectively overruled *Power Integrations*.³⁶ The court explained that the “*WesternGeco* framework applies to a reasonable-royalty award, not just a lost-profits award, under § 284.”³⁷ Noting that “*WesternGeco* effectively recognized that a causation requirement is part of the § 284 standard,” the Federal Circuit instructed that where a patentee seeks to include foreign sales in a royalty base, the patentee must show a causal connection between the acts of infringement committed in the U.S. and the foreign sales. The court explained:

[T]he hypothetical negotiation must turn on the amount the hypothetical infringer would agree to pay to be permitted to engage in the domestic acts constituting ‘the infringement.’ 35 U.S.C. § 284. If the patentee seeks to increase that amount by pointing to foreign conduct that is not itself

³¹ See generally, APD § 30:44 —Diverted Foreign Sales; and § 30:105 Impact of Foreign Sales on Royalty Base; and § 30:105.50— Acts that Contribute to Causing a Foreign Sale.

³² *Datascope Corp. v. SMEC, Inc.*, 879 F.2d 820, 827 (Fed. Cir. 1989) (“It is undisputed that Datascope is entitled to a reasonable royalty on SMEC’s foreign infringing sales.”); *Railroad Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1519, 220 USPQ 929, 941 (Fed. Cir. 1984) (reasonable royalty damages properly included in the royalty base foreign sales of infringing products that were made in the U.S. and instructing that for infringing carsets made in the U.S., “[w]hether those carsets were sold in the U.S. or elsewhere is therefore irrelevant, and no error occurred in including those carsets among the infringing products on which royalty was due.”).

³³ 711 F.3d 1348, 1371-72 (Fed. Cir. 2013) (“*Power Integrations* has not cited any case law that supports an award of damages for sales consummated in foreign markets, regardless of any connection to infringing activity in the United States. To the contrary, the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement.”).

³⁴ 97 F.4th 854, 874-80 (Fed. Cir. 2024)

³⁵ *WesternGeco L.L.C. v. ION Geophysical Corp.*, 585 U.S. 407, 138 S. Ct. 2129, 2138-39 (2018) (holding that a patentee may recover lost profits from lost foreign sales that result from § 271(f)(2) infringement since those damages are based on a domestic violation of the patent, i.e., the act of exporting components from the U.S. in a prohibited manner).

³⁶ *Brumfield*, 97 F.4th at 871 (“For a determination whether patent damages are properly awarded in a particular case based partly on conduct abroad, the decision in *WesternGeco* established a framework of analysis that necessarily supersedes the analysis set forth in our earlier decision *Power Integrations*.”).

³⁷ *Id.* at 876.



infringing, the patentee must, at the least, show why that foreign conduct increases the value of the domestic infringement itself—because, *e.g.*, the domestic infringement enables and is needed to enable otherwise-unavailable profits from conduct abroad—while respecting the apportionment limit that excludes values beyond that of practicing the patent. This kind of causal connection, framed in terms of the agreement-to-pay aspect of a hypothetical negotiation, is a necessary beginning—we need not here say it is sufficient—for a foreign-conduct analysis in a reasonable-royalty case. *Cf. Carnegie Mellon*, 807 F.3d at 1307 (noting that defendant’s sales abroad were ‘strongly enough tied to its domestic infringement as a causation matter to have been part of the hypothetical-negotiation agreement,’ before moving on to apply extraterritoriality standards based on *Power Integrations*, now superseded by *WesternGeco*).³⁸

After announcing this broad principle, the panel noted that questions remained for defining what constitutes an adequate causal connection, such as whether mere foreseeability suffices or if a more robust causal connection, such as proximate causation, must be shown.³⁹ To avoid issuing an advisory opinion, the panel stated that it “need not and do not here suggest answers to, or further explore, those or other questions.”⁴⁰ Thus, leaving this issue to future development.⁴¹

Despite leaving open causation questions, the court affirmed the district court’s exclusion of the patentee’s damages expert’s testimony since the expert failed to show that an infringing making in the U.S. created the accused copies of the software sold abroad.⁴² Indeed, the court found that the expert “presented no focused, coherent explanation of the required causal connection to domestic infringement.”⁴³

³⁸ *Id.* at 877.

³⁹ *Id.* at 877-78.

⁴⁰ *Id.* at 878.

⁴¹ Although set forth in the context of damages for foreign sales, the court’s discussion of how patent damages under § 284 have a causation requirement, theoretically, can extend beyond foreign sales. For example, developments in damage causation principles may reach convoyed or derivative sales or items sought to be included under an accelerated market entry theory.

⁴² *Id.* at 880-81 (noting that the original making of the software in the U.S. before the patent had issued and therefore was not an act of domestic infringement). *See also Synopsys, Inc. v. Siemens Industry, Inc.*, No. 20-cv-04151-WHO, 2024 WL 1683637, *14 (N.D. Cal. Apr. 17, 2024) (granting summary judgment that foreign sales of copies of a computer program made abroad could not be part of the royalty base where the computer program was developed and tested in the United States because the patentee failed to show that the copies sold abroad were made in the US, the court also noting that “[t]he parties have not identified anything in the record illuminating how that causal connection [between the U.S. infringing acts and the foreign sale] is satisfied here, with respect to the alleged infringement of the 915 Patent, other than that Aprisa was developed in the United States[,] [t]hat conduct, standing alone, is insufficient for foreign-sales damages before and after *Brumfield*,” however also noting that the foreign sales were a factor that could be considered in setting the royalty rate to be applied to the U.S. sales)

⁴³ *Id.* at 881.



Foreign sales may also have relevance in setting the royalty rate under the *Georgia Pacific* factors even if not included in the royalty base.⁴⁴

7. Survey Evidence

In apportionment analyses, patent litigants sometimes rely on survey evidence to show how customers view the importance of the patented features in an accused product compared to the unpatented features.⁴⁵ The Federal Circuit has found such evidence to be “critical” in some cases.⁴⁶ While the use of survey evidence will likely continue to grow in patent cases, recent cautionary statements from Supreme Court of the United States may increase the scrutiny given to such evidence. In discussing the use of survey evidence in proving a “likelihood of confusion” in trademark-infringement actions, Justice Sotomayor cautioned that “surveys should be understood as merely one piece of the multifaceted likelihood of confusion analysis.” She further instructed that courts should: i) “carefully assess the methodology and representativeness of surveys”; ii) “ensure surveys do not completely displace other likelihood-of-confusion factors, which may more accurately track the experiences of actual consumers in the marketplace”; and iii) “be attentive to ways in which surveys may artificially prompt such confusion about the law or fail to sufficiently control for it.”⁴⁷ Undoubtedly, future patent litigants will seek to use these cautionary statements in challenging the admissibility of survey evidence in proving patent damages.⁴⁸

8. Third-Party Patent Litigation Funders

As the use of third-party funding in U.S. litigation continues to grow, patent-infringement actions have become an attractive investment target for these financiers. The law continues to develop as to what extent, if any, a patentee must disclose the identity of any third-party litigation funder that has invested in its litigation. Some courts have imposed mandatory disclosure requirements while other

⁴⁴ See generally, APD § 30:105.100 — Using Foreign Sales with *Georgia Pacific* Factor 6.

⁴⁵ See generally, APD § 44:81.100 Cases Admitting Survey Evidence in Patent Litigation and § 44:81.120 Cases Excluding Survey Evidence in Patent Litigation.

⁴⁶ *Apple Inc. v. Samsung Elecs. Co. Ltd.*, 839 F.3d 1034, 1055 (Fed. Cir. 2016) (*en banc*) (“Critically, Apple presented survey evidence that customers would be less likely to purchase a portable device without the slide to unlock feature and would pay less for products without it ...”); see also *Niazi Licensing Corp. v. St. Jude Med. S.C., Inc.*, 30 F.4th 1339, 1358 (Fed. Cir. 2022) (criticizing expert for not relying on survey or other adequate evidence to show the amount of usage of the patented method).

⁴⁷ *Jack Daniel’s Properties, Inc. v. VIP Prods. LLC*, 143 S. Ct. 1578, 1593-94 (2023) (Sotomayor and Alito JJ, *concurring*).

⁴⁸ Cf. *Barry v. DePuy Synthes Prods., Inc.*, No. 17-3003, 2023 WL 4851411, *2-*10 (E.D. Pa. Jul. 28, 2023) (striking survey evidence patentee tried to use to show how often the patented method was practiced with the accused product because the survey was conducted with unreliable methodology that “was so flawed that any damages calculation based on that methodology was necessarily speculative”).



courts deny requests for such disclosure.⁴⁹ Similarly, whether third-party funders are subject to discovery remains a hotly debated topic. Accused infringers sometimes argue that documents and communications between a patentee and a third-party funder may contain information of how those parties valued the asserted patent, and therefore such information should be discoverable as being relevant to the damages issues in the case.⁵⁰ Some courts are receptive to this argument, while others are not.⁵¹ As one judge stated during a discovery hearing “it does strike me that if plaintiffs are busy saying to investors, these patents are worth X, Y, or Z, or something else, that plaintiff’s evaluation of the patents is certainly something that an expert would want to consider, right?”⁵²

9. Damage Contentions and Other Disclosure Requirements

When litigating a patent action in the U.S., parties must prepare themselves to address damages issues early in the case. Long gone are the days of bifurcating damages from liability or waiting for the expert-discovery phase of a case before addressing damages. For example, the Northern District of California requires a patentee, within 50 days of receiving the accused infringer’s invalidity contentions, to identify, in damage-related contentions, the specific types of damages the patentee seeks and provide a computation of those damages.⁵³ Thirty days after receiving the patentee’s damages contentions, the accused infringer must provide responsive contentions that “identify specifically how and why it disagrees with those contentions.”⁵⁴ The Federal Circuit has recently upheld these rules and instructed that a court can require a patentee to disclose the “factual underpinnings and evidence underlying its damages theory prior to expert discovery.”⁵⁵

The sufficiency of the information provided in a damage contention can limit the permissible scope of a damage expert’s opinion. Numerous cases hold that where local court rules require parties in a

⁴⁹ See generally, APD § 41:62.05 Mandatory Identification of Third-Party Litigation Funders Under Local Rules and Standing Orders.

⁵⁰ See generally, APD § 30:106.100 Litigation Funding or Financing Agreements and § 41:62.10 Production of Patent Litigation Funding Documents.

⁵¹ See generally, APD § 41:62.15 — Cases Compelling Production of Patentee’s Litigation Funding Documents; and § 41:62.20 — Cases Refusing to Compel Production of Patentee’s Litigation Funding Documents.

⁵² *Cirba Inc. v. VMware, Inc.*, No. 19-742-LPS, 2021 WL 7209447, *3 (D. Del. Dec. 14, 2021) (quoting hearing transcript in *TQ Delta LLC v. Comcast Cable Commns. LLC*, C.A. No. 15-611-RGA, D.I. 154, Tr. 33:23-34:17, 37:3-23 (Oct. 11, 2016)). However, that same court has also instructed that the terms of litigation funding agreements, themselves, have no relevance to proving patent damages because the agreements only show “informed gambling on the outcome of litigation” and are “so far removed from the hypothetical negotiation that they have no relevance.” *AVM Techs., LLC v. Intel Corp.*, No. 15-33-RGA, 2017 WL 1787562, *3 (D. Del. May 1, 2017).

⁵³ N.D. of Cal. Local Patent Rule 3-8 (2017); see generally APD § 30:9.100 Damage-Related Contentions Under Local Patent Rules.

⁵⁴ N.D. of Cal. Local Patent Rule 3-9 (2017).

⁵⁵ *MLC Intellectual Property v. Micron Technology, Inc.*, 10 F.4th 1358, 1372 (Fed. Cir. 2021).



patent case to provide infringement, validity or damages contentions a party's expert may not opine on any theories not included in that party's contentions.⁵⁶ Thus, to avoid a forfeiture of potentially applicable damage theories, a patent lawyer should work with the damages expert early in the case in developing damage contentions so that theories the expert foresees presenting in the damages opinion are included in the contentions.

Beyond local rules, general rules of U.S. civil procedure require all plaintiffs to provide as part of their "initial disclosures" "a computation of each category of damages claimed" and "the documents or other evidentiary material ... on which each computation is based."⁵⁷ Some courts have begun viewing this rule as having real teeth such that a patentee must to "the best it can on pain of preclusion, subject to supplementation as more information becomes available" provide specific details of its damages theory and its supporting evidence as part of its initial disclosures.⁵⁸

Conclusion

The foregoing shows that, while the law may now allow for greater variety of ways to support a patent-damages opinion, many pitfalls lurk in the background that can thwart the effort to successfully prove damages. Whether a patent holder or an accused infringer, wise patent attorneys will retain and involve a competent damages expert from the outset of the matter and work closely with that expert to make the opinion as strong as possible to withstand the inevitable *Daubert* challenge.

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⁵⁶ See generally, APD § 2.50.100 Scope of Infringement or Invalidity Contentions Limit the Scope of an Expert's Report.

⁵⁷ Fed.R.Civ.P 26(a)(1)(A)(iii) (2011).

⁵⁸ *Brandywine Communications Techs., LLC v. Cisco Sys., Inc.*, No. C 12-01669 WHA, 2012 WL 5504036, *1-*3 (N.D. Cal. Nov. 13, 2012); see generally APD § 30:9.50 Rule 26(a) Initial Disclosures of Damage-Related Evidence.



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This article reflects the authors' current personal thoughts on the discussed subject matter. It has been written in furtherance of scholarly pursuits and is not meant to convey legal opinions or advice of any kind.