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Michael H. King

Steven M. Evans

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## SELECTING AN APPROPRIATE DAMAGES EXPERT IN A PATENT CASE; AN EXAMINATION OF THE CURRENT STATUS OF *DAUBERT*

*Michael H. King & Steven M. Evans\**

### I. INTRODUCTION

#### *A. Importance of Damages in Patent Cases*

The determination of damages is a critical part of any patent case. As a plaintiff, maximizing awarded damages, whether financial or injunctive, is the ultimate objective of the patent case. As a defendant, minimizing or preventing any awarded damages is the ultimate objective.

Multimillion dollar verdicts in patent cases are now the norm and hundred plus million dollar verdicts are becoming more frequent. A lawyer who fails to devote sufficient time to this critical component of a case does the client a disservice.

#### *B. Types of Damages in Patent Cases*

There are generally two types of damages in patent cases: lost profits and a reasonable royalty.<sup>1</sup> A patent owner may seek either lost profits or a reasonable royalty, or a combination of both, as long the recoveries do not overlap.<sup>2</sup> The determination of patent damages awarded is a question of fact, and numerous damage theories exist

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\* Michael H. King is a senior partner specializing in complex litigation, with an emphasis on intellectual property at LeBoeuf, Lamb, Greene & MacRae LLP. Steven M. Evans is a litigator with McGuireWoods LLP specializing in intellectual property; B.S. in Electrical Engineering, Purdue University; J.D., Indiana University.

1. *Minco, Inc. v. Combustion Engineering, Inc.*, 95 F.3d 1109, 1119, 40 U.S.P.Q.2d (BNA) 1001 (Fed. Cir. 1996).

2. *Id.* at 1119 (stating that patent “damages awards encompass both lost profits and a reasonable royalty on that portion of an infringer’s sales not included in the lost profit calculation”).

within the broad categories of both lost profits and a reasonable royalty to help answer that question.

### C. Background on Daubert

Due to the nature of patents, litigation involving patents typically involves technical issues having complex damages calculations. In order to assist the fact finder in determining a proper damages award in a patent infringement lawsuit based on any applicable damage theory, expert witnesses are commonly used. The use of damages experts has come under increasingly close scrutiny, and clarification on the requirements for admissible expert testimony has become increasingly important as well.

For nearly seventy years the admissibility of expert scientific evidence was controlled by the common law rule known as the “general acceptance test” or the “*Frye* test,” based on the 1923 District of Columbia Court of Appeals case of *Frye v. United States*.<sup>3</sup> Under the *Frye* test, for the court to admit the expert testimony, the “thing from which the deduction is made must be sufficiently established to have gained general acceptance in the particular field in which it belongs.”<sup>4</sup>

In 1993 the Supreme Court in *Daubert v. Merrell Dow Pharmaceuticals, Inc.* held that Rule 702 of the Federal Rules of Evidence superseded the *Frye* test.<sup>5</sup> Rule 702 requires that proposed expert testimony must assist the trier of fact in understanding the contested issues at trial, and an expert witness may testify only if three requirements are met: (1) the testimony must be based upon sufficient facts or data; (2) the testimony must be the product of reliable principles and methods; and (3) the witness must have applied the principles and methods reliably to the facts of the case.<sup>6</sup>

In *Daubert* the Supreme Court addressed the subject and initially outlined some general observations.<sup>7</sup> While the list was not definitive, these “general observations” included: (1) whether the proffered theory or technique can be and has been tested; (2) whether the theory or technique has been the subject of peer review and publication; (3)

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3. *William Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 585; 113 S. Ct. 2786 (1993); see generally *Frye v. United States*, 293 F. 1013 (D.C. Cir. 1923) (*superseded by statute as recognized in Daubert*, 509 U.S. at 587).

4. *Frye*, 293 F. at 1014.

5. *Daubert*, 509 U.S. at 587.

6. FED. R. EVID. 702.

7. *Daubert*, 509 U.S. at 593-94. The court clarified the considerations federal judges should use to determine whether scientific testimony is based on valid reasoning and methodology. *Id.*

whether the theory or technique has been evaluated in light of the known or potential rate of error; and (4) whether the theory or technique has been generally accepted in the relevant scientific community.<sup>8</sup> *Daubert* also indicated that Rule 702 imposes on the trial judge some “gatekeeping” responsibility to ensure these requirements are met before expert evidence is admitted.<sup>9</sup>

#### D. Later Supreme Court Cases Regarding Daubert

In *General Electric Co. v. Joiner*, the Supreme Court held that “abuse of discretion is the proper standard by which to review a district court’s decision to admit or exclude scientific [opinion] evidence.”<sup>10</sup> Accordingly, the Court clarified that significant discretion is given to trial judges in exercising their gatekeeping function under *Daubert*.

Later, in *Kumho Tire, Ltd. v. Carmichael*, the Supreme Court expanded *Daubert* by holding that a trial judge’s “gatekeeping” obligation is not limited to testimony based on scientific knowledge, but also applies to testimony based on technical and other specialized knowledge.<sup>11</sup> The Supreme Court further held that a trial judge may, but is not required to, consider all four specific *Daubert* factors (testing, peer review, error rate, and general acceptance) if doing so will help determine the testimony’s reliability.<sup>12</sup> The Supreme Court stressed the flexible nature of the reliability test, and emphasized that “*Daubert’s* list of specific factors neither necessarily nor exclusively applies to all experts or in every case.”<sup>13</sup> Thus, an expert’s personal knowledge and experiences may also be considered by a judge in determining the reliability of that expert’s testimony.

The Supreme Court in *Weisgram v. Marley* confirmed the authority of an appellate court to direct the entry of judgment as a matter of law where the district court erroneously admitted expert testimony, and where insufficient evidence remained to support a jury’s verdict after the erroneously admitted evidence was excluded.<sup>14</sup> *Weisgram* therefore makes crystal clear the importance of preparing for a *Daubert* challenge to the admissibility of a potential expert’s testimony.

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8. *Id.* at 593-94.

9. *Id.* at 589.

10. *Gen. Elec. Co. v. Robert K. Joiner*, 522 U.S. 136, 146 (1997).

11. *Kumho Tire Co., Ltd. v. Patrick Carmichael*, 526 U.S. 137, 141 (1999).

12. *Id.*

13. *Id.*

14. *Chad Weisgram v. Marley Co.*, 528 U.S. 440, 457 (2000).

*E. Sample Cases*

Every damages expert offered at trial must be prepared for challenge by the adverse party. Recent cases demonstrate that trial judges are increasingly vigilant in fulfilling their *Daubert* responsibility and that the stakes are high.

*Biondo v. City of Chicago* involved a lawsuit brought by firefighters against the city for race discrimination in promotions.<sup>15</sup> The court excluded the plaintiff's proposed expert witness.<sup>16</sup> This witness, who intended to testify regarding the probabilities of promotion to the rank of captain and to the rank of battalion chief, was excluded because his qualifications were inadequate and his testimony was based on flawed methodology that would have done little to assist the trier of fact.<sup>17</sup> The expert testified he "was assigned basically to calculate losses for a group of firefighters essentially by estimating how much money they would have made in the absence of the race standardization of the 1986 exam and comparing that with how much money they made."<sup>18</sup> The expert assumed all the plaintiffs, absent race standardization of the 1986 exam, would have been promoted to lieutenants, and then calculated their probabilities of becoming captains through the 1992 exam and the probability of their subsequently becoming battalion chiefs.<sup>19</sup>

The court ruled the expert's testimony was flawed because he did not provide statistics for individual plaintiffs.<sup>20</sup> The expert's qualifications were held inadequate because his Ph.D. was not in the relevant area, he never taught statistics, he published no relevant writings, and he was unfamiliar with several concepts used by the city in making promotions.<sup>21</sup> The court further held the expert's testimony was not based on sound methodology because he did not incorporate specific data regarding each of the plaintiffs.<sup>22</sup>

*Maguire v. National Railroad Passenger Corp.* involved an employee assaulted by a passenger while working as a train conductor.<sup>23</sup>

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15. *Biondo v. City of Chicago*, No. 88-CV3773, 2002 U.S. Dist. LEXIS 9816 (N.D. Ill. 2002), *vacated*, 382 F.3d 680 (7th Cir. 2004), *vacated and remanded on other grounds*, 382 F.3d 680 (2004).

16. *Biondo*, 2002 U.S. Dist. LEXIS 9816, at \*4

17. *Id.* at \*10-14.

18. *Id.* at \*2.

19. *Id.* at \*2-\*3.

20. *Id.* at \*9.

21. *Id.* at \*10-\*12.

22. *Biondo*, 2002 U.S. Dist. LEXIS 9816 at \*19.

23. *Maguire v. Nat'l R.R. Passenger Corp.*, No. 99-C3240, 2002 U.S. Dist. LEXIS 5226, at \*1

Plaintiff offered an expert who had expertise in industrial and premises security.<sup>24</sup> The proffered expert had bachelor's degrees in criminal justice and sociology, master's degrees in industrial safety and industrial security, and technical training from two police academies.<sup>25</sup> He had employment experience as a police officer, as a security specialist, and as a corporate director of security at a bank.<sup>26</sup> The expert had authored a number of articles relating to industrial security.<sup>27</sup> He also had personal experience controlling large crowds and had consulted as a security expert in other litigation.<sup>28</sup> He lacked experience specifically in the railroad industry.<sup>29</sup>

Despite the proffered expert's security background, the court refused to admit his testimony because his conclusions were not based upon "sufficient relevant facts and data, nor were his conclusions the produce [sic] of reliable principles and methods."<sup>30</sup> The expert testified in his deposition that the defendant railroad could have prevented the assault by limiting the number of boarding passengers, training gate personnel better in safety procedures, deploying more uniform personnel during boarding, providing warning signs on platforms, providing a more efficient radio communication system, and providing additional crowd control measures such as barriers.<sup>31</sup> The court held that the expert "did not describe how the assault would have been deterred by the presence of cameras, security personnel, or warning signs."<sup>32</sup> The expert did not explain how his previous experience in crowd control was reliable in the context of boarding a train.<sup>33</sup> Furthermore, the expert did not review photographs of the scene, he did not visit the same or any platform at the same time of day the incident occurred, and he read only portions of the defendant's security procedures.<sup>34</sup>

*Marsh v. W.R. Grace & Co.* involved cancer victims who each had absorbed picloram, an ingredient in fertilizer.<sup>35</sup> The Fourth Circuit

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(N.D. Ill. 2002).

24. *Id.* at \*2.

25. *Id.* at \*7.

26. *Id.*

27. *Id.*

28. *Id.*

29. *Maguire*, 2002 U.S. Dist. LEXIS 5226, at \*8.

30. *Id.* at \*14-\*15.

31. *Id.* at \*10-\*11.

32. *Id.* at \*18.

33. *Id.* at \*16.

34. *Id.* at \*15.

35. *Marsh v. W.R. Grace & Co.*, No. 98-1943, 2003 U.S. App. LEXIS 23587, at \*2 (4th Cir. 2003).

found that the plaintiff's expert failed to use reliable methods and logical processes to reach his opinion on causation.<sup>36</sup> The proffered expert did not demonstrate that his methods also were used by other experts in the field.<sup>37</sup> The opinion of the plaintiff's expert that picloram is a carcinogen was not generally accepted in the field, he failed to provide a toxic exposure level for picloram, and he failed to provide any testing to support the assumed levels of exposure to picloram by the plaintiffs.<sup>38</sup>

In *Eaton Corp. v. Rockwell International*, a patent infringement case involving heavy-duty truck transmissions, the court excluded the proffered testimony of the defense expert regarding infringement and invalidity.<sup>39</sup> At trial, plaintiff challenged the expert's qualifications, arguing the expert was not an expert in "breaking torque," was not an expert in the ESS system, and was not qualified to discuss the patent in issue.<sup>40</sup> The court concluded that the expert did not have the requisite education, experience, or knowledge of the subject matter and prior art to assist the jury on the central issues in the case.<sup>41</sup> The court held that in order to qualify as an expert witness under the Federal Rules of Evidence, "a proffered witness must possess the necessary knowledge, skill, training or education, must testify to scientific, technical, or other specialized knowledge, and must testify to matters which would assist the trier of fact."<sup>42</sup>

The court concluded that the concept of "dithering or breaking torque" was a central issue before the jury. While the expert had worked with transmissions for almost forty years, he did not know how the ESS system in issue controlled fuel, broke torque or dithered.<sup>43</sup> Since dithering and torque reversal in a master clutch transmission were central issues in the case, and the expert lacked the required skill and formal training to testify about these matters, the court excluded the expert.<sup>44</sup>

The case of *Mercado v. Ahmed* involved a personal injury case wherein a child was struck by a taxicab and became disabled.<sup>45</sup> The

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36. *Id.* at \*\*9.

37. *Id.* at \*\*14.

38. *Id.* at \*\*13-14.

39. *Eaton Corp. v. Rockwell Int'l Corp. and Meritor, Auto. Inc.*, C.A. No. 97-421-JJF; 2001 U.S. Dist. LEXIS 17054, at 2 & 61 (D. Del. Oct. 10, 2001).

40. *Id.* at \*61-62.

41. *Id.* at \*62.

42. *Id.*

43. *Id.* at \*63.

44. *Id.* at \*64.

45. *Mercado v. Salim Ahmed & Checker Taxi Co.*, 756 F. Supp. 1097, 1102 (N.D. Ill. 1991).

mother of the injured child proposed to introduce testimony by an economist on the monetary value of the pleasure of the plaintiff's life.<sup>46</sup> The court was faced with the issue of whether the proposed testimony of an economist on the cash value of the lost pleasure of life, or hedonic damages, was admissible.<sup>47</sup> In its analysis, the court considered whether such expert testimony should be admitted based on its reliability and validity. The court explained that reliability is consistency between multiple expert opinions given similar circumstances. Validity is a consideration of the accuracy of an opinion, such as whether a bridge can withstand a hurricane, and it later does.<sup>48</sup> The court held that even though there may be some consensus regarding the value of the lost pleasure of life, such consistency is no more prevalent among economists than it is among jurors. As such, even if opinions of the value of the lost pleasure of life are statistically reliable and valid, such opinions fail to assist the trier of fact to understand the evidence or determine the fact in issue "in a way more meaningful than would occur if the jury asked a group of wise courtroom bystanders for their opinions."<sup>49</sup> Based on this rationale, the court granted defendants' motion to bar testimony of plaintiff's expert on the issue of hedonic, or value of lost pleasure of life, damages.<sup>50</sup>

*Nilssen v. Motorola* involved an alleged breach of a non-disclosure agreement and misappropriation of trade secrets.<sup>51</sup> During motions *in limine*, Motorola sought to bar testimony by Nilssen's expert witness, DePodwin.<sup>52</sup> In addition to a reasonable royalty for Nilssen's technology, DePodwin also was going to testify that Nilssen should receive a "partner's share in the business" based on the "workable business concept" provided by Nilssen to Motorola.<sup>53</sup> Applying *Daubert*, the court determined DePodwin's opinion for a 25% equity in

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46. *Id.* at 1102.

47. *Id.*

48. *Mercado*, 756 F. Supp. at 1098. In this discussion, Judge Zagel distinguished between reliability and validity. *Id.* If several experts considered a set of facts and came to the same conclusion, their opinions are reliable; if the opinions can be verified or proven, they are valid. *Id.* To illustrate this point, the court provides an example in which engineers offer opinions about a bridge. *Id.* If all the engineers believe the bridge will not stand against a hurricane, their opinions are reliable. *Id.* If the bridge withstands the hurricane, the engineers' opinions are reliable, but they are not valid. *Id.* If the bridge is destroyed by the hurricane, their opinions are reliable and valid. *Id.*

49. *Id.* at 1103.

50. *Id.*

51. *Nilssen v. Motorola, Inc.*, No. 00-2049, 1998 U.S. Dist LEXIS 12882 (N.D. Ill. 1998).

52. *Id.* at \*35.

53. *Id.* at \*39-40.

Motorola was wholly irrational and a “pie-in-the-sky” projection, rather than a calculation of what revenues that 25% would have turned out to generate in real-world terms.<sup>54</sup> DePodwin’s did not speak in terms of either “actual loss” or “unjust enrichment,” and nothing in any case law supported DePodwin’s “equity-share” theory.<sup>55</sup>

Even though trial judges are given wide discretion in applying *Daubert*, appellate courts are clearly willing to get into the meat of *Daubert* issues. In *Doris Deputy v. Lehman Brothers, Inc.*, the Seventh Circuit reversed and remanded on *Daubert* grounds.<sup>56</sup> The court gave several reasons, but the most notable was the district court’s error in applying credibility standards to an admissibility question. The district court stated that the expert “was less than candid regarding her testimony” in a prior case, and that the expert “did not adequately explain inconsistencies in her reasoning process.”<sup>57</sup> The appellate court felt, based on the transcripts, that the trial judge was improperly focusing on credibility, and not the principles established under *Daubert*.<sup>58</sup>

In *Tuato v. Brown*, the Tenth Circuit reversed because the district court “failed to perform its gatekeeping function properly because it conducted an insufficient *Daubert* hearing.”<sup>59</sup> The case involved fatalities which occurred between trucks colliding at an intersection.<sup>60</sup> At the “*Daubert* hearing,” plaintiffs objected to the qualifications of defendants’ expert.<sup>61</sup> The district court overruled plaintiffs’ objections because it found they were disputing the credibility of the expert and the weight of the evidence, which are matters that do not bear on the initial admissibility of the expert’s testimony under *Daubert*.<sup>62</sup>

The cases of *Deputy* and *Tuato* demonstrate that a trial judge’s discretion on the admissibility of expert testimony is based on the *reliability* of an expert’s testimony, and not on his or her credibility. Credibility is a weight issue for the fact finder, and not a gatekeeper issue. If an appellate court determines that a judge refused to admit expert testimony based on credibility, not reliability, then the appellate court may well find that an abuse of discretion has occurred.

The foregoing cases are just a sampling of the increasing scrutiny

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54. *Id.* at \*46-47.

55. *Id.* at \*42.

56. *Doris Deputy v. Lehman Bros., Inc.*, 345 F.3d 494, 514 (7th Cir. 2003).

57. *Id.* at 506.

58. *Id.* at 509.

59. *AFA Tuato v. Brown*, 2003 U.S. App. LEXIS 26438, \*\*9 (10th Cir. 2003).

60. *Id.* at \*\*3.

61. *Id.* at \*\*10.

62. *Id.* at \*\*10-11.

being applied to potential expert witnesses, and the consequences if the expert does not meet *Daubert* standards or the trial court fails to appropriately apply *Daubert*. Clearly, counsel must make sure that a potential expert is *Daubert* qualified. Such a confirmation process should include putting any potential expert through a thorough *Daubert* analysis. The smart and experienced lawyer will know to challenge his or her own experts and not be satisfied because their conclusions are what he or she wants to hear. Make sure your expert truly has background expertise in the relevant specific field. Furthermore, be sure his or her theories are correctly applied to the narrow issues in your case.

## II. SELECTING A DAMAGES EXPERT IN PATENT CASES

### A. *Determine Theory of Damages*

The first step, of course, is to determine which theory of damages a patentee is going to assert at trial. As mentioned above, there are two main theories of patent damages: lost profits and a reasonable royalty rate. Within each of these two broad categories, there are various approaches.

After a patentee has made a decision as to which damage theory to assert, a decision can be made about the kind of damages expert or experts to be used. Likewise, a sampling of potential experts may help make the decision on which damage theories are most appropriate in the given circumstances.

### B. *Necessary Background for Expert*

#### 1. Curriculum Vitae

When reviewing an expert's education and other background, be sure to confirm that his or her credentials are appropriate for the specific issues of the case. For example, if the patent involves a plasma display, determine whether the expert's background and experience specifically covers plasma displays, and not simply electronic design. If it does include plasma displays, determine what type. Is it really the same type of plasma display involved in the lawsuit?

Furthermore, consider any public recognition of your expert. Has he or she received any awards, thus providing support for the acceptance of his or her ideas? Is he or she a member of any relevant organizations, and what positions has he or she held in those organizations? How

about any publications: where were they published, how were they received, and do they directly relate to the subject of the desired testimony?

## 2. Expert Witness Experience

Similarly, confirm your expert has practiced in the appropriate field. Has the expert worked specifically with plasma displays, and for how long? Are these the same type of plasma displays involved in your lawsuit?

How much experience does your expert have being an expert? Has he or she represented both plaintiffs and defendants? How often has his or her opinion testimony been accepted or denied? What type of theories does he or she use? Does he or she rely on similar theories and are such theories generally accepted? Has he or she opined for the same party multiple times and have his or her arguments been successful? Have any bias or prejudice issues been raised against your potential expert in regard to credibility as an expert? Has he or she written anything that is inconsistent with likely proposed testimony? Is he or she bringing real expertise or just convenient summary testimony? For example, if the expert is an accountant, is he or she testifying about typical historic royalty rates gained from published data, and did the expert actually participate in all the calculations? If he or she has not actually participated in the calculations, your expert is at risk of being excluded.

### *C. Prepare the Expert for Daubert Challenge*

#### 1. The Expert Must Prepare His or Her Own Report and Opinion

Your expert must prepare his or her own written and oral opinion. While the lawyer may assist with the form or structure, the content of the opinion must be from the expert. The expert must be prepared for a detailed and rigorous cross-examination of his or her opinions. Only by preparing the opinion can your expert withstand an aggressive attack on the reasoning and concepts applied in the opinion as well as the integrity of the work. Little is more dynamic than to watch an “expert” collapse in a courtroom because the expert was not the true author of the written report.

## 2. Challenge the Expert

You must aggressively challenge your own expert for numerous reasons: (1) to determine the expert's credibility at trial; (2) to determine the expert's style at trial; (3) to determine whether his or her opinion can withstand rigorous cross-examination; (4) to determine any weaknesses in his or her background or testimony; and (5) to determine if you are really comfortable with the testimony of your expert.

### *D. Research Your Judge*

Given the wide discretion and authority of trial judges in determining the admissibility of expert testimony, some thought should be given to your judge. A patentee should research the judge overseeing the case to determine the judge's history regarding expert testimony. For example, determine which procedures or analyses the judge has used in making determinations regarding the admissibility of expert testimony. Consider when the judge makes such determinations: motions *in limine*, pretrial hearings, specific *Daubert* hearings, *voir dire* examinations in the presence or absence of the jury, and objections during trial are all possibilities.

## III. CONCLUSION

The Supreme Court has established trial judges as the "gatekeepers" of admissible expert testimony. In keeping with this critical function, the Supreme Court has made clear the flexibility and wide discretion trial judges have in their decisions regarding the admissibility of proffered expert testimony.

Accordingly, based on the critical role of expert witnesses in asserting damages theories, a party must be sure the testimony of his or her expert witness is well-grounded and satisfies the correct requirements. Failure to recognize the critical process of selecting, preparing and presenting your expert can undermine the heart of your case.