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Priced Out: IP Damages Experts Say Daubert Is A Squeeze

By **Daniel Siegal**

Law360 (April 27, 2018, 2:05 PM EDT) -- When Samsung and Google unit Waymo were preparing for trials with hundreds of millions of dollars at stake this year, they called on the same damages expert, Michael Wagner, to back up their positions — only to see federal judges rule out some or all of his testimony under the Daubert standard.

Damages experts like Wagner say he and his peers are getting bumped while trying to find their way in a fog created by a lack of court guidance, but seasoned intellectual property attorneys instead see judges finally holding patent damages experts to the same rigorous standards as any other expert witness.

Wagner, a senior adviser at damages consulting firm LitiNomics Inc., was hired to provide damages opinions in two of the year's biggest Silicon Valley trials: Waymo versus Uber, and Apple versus Samsung, and in both cases, a district judge found he wasn't meeting the standards first set by the U.S. Supreme Court in the 1993 ruling Daubert v. Merrell Dow Pharms.

In Daubert and subsequent rulings, the high court established that district courts have a "gatekeeping" role to ensure that juries aren't shown expert testimony based on suspect methodologies.

In the Waymo case, Wagner said his client had been damaged to the effect of $1.8 billion by Uber, which allegedly stole trade secrets that gave it a jump-start in the self-driving car industry. U.S. District Judge William Alsup entirely excluded Wagner's testimony, blasting it as lacking any methodology, "possessing any discernible indicia of reliability."

Waymo and Uber ultimately ended up settling that case early in the trial, with Waymo accepting an equity stake in Uber worth roughly $245 million at the time.

And earlier this month, U.S. District Judge Lucy Koh excluded a significant portion of Wagner's testimony for the upcoming trial over damages Samsung owes for infringing smartphone design patents, holding that he failed to explain a key assumption in his survey-based opinions about what portions of Samsung's profits are attributable to Apple's designs, and failed to connect the surveys he used to the case at hand.

Experts like Wagner and the intellectual property attorneys that hire them are divided about whether these rulings are a sign of an expert gatekeeping role grown out of control, or a course correction for damages testimony that needed to be reigned in.

Caught in a Bind

Wagner said that for an expert of his experience — having testified as a financial expert in more than 140 trials — it's no surprise to have his testimony challenged or even occasionally ruled inadmissible, but that recent years have seen Daubert motions take over.

"Every case I'm in, there's extensive Daubert motions, probably every single one," he said. "That didn't used to be the case, but now it's standard practice."

Wagner said that rather than try to attack an expert's opinion on the stand during trial, patent attorneys are going hard and heavy to try to get expert testimony ruled out ahead of time via Daubert motions.

"It's become so common and that's where all the argument goes, there's more resolution going on there," he said. "Whether that's right or wrong I'm not in a position to say, that's a public policy issue, but I do think it's just gotten totally out of control."

Wagner said that he's not the only one who's seen this shift, saying that at a conference on intellectual property law at the University of Arizona last month, U.S. District Judge Andrew Guilford of California's Central District said that the problem is that, "Trial lawyers today don't know how to cross-examine witnesses, because so few cases go to trial, and so few lawyers have trial experience."

Another intellectual property damages expert, John Jarosz, managing principal of Analysis Group, agrees that Daubert motions are shooting through the roof, saying that research shows their numbers growing year over year, even though the rate of experts being excluded is holding steady.

Jarosz said one might have expected both of these rates to show a downward trend, as experts start sticking to methodologies they know will satisfy a district court, and their opposing counsel seeing these safe harbors forgoing the effort of bringing a Daubert challenge.

Jarosz said this hasn't happened, and part of the problem is that district and appellate courts, in particular the Federal Circuit, haven't made it clear for intellectual property damages experts what the unchallengeable routes or methodologies are.

"It's not clear for many of us which direction to go to to avoid a Daubert challenge and which directions will in fact survive Daubert challenges," he said.

Jarosz pointed to two Federal Circuit decisions from earlier this year, Exmark v. Briggs & Stratton and Finjan v. Blue Coat, as containing apparently contradictory holdings for how experts should calculate damages for multi-component products, and said the uncertainty is frustrating.

"What we've seen lately, even in 2018, leaves many of us scratching our heads on some level," he said. "Many of us damages experts just hold our breaths with regard to that what we think is valid methodology is what the court will think is valid methodology."

Fair Is Fair

The intellectual property attorneys who are hiring experts like Wagner don't necessarily agree that his ilk aren't getting a fair shake from the courts during Daubert proceedings.

Gibson Dunn partner Bill Rooklidge, who first chaired a patent trial nearly 25 years ago, said that for a long time, certain judges on the Federal Circuit have made it clear in their rulings that parties need to attempt "a rigorous approach" in their damages analyses.

"This is not something that's new — the Supreme Court back in the 1800s was trying to say that, look, there is flexibility in damages cases, there should be flexibility in what you're allowed to prove, the approach that you take, but you've got to base it on evidence," he said.

Rooklidge, who once got Wagner's testimony excluded under Daubert in a Delaware case, said that Daubert, and the Federal Circuit's subsequent guidance, are simply trying to make sure the rules of evidence are getting applied in patent cases the same way they are in any other type of case.

He added that the Federal Circuit has identified "a number of touchstones" for establishing the reliability of a damages number, and that if experts aren't meeting those standards, it can be because they aren't getting the necessary data.

"A lot of times clients are unwilling to provide that kind of data in litigation, so experts are constantly being tempted, either by the refusal of their clients, or the refusal of the other side, to cut corners and to make assumptions," he said.

Jonathan Tuminaro, director at Sterne Kessler Goldstein & Fox PLLC, said the importance of Daubert has grown because there is inherently uncertainty in calculating damages in intellectual property cases, where determining the worth of a particular piece of technology isn't as cut and dried as determining if it infringes a patent.

"I think because of that the district court judges are exercising their roles as gatekeepers to keep out opinions that are not based on reliable methodologies," he said.

Tuminaro added that there have been many Federal Circuit decisions that have given guidance about what types of methodologies for damages are reliable and which are not.

Freeborn & Peters LLP partner David Becker agreed, saying there is "a ton of jurisprudence on economic damages," and damages experts only get into hot water when they move off that safe ground because they want a different damages amount.

"It's not so much that courts lack guidance as much as a creative damages expert trying to create a large number," he said.

Becker said experts, in search of those larger numbers, can turn to methodologies that attempt to project future sales or otherwise predict the future.

"When they start to try to look like an industry fortune teller we start to have problems," he said. "If everybody came in and just based damages on financials provided to them by the other side in a case, there's no lack of clarity."

Looking for Clarity

As for those who do think experts need more clarity on patent damages, Jarosz said he wouldn't expect

any single appellate ruling to change the landscape.

“My inclination is to think that it’s more going to be on a case-to-case basis, because courts are of necessity asked to address certain fact situations and not to provide pronouncements,” he said.

Tuminaro noted that this incremental process is most relevant in areas of law — like in the apportionment of damages for infringement of design patents that Wagner attempted for Samsung — that are still developing.

“I think over time as experts will propose strategies for how to determine what the damages are, we’ll start to get guidance from the district courts on what methodologies work and what methodologies don’t,” he said. “For the time being there’s going to be a lot of trial and error.”

For Wagner, who has made the decision to retire and stopped taking on new cases, this landscape isn’t one he’s sorry to leave behind, saying the inability to predict which opinions will be excluded under Daubert and the impact such an exclusion has on an expert’s business is a punishing combination.

“Every time one of these [exclusions] gets in the press… it has an impact on my business, business slows down,” he said. “I don’t know if you could make a 41-year career now if you’re just starting. Because if this trend keeps going, everyone who takes any position is eventually going to be Dauberted a number of times.”

--Additional reporting by Cara Bayles. Editing by Rebecca Flanagan and Kelly Duncan.
