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Proving Patent Damages

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In too many instances, patent infringement litigants do not consider damages until it is too late to present or defend against a damage claim effectively. Damages experts often are retained late in the game, and given inadequate guidance or support from counsel or the retaining party. Financial discovery is left to the end, when counsel may be juggling numerous other matters, including last minute depositions, technical expert reports, and discovery disputes.

Failure to pay attention to damages until the eve of trial can create serious pitfalls, for example, the belated realization that the best possible recovery will be less than what has already been spent on legal fees, or that technical proofs necessary to an effective damages defense have not been obtained. Counsel should consider potential damages in depth early on in the litigation, perhaps even before filing a complaint, as the valuation of the suit will have a profound impact on a party's strategic decisions.

This article provides tips for presenting and defending damages cases, including when to seek lost profits, how to manage the involvement of damages experts, and special considerations for damages in cases involving non-practicing patent holders (*e.g.*, patent holding companies).

35 U.S.C. § 284 Requires Full Compensation of Losses Due to Infringement

Damages in patent infringement suits are awarded after a finding of infringement under 35 U.S.C. § 284, which provides: "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."[1] Courts have read this clause broadly, requiring that "adequate damages should approximate those damages that will *fully compensate* the patentee for infringement."[2]

Thus, Section 284 sets the statutory floor: Even when a defendant successfully challenges a claim for lost profits, the patent holder may still be entitled to recover reasonable royalties. However, it should be noted that the patent holder must affirmatively prove damages: If there were no lost sales or price erosion attributable to the infringement, the patent holder cannot recover lost profits. Similarly, if there is no demand for or economic advantage attributable to the patent, the patent holder may be unable to recover reasonable royalty damages.

When to Seek Lost Profits

To recover lost profits damages, the patent holder must establish, by a preponderance of evidence, that "but for" the infringement it would have made the profits that were lost.[3] Most patent holders pursue lost profits damages, as that theory typically allows for a larger recovery than the reasonable royalty floor established in Section 284. Lost profits generally only are available, however, when the patent holder is practicing the patent and the patented and accused products are interchangeable in the marketplace in terms of price, characteristics, and marketing channels.[4]

Lost profits can be based on lost sales, price erosion, accelerated market entry, or some combination of these factors. Damages are generally calculated as the loss of incremental profits on the lost sales, according to the formula: lost profits = lost sales – manufacturing cost of lost sales – variable operating costs relating to the lost sales.[5] The higher the variable costs, the lower the lost profits, virtually guaranteeing that a battle of the experts will ensue over the nature and the amount of those costs.[6]

Panduit Corp. v. Stahlin Brothers Fibre Works, Inc.[7] established a non-exclusive test for proving lost profits. Under *Panduit*, the patent holder must establish:

1. There is a demand for the patented product;
2. There are no acceptable non-infringing substitutes;

3. The patent owner had the manufacturing and marketing capacity to exploit the demand; and
4. The amount of profit the patent owner would have made absent the infringing conduct.[8]

The demand referenced in the first *Panduit* prong is a demand for the patented feature, not a demand for the product, which can be assumed based on the infringement. To assess that demand, one should ask what benefit the invention provides and how customers value that benefit.[9]

The value of a patented product is dependent on the availability and cost of non-infringing alternate technologies. The second *Panduit* factor requires analysis of substitutes on both the demand and supply sides. If a patented product has many substitutes in the marketplace, the invention will have limited value, and there will be minimal lost profits resulting from infringement. Similarly, the patent holder would suffer no lost profits if there were alternative technologies available to would-be infringers if the patent holder were to raise its license fee or make its technology unavailable, because the patent itself did not lead to additional sales. If non-infringing alternatives exist but are not perfect substitutes, it becomes a matter for experts to assess the degree of substitution and thus the degree of lost profits damages.[10]

A claim of lost profits is most likely to succeed when the patent holder can bring forward evidence on all four of the *Panduit* factors, that is, (1) in circumstances where there is limited competition, (2) the patent holder has a significant market share,[11] (3) there are no non-infringing substitutes for the patented product, or (4) the product is well established and data is available for the periods prior to and during the infringing activity.

Availability of Lost Profits When the Patent Holder Does Not Produce or Sell a Patented Product

Companies that choose to exploit their patents through licensing or litigation rather than commercializing an invention may not be able to collect lost profits damages.[12] The Federal Circuit addressed this question of whether a patent holder must produce the patented invention in order to recover lost profits in *Rite-Hite Corp. v. Kelley Co.*.[13] The Court first noted that "[w]hether a patentee sells its patented invention is not crucial in determining lost profits damages." In the next sentence, however, the Court went on to observe: "Normally, if the patentee is not selling a product, *by definition* there can be no lost profits."[14] The Court pointed to Rite-Hite's sales of the patented products as justification for affirming the lost profits award.[15]

In *King Instruments Corp. v. Perego*, the District Court awarded lost profits even though the patent holder did not make or sell the patented invention, as another of the plaintiff's products directly competed with the defendant's infringing device.[16] The defendant appealed, arguing that lost profits should be given only to one who makes or sells the patented device.[17] The Federal Circuit disagreed, noting that patent rights are negative rights that do not depend on the exercise of rights the patentee already possesses, such as the right to sell the invention.[18] Requiring exploitation would force patent owners to accept a reasonable royalty even when such an award would be inadequate compensation.[19]

The Federal Circuit has established, however, that a patent holder must sell *something* in order to successfully claim lost profits.[20] In *Poly-America, L.P. v. GSE Lining Technologies, Inc.*, the Federal Circuit held that while the recovery of lost profits is not limited to the situation in which the patentee is selling the patented device, "the patentee needs to have been selling some item, the profits of which have been lost due to infringing sales, in order to claim damages consisting of lost profits."[21] Holding companies, by definition, do not commercialize the patents they own, and therefore *Rite-Hite* and *Poly-America* limit their recoverable damages to reasonable royalties.

The Statutory Floor: Reasonable Royalties

Georgia-Pacific Corp. v. United States Plywood Corp.[22] established 15 factors to be considered in determining a reasonable royalty:

1. The royalties received by the patentee for the licensing of the infringed patent;
2. The rates paid by the licensee for the use of comparable patents;
3. The nature and scope of the license;
4. The licensor's established policy and marketing program;
5. The commercial relationship between the licensor and licensee;
6. The effect of selling the patented technology in promoting sales of other products of the licensee;
7. The duration of the patent and the term of the license;
8. The established profitability of the patented product, its commercial success, and its current popularity;
9. The utility and advantages of the patented invention over previous products;
10. The nature of the patented invention, character of the commercial embodiment produced by the licensor, and benefits to users;
11. The extent to which the infringer has used the invention and any evidence probative of the value of such use;

12. The portion of the profit or selling price customary in the business to allow for the use of the invention or analogous inventions;
13. The portion of the realizable profit that should be credited to the invention as distinguished from other factors (*e.g.*, non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer);
14. The opinion testimony of qualified experts; and
15. The amount that a prudent licensor (such as the patent holder) and a prudent licensee (such as the infringer) would have agreed on at the time the infringement began if both had been reasonably and willingly trying to reach an agreement.

The essential elements in these factors relate to profits and precedents.[23] The presence of substitutes also influences the reasonable royalty analysis: Substitutes on the demand side limit what consumers would pay for the patented feature and, thus, what manufacturers would pay to license the patent; competing technologies available on the supply side would limit the royalty a licensee would be willing to pay to the incremental profits it would earn over those profits it would earn using the next-best available technology.[24]

The Transnational Implications of the Supreme Court's Ruling in *Microsoft v. AT&T*

In April 2007, the Supreme Court reaffirmed "the general rule that our patent law does not apply extraterritorially" in *Microsoft v. AT&T*.[25] While technically speaking, *Microsoft* concerned itself with liability for infringement under 35 U.S.C. § 271(f), this case has an obvious impact on damages.

In *Microsoft*, it was undisputed that AT&T's patent claims covered a computer installed with Microsoft Windows. Microsoft, however, shipped a master disk to a foreign manufacturer who then made copies of the software from the master and installed that software on computers that it sold outside of the United States.

AT&T claimed that Microsoft's activities constituted infringement under Section 271(f), which prohibits the export of a component that is later combined outside the United States in a way that, had the combination occurred inside the United States, would have constituted an infringement. This law was enacted to plug the loophole previously enjoyed by a manufacturer who made all the components of an infringing machine and then shipped them outside the United States to be assembled and sold.

The district court held Microsoft liable for infringement and the Federal Circuit affirmed.[26] The Supreme Court reversed.[27] In effect, *Microsoft* makes it such that there is no liability for copying a master disk outside the United States and installing that software on a computer that is sold outside the United States. Infringement is avoided under these circumstances, notwithstanding the fact that copying a master disk and installing it on a machine, if done in the United States, would have been an infringement. While the spirit of Section 271(f) seems to be violated by such a finding, the Supreme Court found that the law simply does not cover this circumstance. The Court held that the Windows software in the abstract was not a component. To be a component, the software had to be expressed as computer-readable copy. The Court then noted that the copies of the software shipped overseas ("golden masters") were not the actual components combined with the computers. Rather, it was copies of the golden masters that were installed. Recognizing the loophole created by this ruling, the Supreme Court invited Congress to act.

Assuming that the patentee chooses not to (or cannot) sue in the foreign jurisdiction, damages in such cases will be limited to computers or software made, used, or sold in the United States. This may, in some instances, substantially reduce the damages or even dispose with the desire for a patent holder to initiate a lawsuit if the only infringement occurs overseas under *Microsoft v. AT&T*.

Information That Should Be Obtained to Support a Damages Claim

Panduit and *Georgia Pacific* provide guidance on the types of information necessary to establish a damages case. Documents may be available from numerous sources, including the parties to the litigation; customers; the relevant industry; governmental and regulatory agencies and filings; market, consumer, or product reviews; consumer and industry surveys; related patents; and previous litigation. During discovery, information should be gathered relating to:

1. *Manufacturing capacity*. Relevant information may include current and/or past production levels; past manufacturing expansions; plans for future growth; and financing. Counsel also should consider other market entry barriers, such as regulatory requirements or technologic hurdles.
2. *Sales*. Relevant information may include present and past sales data and volumes; existing relationships and contracts; geographic coverage; actual or potential competitors; distribution channels; the size and nature of the sales force; and plans regarding product launch, marketing, and promotion. Counsel should seek information necessary to calculate the portion of the realizable profit that may be credited

to the invention, as distinguished from non-patented elements, marketing and promotion efforts, or features or improvements added by the infringer. When determinable, the effect of selling the patented device in promoting sales of other products may be useful in establishing derivative or collateral sales.

3. *Financials*. Relevant information may include working capital and financial capacity; audited and unaudited financial statements, including product line profit and loss (P/L) statements; pricing, including price erosion, marketing information, the patent owner's actual and lost sales, and price elasticity;[28] costs, including incremental costs; market share; profits, including incremental profits; the potential to raise prices in the absence of infringement; and derivative or collateral sales.[29]
4. *Product*. Relevant information may include the nature, characteristics, or advantages of the product; the availability of non-infringing substitutes in the market; comparable products; competing and potentially competing products; demand for the product, including whether the demand is linked to the patented feature; consumer and industry reaction; profitability, commercial success and current popularity of the patented product; and derivative and collateral products.
5. *Non-infringing alternatives*. Relevant information may include marketing, price, and volume histories of such alternatives; information indicating the economic equivalence of the alternatives, including consumer acceptance; or information necessary to determine market shares.
6. *Licensing*. Relevant information may concern existing licenses for the product and equivalents, such as royalty rates; the duration, nature, and scope of the license; or other unique licensing terms. The licensor's established licensing policy and marketing program also are important; as is evidence of previous (failed) negotiations between the parties. When available, information regarding licenses and royalty rates for other products in the same market also may be valuable.

The information listed above is necessary to establish the *Georgia Pacific* and *Panduit* factors, and will facilitate development of the damages expert's report.

Involve Damages Experts Early to Enhance the Comprehensiveness of Proof Available at Trial

Involving an economic expert early on in the timeline of the case provides a litigator with numerous benefits, including efficient and effective assistance with discovery; more information on which to base strategic damages decisions; cost/benefit analysis at an earlier stage; better defined work scope; a higher quality report (that is filed in a timely manner); and enhanced efficiency. Early involvement also benefits the expert, in terms of the ability to plan for work, increased flexibility regarding resources, improved quality of analyses and opinions, and better defined work scope. Frequently, however, parties do not engage the damages expert until nearly the close of discovery, either because of the perception of higher fees or a desire to avoid an unnecessary expense if the case ultimately settles.

A damages expert may assist counsel during discovery by locating and reviewing financial information, advising counsel regarding discovery requests, supporting preparation for depositions and developing follow-up requests, and identifying Section 30(b)(6) issues and exhibits. An expert also may be uniquely suited to interview employees with financial or marketplace knowledge. Counsel and expert should examine multiple theories, such as varying royalty rates or a combination of lost profits and reasonable royalties. If the expert employs a simple equation in such determinations, counsel should consider explaining that equation at trial, thereby providing the fact finder with options other than simply choosing between the parties' damages calculations.

The expert also may be useful during trial preparation in developing exhibits and demonstratives, identifying documents, and assisting with the preparation of factual and technical expert witnesses. Soliciting input from the expert may be of particular importance in preparing for cross-examination of opposing witnesses, as the expert may help identify pertinent documents, develop questions, and provide advice for challenging the opposing expert's methods, opinions, and assumptions.

Warning. Because a testifying expert is not protected by privilege, fact and opinion work product provided to the expert is discoverable.[30] However, the privilege *does* protect the work product of nontestifying experts serving in the limited capacity of consultants to an attorney.[31] There can be significant benefits derived from employing a nontestifying (or "Kovel") witness, including fewer, better prepared discovery requests; reduced intrusion on the client for documents and information; expertise in identifying and reviewing damages-related documents; better case organization; more careful development of facts and issues; cost efficiency; and increased control over the testifying expert, as issues and potential problem areas could be identified beforehand, resulting in a more focused exchange of data, and better direction of the testifying expert's efforts.[32] In addition, the nontestifying expert can explore multiple theories or develop worst-case scenarios without risk of waiving the privilege.

Tips for Defending a Damages Case

The most basic way to defend a damages case is to challenge the opposing expert's methods, assumptions, opinions, and/or results through "vigorous cross-examination."[33] Such challenges typically go to the weight to be given to the evidence, however, not its admissibility. Even so, courts have excluded opinions under Rule 702 and *Daubert* where experts guessed, failed to do any analysis or investigation of the facts and data, had no industry knowledge of reasonable royalties, relied on the untested opinion of other experts, or where the analytical gap between the data and the opinion was too great.[34] As discussed above, cross-examination can be particularly effective if counsel utilizes its experts in preparing to challenge the patent holder's theories and assumptions. Factors to consider include the expert's methodology, the presence of analytical gaps between the data and the expert's opinion, comparable licenses, peer review of an expert's analytical models, published analysis regarding the expert's theories, lack of prior patent infringement damages experience, and sufficiency of the evidence.[35]

Specific Considerations for Defending a Lost Profits Claim

Just as *Panduit* provides a guide to patent holders seeking to prove lost profits, it also delineates potential challenges to be made by the defendant, such as challenging the assumption that the patent holder would have captured all of the infringer's sales by showing there were non-infringing alternatives. Similarly, if there was a non-infringing alternative available at the time of the infringement, a defendant that unknowingly infringed the patent may not be liable for lost profits damages as it could have avoided liability by employing the alternative. Some defendants have argued that customers would have bought their product even if the infringing product had not contained the patented feature due to the defendant's name and reputation; however, this defense has not been particularly successful and should be employed with caution.

The Panduit *Factors*

Panduit suggests a number of ways to limit lost profit damages, including showing that: (1) the demand was not due to the patented feature, for example by surveying the infringer's customers; (2) the patent holder did not have sufficient manufacturing and/or marketing capacity to make all of the infringer's sales; (3) the patent holder's costs are variable, and would increase with production volumes; or (4) non-infringing substitutes are present in the market and the patent holder would have captured a more limited market share as a result.

Grain Processing *and the Availability of Non-Infringing Substitutes*

The Federal Circuit recognized a more complete defense based on the presence of non-infringing alternatives in *Grain Processing Corp. v. American Maize-Products Co*.[36] The defendant argued that it would have sold the product without utilizing the patented technology, had it been aware of the infringement. The Court recognized that reconstructing the "but for" market requires consideration of alternative actions the defendant foreseeably would have undertaken had it not infringed.[37] In such circumstances, the rational would-be infringer would be likely to sell an acceptable noninfringing alternative, if such was available, rather than leaving the market.

To provide a successful defense, the alternative must be: (1) available or on the market at the time of infringement; (2) acceptable; and (3) non-infringing.[38] In addition, the infringer must demonstrate its ability to overcome hurdles required in producing the product, be they technical, regulatory, operational, distributional, or financial.

In *Grain Processing* the Federal Circuit held that an undeveloped alternative process was "available," based on evidence that the sole reason the infringer had not used the alternative process rather than the patented process was economic.[39] In reaching this conclusion, the Court noted that the materials for use in the alternative process were readily obtainable, the effects of the materials used in the new process were well-known, and the company had the necessary equipment, know-how, and experience to employ the alternative process had it known it would otherwise be infringing the plaintiff's patent.[40] Further, the Federal Circuit affirmed the district court's damages award, finding that the difference in production cost between the infringing and alternative processes effectively capped the reasonable royalties award.[41]

The Infringer's Name and Reputation as a Defense

In *Datascope Corp. v. SMEC, Inc.*,[42] the defendant argued that customers would have purchased its device, even if that product did not infringe the patent, due to the defendant's brand recognition. The Federal Circuit rejected the argument because the patent represented a significant advance in the technology and the medical market inevitably would have preferred the improved device.[43] The Court's decision left open, however, the question of whether the argument could succeed if the patented improvement was not significant.[44]

A District Court considering the same question found that *Datascope* required it to consider whether loyalty to the defendant's brand name could overcome the inference that consumers purchased the product because of the patented features.[45] After evaluating why customers purchased the product from the defendant and the defendant's marketing efforts, the court found that the defendant's entry into the market was not critical to most of the plaintiff's sales, and thus could not refute the patent holder's lost profits claim.[46]

Proving Entitlement to Injunctive Relief

The recent decision of the US Supreme Court in *eBay Inc., et al. v. MercExchange, L.L.C.*,[47] raises important issues regarding injunctive relief that may impact the way damages claims are presented. In *eBay*, the Supreme Court held that a patent holder must prove entitlement to injunctive relief,[48] thereby overturning the Federal Circuit's long-standing "general rule that courts will issue permanent injunctions against patent infringements absent exceptional circumstances."[49] In particular, the Supreme Court held that the following four factors must be weighed in considering whether the patent holder has proven entitlement to a permanent injunction: (1) irreparable injury suffered by the patent holder; (2) inadequacy of legal remedies such as monetary damages to redress the harm; (3) the balance of hardships as between the parties; and (4) the public interest.[50]

As a policy matter, the *eBay* decision comes as a victory for some factions that claim injunctive relief has been granted too liberally in patent cases. The most vocal critics are large software companies such as Microsoft, which argue that some intellectual property holding companies, pejoratively referred to as "patent trolls,"[51] are holding the industry hostage by threats of large damages awards and injunctions.

As a practical matter, the decision imposes obligations of proof (and disproof) on litigants that likely will fall on the shoulders of the damages experts. The issues of irreparable harm and adequacy of monetary damages will clearly dovetail with whatever theories and proof are advanced in support of a damages award. Regardless of whether the same expert or separate experts are addressing these issues, care must be taken to avoid inconsistencies. In addition, as with damages theories, parties should consider early in their cases how they will deal with the injunction issue, so as to ensure that necessary discovery is taken.

Conclusion

The suggestions in this article are intended to help parties prepare a damages claim or defense. Relevant factors for lost profits and reasonable royalty damages are set forth in *Panduit* and *Georgia Pacific*, respectively. These cases not only establish the necessary elements, but also guide counsel in challenging a damages claim. Counsel should utilize the damages expert in as many facets of the litigation as are feasible, but in particular shaping discovery requests and analysis of opposing experts' assumptions, methodology, and opinions.

By involving a damages expert early, counsel will be better prepared not only for the damages portion of trial, but also to make sound strategic decisions throughout the litigation. Use of a nontestifying witness provides particular advantages, as doing so allows a party to explore multiple theories and develop the best arguments available without waiving privilege and work product protections.

Finally, as with damages, litigants should give early consideration to how they will prove or disprove the patent holder's right to permanent injunctive relief. Now that the Supreme Court has clarified that patent holders must affirmatively prove entitlement to a permanent injunction, counsel and the damages experts have additional issues to consider in taking discovery and presenting a coherent and consistent case.

1. 35 U.S.C. § 284 (2005).
2. Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1545 (Fed. Cir. 1995) (*en banc*) (*citing* General Motors, Corp. v. Devex Corp., 461 U.S. 648).
3. *See*, *e.g.*, King Inst. Corp. v. Perego, 65 F.3d 941, 952 (Fed. Cir. 1995); State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1577 (Fed. Cir. 1989).
4. *See*, *e.g.*, BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc., 1 F.3d 1214, 1218 (Fed. Cir. 1993) ("If the patentee's and the infringer's products are not substitutes in a competitive market, *Panduit's* first two factors do not meet the "but for" test—a prerequisite for lost profits.").
5. *See*, *e.g.*, Paper Converting Mach. Co. v. Magna-Graphics Corp., 745 F.2d 11, 22 (1984) ("The incremental income approach to the computation of lost profits is well established in the law relating to patent damages."). Variable costs are those costs associated with the sales volume, such as travel, sales commissions, or employee wages. *See*, *e.g.*, Fernando Rodriguez Amaro & Doris Barroso-Vicens, "Common Issues in Computing Lost Profits," *Nat'l Lit. Consultants' Rev*. (May 2004), available at *http://www.litigationconsultantsllc.com/images/Articles%20Index%202001%20-%202004.pdf.*
   The Federal Circuit explained as follows:

   > The [incremental income] approach recognizes that it does not cost as much to produce unit N + 1 if the first N (or fewer) units produced already have paid the fixed costs. Thus fixed costs—those costs that do not vary with increases in production, such as management salaries, property taxes, and insurance—are excluded when determining lost profits.

   Paper Converting, at 22.
6. Richard M. Wise, "Quantification of Infringement Damages," *Protecting & Managing Intell. Prop.*, Sept. 1997, at 1, 10 available at *http://www.wbbusval.com/english/pdf/FederatedPress-Sept97.pdf*.
7. Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1156 (6th Cir. 1978).
8. *Id*.
9. Michael C. Keeley, "Estimating Damages in Patent Infringement Cases: An Economic Perspective," Sept. 1999, at 9, available at *http://www.cornerstone.com/pdfs/estdam2.pdf.*
10. *Id*. at 5.
11. When there are more than two suppliers in the market, the test becomes whether, but for the infringement, the plaintiff can show it would have made the infringer's sales. BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc., 1 F.3d 1214, 1218 (Fed. Cir. 1993) (finding that the products were sufficiently different that the infringer's customers would have been unlikely to purchase the patent holder's much more expensive product); Terence P. Ross, Intellectual Property Damages §3.02[3][a][ii] (2005) (the market share approach allows a patent holder to recover lost profits when the lack of acceptable non-infringing alternatives cannot be proved); Keeley, *supra* n.9, at 9 (noting that this approach is not appropriate when close substitutes exist).

12. *See*, *e.g.*, Ross, *supra* n.11, §3.02[3][b][iii] (2005).
13. Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1548 (Fed. Cir. 1995).
14. *Id.* (emphasis added).
15. *Id.*
16. King Instr. Corp. v. Perego, 65 F.3d 941, 947 (Fed. Cir. 1995).
17. *Id.*
18. *Id.* at 949.
19. *Id.* at 951.
20. Poly-America, L.P. v. GSE Lining Tech., Inc., 383 F.3d 1303, 1311 (Fed. Cir. 2004); Hebert v. Lisle Corp., 99 F.3d 1109, 1119 (Fed. Cir. 1996) ("When the patentee does not seek to make and sell the invention, lost profits are not an appropriate measure of damages."); Trell v. Marlee Elecs. Corp., 912 F.2d 1443, 1445 (Fed. Cir. 1990) (holding that the patentee could not obtain damages based on lost profits as he did not himself manufacture and sell the device).
21. *Poly-America, L.P.* at 1311 (remanding for consideration of Poly-America's sale of any item on which it could claim damages as a result of the defendant's infringement).
22. Georgia-Pacific Corp. v. United States Plywood Corp., 318 F.Supp. 1116, 1121 (S.D.N.Y. 1970), *aff'd*, 446 F.2d 295 (2d. Cir. 1971).
23. Wise, *supra* n.6 at 16.
24. *See* Grain Processing Corp. v. Am. Maize-Prods. Co., 185 F.3d 1341, 1352 (Fed. Cir. 1999); Keeley, *supra* n.9 at 10.
25. Microsoft Corp. v. AT&T Corp., 127 S. Ct. 1746, 1751 (2007).
26. *Id.* at 1753.
27. *Id.*
28. Price elasticity is defined as the percentage change in quantity resulting from a percentage change in price. The larger the elasticity, the greater the responsiveness of quantity to price. Elasticity varies along the demand curve, with demand becoming more elastic at higher prices. Keeley, *supra* n.9 at 8 n.12. In making price erosion claims, patent holders argue that, but-for the infringement, they could have charged a higher price for the product. This argument often fails to consider that the total quantity of product sold in the but-for scenario would have been lower, as higher prices correlate to lower sales. This decrease in quantity cannot be ignored, because a profit-maximizing firm will increase price until it is no longer inelastic, that is, to the point where an increase in price will cause fewer sales. *Id.* at 8.
29. A patent holder may recover for lost sales of devices not covered by patent when those sales are reasonably foreseeable and necessary to adequately compensate the patent holder. *See*, *e.g.*, Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1544 (Fed. Cir. 1995); *see also* John Skenyon, et al., Patent Damages Law and Practice § 2:5 (2004).
30. James L. Ewing, IV and Jason D. Gardner, "Tips for Working with Expert Witnesses," ABA Section of Litig., Intell. Prop. Litig. Committee, Fall 2004, at 10, available at *http://www.kilstock.com/publications/downloads/JimEwingarticle.pdf* (commenting that discoverable materials include correspondence between lawyer and expert; notes taken by the expert during communications and sessions with the lawyer; draft reports and exhibits; and all test results and data, good or bad, including trial runs).
31. *See* United States v. Kovel, 296 F.2d 918, 922 (2d Cir. 1961); *see also* Kristopher Boushie, "The Right Voice at the Right Time: Focus on the Damages Case Early With a Kovel Expert," *Legal Times*, October 6, 1997, at 1, 1 available at *http://www.capanalysis.com/docs/200207rightvoice.pdf*.
32. *Boushie*, supra n.31 at 2.
33. Daubert v. Merrell Dow Pharms., Inc., 509 U.S. 579, 596 (1993).
34. Fed. R. Evid. 702; *Daubert*, 509 U.S. 579. *See also* State Contracting & Eng'g Corp. v. Condotte Am., Inc., 346 F.3d 1057, 1073 (Fed. Cir. 2003) (holding that the district court did not abuse its discretion when it excluded defendant's damages expert as expert had no experience placing a value on a patent and did not have any knowledge regarding reasonable royalties); Utah Med. Prods., Inc. v. Graphic Controls Corp., 350 F.3d 1376, 1385–1386 (Fed. Cir. 2003) (affirming district court's exclusion of expert testimony regarding licensing agreements as such testimony was not relevant to the facts of the case); Tech. Licensing Corp. v. Gennum Corp., 2004 U.S. Dist. LEXIS 10604, at *30–31 (N.D. Cal. Mar. 26, 2004) (excluding a portion of an expert's reasonable royalty calculation as unreliable under *Daubert*); DSU Med. Corp. v. JMS Co., 296 F.Supp.2d 1140, 1159 (N.D. Cal. 2003) (limiting expert testimony when expert failed to take into account a proposed contract between the parties that was rejected by the alleged infringer); Go Med. Indus. Pty. Ltd. v. Inmed Corp., 300 F.Supp.2d 1297, 1317 (N.D. Ga. 2003) (excluding evidence of plaintiff's damages expert because the expert report was based on speculation); EZ Dock, Inc. v. Schafer Sys., Inc., 2003 U.S. Dist. LEXIS 3634, at *16–17 (D. Minn. Mar. 8, 2003) (excluding expert's calculation of lost profits where expert relied on the untested opinion of another expert).
35. *See* Fed. R. Evid. 702; *Daubert*, 509 U.S. at 591–593; Mark L. Whitaker, "Commentary, Challenging IP Damages Experts: Beyond the Battle of the Experts," 13 *Mealey's Litig. Rep.: Intell. Prop.*, Feb. 7, 2005, at 4, available at *http://www.howrey.com/docs/MarkWhitakerPlacement.pdf*.
36. Grain Processing Corp. v. American Maize-Products Co., 185 F.3d 1341, 1352 (Fed. Cir. 1999) ("[M]arket sales of an acceptable noninfringing substitute often suffice alone to defeat a case for lost profits.").
37. *Id.* at 1350–1351.
38. *Id.* at 1349.
39. *Id.* at 1348.
40. *Id.*
41. *Id.* at 1347.
42. Datascope Corp. v. SMEC, Inc., 879 F.2d 820, 825-26 (Fed. Cir. 1989).
43. *Id.* at 826.
44. *See* Skenyon, *supra* n.29, § 2:32.
45. Polaroid Corp. v. Eastman Kodak Co., 1990 WL 324105, at *17 (D. Mass. Oct. 12, 1990).
46. *Id.* at *18.
47. eBay Inc., et al. v. MercExchange, L.L.C., 547 U.S. ---; 126 S.Ct. 1837, 1838 (2006).
48. *Id.* at 1841.
49. *Id.* at 1839; *see* MercExchange, LLC v. eBay, Inc., 401 F.3d 1323, 1338–1339 (Fed. Cir. 2005).
50. eBay Inc. v. MercExchange, 126 S.Ct. at 1839.
51. A "patent troll" is defined as an entity that acquires questionable patents for products it never intends to produce for the sole purpose of litigation or extracting royalty payments from the industry. Credit for coining the term widely has been given to Peter Detkin, then assistant general counsel at Intel Corp. *See* Steve Seidenberg, "Troll Control: The Supreme Court's *eBay* Decision Sets Back Pesky 'Patent Trolls' or American Innovation, Depending Upon Which Side You're On," *A.B.A.J.*, May 2006, available at *http://www.abanet.org/journal/redesign/09ftroll.html*.