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KEY IDEAS:

NOT-SO-EXPERT OPINIONS? *DAUBERT* CHALLENGES ABOUND IN *APPLE INC. V. MOTOROLA, INC.*

Are we experiencing a "damages free-for-all," or is it "business as usual" with damages opinions? The spike in challenges to damages experts has led one jurist to dryly observe, "Another patent case on the eve of trial, another *Daubert* motion to strike a patent damages expert's testimony."[1]

A recent case in point—*Apple Inc. v. Motorola, Inc.*[2]—saw the Federal Circuit reversing prominent Seventh Circuit Judge Richard Posner and broadly describing what a damages expert *can do*, rather than proscribing what experts *cannot do*. Lawyers were left asking, "Is *Apple Inc. v. Motorola, Inc.* an abrupt about-face which opens the door to a damages 'free-for-all,' or does the opinion simply confirm ordinary rules when it comes to patent infringement damages?"

A closer look discloses a mixed bag of holdings and provides critical insights regarding what may have changed and what has not changed, as well as some interesting clues about where courts will likely draw the line between admissibility and weight in the context of damages opinions.

Federal Rules of Civil Procedure

Two procedural rules play into *Apple Inc. v. Motorola, Inc.* Federal Rule of Evidence 702 embodies the U.S. Supreme Court's seminal opinion in *Daubert*.[3] This multi-part rule allows an expert's opinion if the opinion (1) will "help the trier of fact," (2) is "based on sufficient facts or data," (3) is the product of "reliable principles and methods," and (4) reliably applies those principles and methods to the facts of the case.[4] Rule 703 allows an expert to base an opinion on certain facts if experts in that field would reasonably rely on those facts.[5]

District Court Opinions in *Apple Inc. v. Motorola, Inc.*

In *Apple Inc. v. Motorola, Inc.*, the parties accused each other of infringement. Shortly before trial, Seventh Circuit Judge Richard Posner, who was sitting as the trial judge by designation, considered *Daubert* challenges to the parties' damages experts.[6] In a strongly worded opinion, Judge Posner eliminated the vast majority of both parties' damages experts' opinions.[7] Then, with very little expert damages evidence remaining, Judge Posner concluded, "damages [were] out for both parties" and, absent proof of a right to injunctive relief, dismissed the case with prejudice.[8]

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1 *HTC Corp. v. Tech. Prop. Ltd.*, No. 5:08-cv-00882-PSG, 2013 WL 4787509 at *1 (N.D. Cal. Sept. 6, 2013).
2 *Apple Inc. v. Motorola, Inc.*, Nos. 2012-1548, -1549, 2014 WL 1646435 (Fed. Cir. Apr. 25, 2014).
3 *Daubert v. Merrell Dow Pharm., Inc.*, 509 US. 579 (1993).
4 Rule 702, Fed.R.Evid.
5 Rule 703, Fed.R.Evid.
6 *Apple Inc. v. Motorola, Inc.*, Nos. 2012-1548, -1549, 2014 WL 1646435 at *18 (Fed. Cir. Apr. 25, 2014); *Apple Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560 (N.D. Ill. May 22, 2012) ("*May 22 Op*").
7 *May 22 Op.*, 2012 WL 1959560.
8 *Apple Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913, 924 (N.D. Ill. 2012).

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... whether an expert's testimony is the product of reliable principles and methods goes to *admissibility* and is therefore up to the court. But, whether the expert properly estimated the patent's value is a factual consideration for the jury.

A party may value infringed features based on comparable features in products in the marketplace or estimate the value of the patented features by comparing the accused product to non-infringing alternatives.

Using sufficiently comparable licenses is a generally reliable method of estimating the value of a patent.

Federal Circuit Opinion

While not all of Judge Posner's rulings on damages experts were appealed, as to those submitted for review, the Federal Circuit applied Seventh Circuit law and reversed the district court on virtually every issue.[9] In doing so, the court provided helpful guidance for future expert opinions on damages:

1. Admissibility vs. Weight

A district court, acting as gatekeeper, may exclude evidence based on unreliable principles, methods or legally insufficient facts and data.[10] The focus must be solely on the expert's principles and methodology, and not on the conclusions reached.[11]

Thus, a trial judge must not overstep his or her gatekeeping role and start to weigh facts, evaluate conclusions, impose a methodology he or she prefers, or judge credibility. Those tasks are reserved for the fact finder.[12]

The jury must be allowed to play its essential role as the arbiter of the weight and credibility of expert testimony.[13] This is particularly true in patent cases where the Federal Circuit has recognized that questions regarding the relevance or reliability of facts used to calculate a reasonable royalty are for the jury.[14]

Simply put, whether an expert's testimony is the product of reliable principles and methods goes to *admissibility* and is therefore up to the court. But, whether the expert properly estimated the patent's value is a factual consideration for the jury.[15] It is clear error for a court to resolve admissibility based on its view of the correct estimate of patent value.[16]

2. Well Recognized Methods Identified

In its opinion, the Federal Circuit helpfully identified methodologies it had previously approved. For example:

- A party may value infringed features based on comparable features in products in the marketplace or estimate the value of the patented features by comparing the accused product to non-infringing alternatives.[17] "This court has upheld methods involving comparable benchmark products in the past." [18]
- The general theory that the first patent from a larger portfolio may, in practice, garner a larger royalty than later patents from the same portfolio is not inherently unreliable.[19]
- Using sufficiently comparable licenses is a generally reliable method of estimating the value of a patent.[20] The royalty that a similarly-situated party pays inherently accounts for market conditions at the time of the hypothetical negotiation, including a number of factors that are difficult to value, such as the cost of available, non-infringing alternatives.[21]

3. Must Consider Full Patent Scope

A district court must consider the full scope of all asserted claims and the infringement of those claims in evaluating the expert's methodology. It is improper to focus on individual

9 *Apple Inc. v. Motorola, Inc.,* Nos. 2012-1548, -1549, 2014 WL 1646435 at *18, *20 (Fed. Cir. Apr. 25, 2014)
10 *Id.* at *19 (citing *Smith v. Ford Motor Co,* 215 F.3d 713, 718 (7th Cir. 2000)).
11 *Id.* (citing *Daubert v. Merrell Dow Pharm., Inc.,* 509 U.S. 579, 595 (1993)).
12 *Id.*
13 *Id.* (citing *Stollings v. Ryobi Techs., Inc.,* 725 F.3d 753, 765 (7th Cir. 2013)).
14 *Id.* (citing *i4i Ltd. P'ship v. Microsoft Corp.,* 598 F3d 831, 856 (Fed. Cir. 2010)).
15 *Id.* at *23.
16 *Id.*
17 *Id.* at *19.
18 *Id.* at *22.
19 *Id.* at *28.
20 *Id.* at *29 (citing, *e.g., Lucent Techs., Inc. v. Gateway, Inc.,* 580 F.3d 1301, 1325 (Fed. Cir. 2009)).
21 *Id.* at *29.

claim limitations in isolation when evaluating the reliability of an expert's methodology. The question is whether, with the correct claims construction and the entire scope of the asserted claims in mind, the expert employed reliable principles and methods and reliably applied them based on legally sufficient facts or data.[22]

4. Reasonable Royalty Range May be Acceptable

Given that "estimating a 'reasonable royalty' is not an exact science," the record may support a *range* of "reasonable" royalties, rather than a single value.[23]

5. More than One Method May Be Admissible

... because an expert may choose to pursue one method of proving damages over another does not render that expert's damages testimony inadmissible.

The Federal Circuit noted that all approaches to damages have strengths and weaknesses. "[D]epending upon the facts, one or all [approaches] may produce admissible testimony in a single case."[24] The fact "[t]hat one approach may better account for one aspect of a royalty estimation does not make other approaches inadmissible."[25] Thus, simply because an expert may choose to pursue one method of proving damages over another does not render that expert's damages testimony inadmissible. Nor is there a requirement that a patentee value every potential non-infringing alternative for its damages testimony to be admissible.[26]

6. Determining Consumer "Value" is Not Critical

Interestingly, the court said that "the value a consumer attributes to the infringing feature may be an important data point for estimating a royalty, but it is not a required piece of information in all cases."[27] With multiple reasonable methods for calculating a royalty, "directly estimating the value a consumer places on the infringing feature is not a requirement of admissibility."[28]

7. Reliance on Other Experts Okay

Experts routinely rely on other experts hired by the party they represent for expertise outside of their field. ... bias is best addressed by the weight given to the expert's testimony, not its admissibility.

Judge Posner excluded one expert's opinion because it was based on information received from an expert hired by the same party. In reversing the exclusion, the Federal Circuit stated, "The district court's decision states a rule that neither exists nor is correct. Experts routinely rely on other experts hired by the party they represent for expertise outside of their field."[29] Turning aside concerns about bias, the court said that bias is best addressed by the weight given to the expert's testimony, not its admissibility.[30] Bias, if it exists, is exposed through cross-examination and the opposing expert's testimony.[31]

8. "Comparability" of Licenses May Be for the Jury

Using sufficiently comparable licenses is a generally accepted method of estimating the value of a patent.[32] Intriguingly, and without stating precisely why, the court then said, "Here, whether these licenses are sufficiently comparable such that [the party's] calculation is a reasonable royalty goes to the weight of the evidence, not its admissibility."[33]

9. Summary Judgment of No Reasonable Royalty Damages Is Rare

The most enduring holding in *Apple Inc. v. Motorola, Inc.,* may be that "a finding that a royalty estimate may suffer from factual flaws does not, by itself, support the legal conclusion that zero is a reasonable royalty."[34] With infringement assumed, the statute *requires* the court to award

22 *Id.* at *22.
23 *Id.* at *19.
24 *Id.*
25 *Id.*
26 *Id.* at *28.
27 *Id.* at *23.
28 *Id.*
29 *Id.* at *25 (citing Rule 703, Fed.R.Evid).
30 *Id.* at *25.
31 *Id.*
32 *Id.*
33 *Id.* at *30 (citing *ActiveVideo Networks, Inc. v. Verizon Commc'ns, Inc.,* 694 F.3d 1312, 1333 (Fed. Cir. 2012)).
34 *Id.* at *31 (citing *Dow Chem. Co. v. Mee Indus., Inc.,* 341 F.3d 1370, 1382 n.4 (Fed. Cir. 2003)).

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damages "in no event less than a reasonable royalty."[35] Even if the patentee's evidence fails to support its royalty estimate, the fact finder is nonetheless *required* to determine what reasonable royalty the record supports.[36]

Thus, a fact finder may award no damages only when the record supports a zero royalty award.[37] Examples include:

- A case completely lacking any evidence upon which to base and calculate damages;
- The extremely unlikely case where a defendant considered the patent worthless and the patentee would accept no payment for the defendant's infringement.

Summary judgment awarding a zero royalty is proper only if there is no genuine issue of material fact that zero is the only reasonable royalty.[38] If a patentee raises an issue of fact regarding any non-zero royalty, summary judgment must be denied. [39]

Conclusions

Apple Inc. v. Motorola, Inc. is worthy of close attention as you prepare to attack or defend a damages opinion. Consider the following when preparing to file a *Daubert* challenge:

1. Why file the motion? What is the objective? Will a successful challenge result in a summary judgment of a zero royalty? If not, is going to the jury without clear damages testimony a superior alternative? Will opposing counsel then just rely on your expert's opinion?
2. If you decide to file, have you tailored your argument to *attack the admissibility* and *not the weight* of the opinion? Precisely what about the principles and methodology underlying the opinion might be unreliable? Can the opinions be more effectively cross-examined during trial to the jury than attacked as inadmissible? How will your judge react to yet another *Daubert* challenge?

As you anticipate defending a *Daubert* motion, consider:

1. *Apple Inc.* is not a free pass. A weak opinion may be inadmissible, and it will certainly be subject to a vigorous cross-examination at trial.
2. Measuring the value consumers place on the patented feature may have little impact, unless your methodology implicates the entire market value rule.

35 35 U.S.C. § 284.
36 *Apple Inc. v. Motorola, Inc.*, 2014 WL 1646435 at *31.
37 *Id.*
38 *Id.* at *32.
39 *Id.*