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AIMING FOR THE HEART?
JUDGE POSNER SLINGS ARROWS AT PATENT
DAMAGES

Over just 30 days earlier this year, Judge Richard Posner of the Seventh Circuit Court of Appeals zinged the patent bar with two controversial opinions in *Apple, Inc v. Motorola, Inc.*¹ He also stirred up a flurry of press coverage for his strong editorial position on the current state of patents and patent law in the United States.

In his frank and strongly worded decisions excluding expert testimony, denying injunctive relief and flatly dismissing infringement claims brought by both Apple and Motorola, Judge Posner highlighted critical issues regarding the proof of patent damages and a patent owner's ability to enjoin infringement. His positions are especially intriguing when juxtaposed against the highly publicized trial and \$1 billion verdict in *Apple, Inc. v. Samsung Electronics Co.*

Apple v. Motorola is now on appeal. Given Judge Posner's stature as a leading jurist, the Federal Circuit Court of Appeals will likely be forced to grapple with these thorny issues, if not in this case, then in cases that follow. The potential effect of Judge Posner's opinions requires every patent owner and patent attorney to take stock of the decisions and plan accordingly.

May 22, 2012, Opinion

Apple, Inc. and Motorola, Inc. each filed suits alleging that the other infringed patents relating to cell-phone and handheld-device technology. On May 16, Judge Posner conducted a *Daubert* hearing to consider challenges to four of the parties' damages experts—one for Apple and three for Motorola.² When the dust settled, testimony by three of the four challenged damages experts was excluded. The fourth survived a challenge based on an alleged conflict of interest.³

Prepared by:

After Judge Posner wrote a short tutorial on *Daubert* hearings and the standard for expert testimony drawn from existing case law,⁴ he rejected expert damage testimony from the other three experts on one or more of the following grounds:

- **Failure to Employ Same Intellectual Rigor in Courtroom as in Practice** – In his tutorial, Judge Posner said an “important test” for deciding whether to exclude expert testimony is whether the expert employs the same “level of intellectual rigor” in the courtroom as in practice.⁵ Applying this test, Judge Posner analyzed expert testimony by one of Motorola's

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1 *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560 (N.D. Ill. May 22, 2012) (*May 22 Op.*); *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 2362630 (N.D. Ill. June 7, 2012) (*June 7 Order*); *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 2376664 (N.D. Ill. June 22, 2012) (*June 22 Op.*) (all with Posner, J., sitting by designation).

2 *May 22 Op.*, 2012 WL 1959560, at *1.

3 *Id.* at *1

4 *Id.* at *1-2.

5 *Id.* at *2.

damages experts based on an interview with a Motorola technical expert.⁶ Rejecting the opinion as inadequate, Judge Posner observed that, had Motorola engaged the expert outside the litigation context, the expert “would not ask an engineer at Motorola” for the information, but rather, “would canvass software firms . . . and report back to Motorola.”⁷

Judge Posner also rejected an Apple expert’s opinions that were based on a consumer survey conducted by Motorola,⁸ concluding that it was not the kind of survey that a “responsible adviser on marketing or consumer behavior would have conducted had he been hired outside the litigation context” to determine the issues in question.⁹

Finally, the judge evaluated an Apple damages expert’s opinion based on essential information gathered from Apple’s principle technical expert.¹⁰ As all attorneys and experts engaged in patent litigation know, this is a standard practice. Judge Posner, however, discounting the information because it was obtained from “an agent of the party rather than from a disinterested source,” rejected the opinion.¹¹ Even more surprisingly, Judge Posner hypothesized that Apple’s expert had been hired by Motorola to advise Motorola on the cost of a design-around. Positing that the expert would then tell Motorola that “I asked an engineer who works for Apple,” Judge Posner unkindly said the response would be “*Dummkopf!* You’re fired.”¹²

- **Fact Testimony Masquerading as Expert Testimony** – A Motorola damages expert opined that a reasonable royalty would be no more than \$100,000 because the initial cost of creating the infringing feature was only \$67,000. Thus, the damages expert reasoned, the cost of a design-around would be even less. Again, consistent with normal litigation practice, information on the cost of the design-around came from the damages expert’s interview with a Motorola technical expert.¹³ Judge Posner rejected the opinion as “not expert testimony but fact testimony” and a “mere echo of another witness.”¹⁴
- **Failure to Seek Reasonable Sources of Information Underlying Opinion** – Rejecting an expert opinion on damages, Judge Posner flatly stated, “But if an expert witness fails to conduct a responsible inquiry that would be feasible to conduct, his failure cannot be excused by reference to the principle that speculation is permitted in the calculation of damages; that permission presupposes the exhaustion of feasible means of dispelling uncertainty.”¹⁵ Leavening his rule a bit, Judge Posner said, “Uncertainty is bad; it is tolerated only when the cost of eliminating it would exceed the benefit.”¹⁶ The judge did not, however, provide a standard for determining when the cost of finding additional evidence would exceed the benefit.
- **Failure to Consider Plausible Alternatives and Make Reasonable Assumptions** – The judge criticized expert opinions that did not analyze potential alternatives, stating that an expert witness must provide reasons for rejecting alternative hypotheses using scientific methods and procedures and that those reasons must be founded on more than beliefs and unsupported speculation.¹⁷ The court specifically rejected an argument that, as long as an expert produces a plausible method of avoiding infringement by design-around, the existence of cheaper alternative methods is best left for consideration at trial by comparison and cross-examination, saying “That cannot be correct.”¹⁸

6 *Id.* at *3.

7 *Id.*

8 *Id.* at *4.

9 *Id.* at *5.

10 *Id.* at *9.

11 *Id.*

12 *Id.* (emphasis by the court).

13 *Id.*

14 *Id.*

15 *Id.* at *5.

16 *Id.*

17 *Id.* at *8 (citing *Clausen v. M/V NEW CARISSA*, 339 F.3d 1049, 1058 (9th Cir. 2003)).

18 *Id.* at *7.

- **Too Great a Gap Between Data and Opinion** – Recalling that “a court may conclude that there is simply too great an analytical gap between the data and the opinion proffered,”¹⁹ and excluding an opinion on that basis, Judge Posner said that an Apple damages expert “used actual figures from Motorola’s own consumer survey . . . [in a] bizarre way” to “come up with his unsupportably high damages figure.”²⁰

The May 22 opinion triggered cross-motions for summary judgment attacking damages and injunctive relief claims.²¹ In a subsequent order handed down on June 7, Judge Posner indicated that his tentative decision was to dismiss the case because the admissible evidence of damages would not allow the parties to survive cross-motions for summary judgment.²² This left only the parties’ claims for injunctive relief against alleged infringement.²³ The court subsequently granted Apple’s request for a further hearing on injunctive relief.²⁴

June 22, 2012, Opinion

Following the hearing on injunctive relief, and consistent with his tentative June 7 decision, Judge Posner, on June 22, (1) disposed of both parties’ efforts to revive/pursue damages claims, (2) refused to grant injunctive relief to either party and (3) declined to consider declaratory relief.²⁵

Damages -- Judge Posner first rebuffed remaining damages evidence:

- **Evidence of Alternative Non-Infringing Products Inadequate** – The court rejected Apple’s attempt to substitute a technical expert for the excluded damages expert because the technical expert did not identify a specific alternative chip, the price for that chip, or state that he had surveyed all alternative ways to design around the patent.²⁶
- **Failure to Show Commercially Reasonable Design-Around Precludes Damages** – Judge Posner imposed a requirement that Apple prove that a design-around chip, which Apple suggested Motorola could have purchased, while not necessarily the very best design-around option, was at least a commercially reasonable option.²⁷
- **Proof of Infringement Alone Insufficient to Warrant Damages** – The court firmly rebuffed an argument that any act of infringement, even if it gives rise to no measurable damages, is an injury entitling a party to judgment. First, Judge Posner considered the nature of patent infringement and the patent right.²⁸ Second, he evaluated nominal damages.²⁹ Third, he consider the possible bearing of 35 U.S.C. § 284.30 Ultimately, Judge Posner concluded that a patentee who puts on little or no evidence of reasonable royalty damages is not entitled to a judgment.³¹
- **Injunctive Relief** – Based on his rulings excluding testimony by the parties’ damages experts, Judge Posner ruled that neither party was entitled to injunctive relief, stating, “neither party is entitled to an injunction. Neither has shown that damages would not be an adequate remedy.”³²

19 *Id.* at *6 (citing *Gen. Elec. v. Joiner*, 522 U.S. 136, 146 (1997)).

20 *Id.*

21 *June 22 Op.*, 2012 WL 2376664, at *1.

22 *June 7 Order*, 2012 WL 2362630, at *1.

23 *Id.* at *1.

24 *June 22 Op.*, 2012 WL 2376664, at *1.

25 *June 22 Op.*

26 *Id.* at *2.

27 *Id.* at *4.

28 *Id.* at *5.

29 *Id.* at *6.

30 *Id.* at *7.

31 *Id.* at *8 (citing *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391-92 (2006)).

32 *Id.* at *13.

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Analysis

Judge Posner's opinions present challenges for patent-owner litigants in at least four areas:

- **Proving Damages** – First, Judge Posner put damages experts in the shoes of the opposing party in an effort to identify reasonable design-around options and costs. **This is new.** Currently, the “reasonableness” of design-around costs is self-regulated by the parties in light of anticipated cross-examination at trial. Judge Posner’s approach eliminates that safety valve and appears to inject the court into that determination as a part of its gate-keeping function.

Second, as a part of preparing a damages opinion, Judge Posner requires a “responsible inquiry” that would have been “feasible” to conduct.³³ **This is new** and, as above, moves this aspect of what is currently within the purview of a “reasonable” damages opinion to the province of the court.

Third, Judge Posner requires damages experts to use objective sources, not “agents” of the party for which the opinion is rendered.³⁴ Again, this is new and in stark contrast to current practice. It inserts the court into a heretofore self-regulated area of opinion practice. Damages experts often rely on the opinions of technical experts when forming their opinions. Depriving them of that opportunity will either require expensive additional “disinterested third-party” experts or preclude areas of testimony altogether.

Fourth, Judge Posner’s opinions would result in greatly expanded use of surveys to support opinion testimony. While surveys certainly have their place, they are (1) not a panacea, (2) expensive and (3) frequently the focus of intense disagreement between the litigants.

Finally, all of the foregoing will undoubtedly increase the duration and cost of patent litigation and will burden the courts with increased obligations to review and pass judgment on expert opinions.

- **Choosing Damages or Injunctions** – In *eBay, Inc. v. MercExchange, L.L.C.*,³⁵ the U.S. Supreme Court rejected a rule presumptively finding irreparable injury in the event of infringement. In place of the presumption, the Court confirmed the “traditional” four-part test. Judge Posner’s injunction opinion takes the logic of eBay one step further. His opinions will frequently leave patent owners with a choice between seeking damages or seeking injunctive relief. If the patent owner provides adequate proof of damages, it will be entitled to past damages and ongoing royalties, but unlikely injunctive relief.³⁶ If the court determines it is possible to prove damages, and the patent owner fails to provide adequate proof, it will be deprived of past damages, injunctive relief and ongoing royalties.³⁷ If the plaintiff proves damages, equitable relief is likely to be in the form of an ongoing royalty and not an injunction against infringement.³⁸

Under Judge Posner’s rationale, if legal damages are impossible to prove (and the court agrees), the patent-owner plaintiff may be entitled to a permanent injunction. But, even if the patent owner may be entitled to a permanent injunction, the court may decide that the harm to the infringer is disproportionate to the benefit to the patent owner and thus deny the injunction.³⁹

- **Increased Uncertainty for Litigators** – A patent owner is unlikely to know if the court agrees that damages are not available until after discovery is closed—when it is too late to change course.

33 *May 22 Op.*, 2012 WL 1959560, at *5.

34 *Id.* at *9.

35 547 U.S. 388 (2006).

36 *June 22 Op.*, 2012 WL 2376664, at *21.

37 *Id.* at *13, *18.

38 *See id.* at *16.

39 *Id.* at *21.