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Apple V. Motorola May Help Defenders Of Daubert Challenges

—By Justin Skinner and DeForest McDuff, Quant Economics Inc.

Law360, New York (May 21, 2014, 6:58 PM ET) -- The frequency of Daubert challenges to expert witness testimony has increased substantially over the past several years. One contributor to this trend as it relates to intellectual property damages is a collection of recent high-profile opinions relating to expert testimony from the Federal Circuit.

Through these opinions, the Federal Circuit has narrowed the scope of allowable methods for calculating intellectual property damages, implicitly guiding district courts to do the same and encouraging parties to file more Daubert challenges. However, with its April 25, 2014, opinion in Apple Inc. v. Motorola Inc.,[1] the Federal Circuit has provided new material for defenders of Daubert challenges, and may have initiated a reverse in the trend of challenging expert testimony. While past opinions from the Federal Circuit have been helpful to understand what is unacceptable in calculating patent damages, the opinion in Apple v. Motorola offers relatively broad guidance on what is acceptable in calculating damages.

Daubert Challenges Have Been Increasing

A Daubert challenge is a proceeding in which the scientific admissibility of expert testimony is challenged by opposing counsel.[2] Recent studies byPricewaterhouseCoopers have found that "the number of Daubert challenges to financial expert witnesses reached a 13-year high [in 2012]" and that, as of 2013, challenges to expert witnesses of all types have reached an "all-time high."[3] One potential driver of an increase in Daubert challenges, at least in the intellectual property domain, is a recent collection of high-profile opinions from the Federal Circuit relating to expert testimony on intellectual property damages, including:

Lucent v. Gateway (2009):[4]

- "we are left with the unmistakable conclusion that the jury's damages award is not supported by substantial evidence, but is based mainly on speculation or guesswork"

- "a lump-sum damages award cannot stand solely on evidence which amounts to little more than a recitation of royalty numbers"

- "some of the license agreements [in this case] are radically different from the hypothetical agreement"
- "What Lucent's licensing expert proposed here does not comport with the purpose of damages law or the entire market value rule."

ResQNet v. Lansa (2010):[5]

- "the district court's award relied on speculative and unreliable evidence divorced from proof of economic harm linked to the claimed invention"

- "Any evidence unrelated to the claimed invention does not support compensation for infringement but punishes beyond the reach of the statute."

- "[ResQNet's expert] used licenses with no relationship to the claimed invention to drive the royalty rate up to unjustified double-digit levels."

Uniloc v. Microsoft (2011):[6]

- "Relying on the 25 percent rule of thumb in a reasonable royalty calculation is far more unreliable and irrelevant than reliance on parties' unrelated licenses, which we rejected in ResQNet and Lucent Technologies."

- "Beginning from a fundamentally flawed premise and adjusting it based on legitimate considerations specific to the facts of the case nevertheless results in a fundamentally flawed conclusion."

- "The disclosure that a company has made $19 billion dollars in revenue from an infringing product cannot help but skew the damages horizon for the jury ..."

LaserDynamics v. Quanta Computer (2012):[7]

- "one way in which the error of an improperly admitted entire market value rule theory manifests itself is in the disclosure of the revenues earned by the accused infringer associated with a complete product rather than the patented component only"

- "[LaserDynamics' expert's] one-third apportionment … appears to have been plucked out of thin air based on vague qualitative notions of the relative importance of the [accused] technology."

- "This complete lack of economic analysis to quantitatively support the one-third apportionment echoes the kind of arbitrariness of the '25% Rule' that we recently and emphatically rejected from damages experts"

These opinions have provided attorneys with examples of successful challenges to expert testimony and have increased incentives to file additional Daubert challenges. When any course of action in life proves to be successful, it is understandable that others will pursue the same course of action in hopes of replicating success. This has been recognized by courts, and was explained colorfully by Magistrate Judge Paul Grewal in a 2013 order in Dynetix Design Solutions Inc. v. Synopsys Inc.:

In football, new schemes come and go faster than teenage fashion trends. One team enjoys certain success with a spread offense, and suddenly every team is running no-huddle with a quarterback shotgun and four receiver sets. No matter that every year the overwhelming majority of teams fail in whatever particular scheme is the current fad. Patent litigation is not much different. Daubert motions used to be relatively rare in patent cases, and Daubert challenges to damages experts rarer still. But with a few high profile successes, now every patent trial lawyer worth her salt brings a challenge to the damages opinions offered by her adversary.[8]

Apple v. Motorola Indicates a Variety of Reliable Methodologies

While the Federal Circuit opinions described above may have encouraged "every patent trial lawyer worth her salt"[9] to challenge expert damages opinions, the court's opinion in Apple v. Motorola is likely to have a countervailing effect. In contrast to earlier opinions that provide guidance on unacceptable methods and applications, the Apple v. Motorola opinion provides guidance on a range of reliable methods for evaluating intellectual property damages.

Some of the statements in this opinion that identify certain methodologies as reliable include:[10]

- "a party may use the royalty rate from sufficiently comparable licenses, value the infringed features based upon comparable features in the marketplace, or estimate the value of the benefit provided by the infringed features by a comparing the accused product to non-infringing alternatives." (p. 41)

- "All approaches have certain strengths and weaknesses and, depending upon the facts, one or all may produce admissible testimony in a single case." (p. 41)

- "This court has upheld methods involving comparable benchmark products in the past." (p. 47)

- "identification of similar features, isolation of their value by discount for unclaimed features, and comparison of royalty rate to similar license agreements" (p. 48)

- "More generally, 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." (pp. 48–49)

- "As noted, there are multiple reasonable methods for calculating a royalty, and directly estimating the value a consumer places on the infringing feature is not a requirement of admissibility." (p. 49)

- "a party may want to explain, from a technical perspective, why one potential design alternative is less expensive in order to justify a lower royalty calculation." (p. 52)

- "While it may be true that the potential for bias is an inherent concern with respect to all hired experts, this concern is addressed by the weight given to the expert's testimony, not its admissibility." (p. 53)

- "We note that the general theory that [experts] relied upon, 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." (p. 59)

- "That a party may choose to pursue one course of proving damages over another does not render its expert's damages testimony inadmissible. Nor is there a requirement that a patentee value every potential non-infringing alternative in order for its damages testimony to be admissible." (p. 60)

- "As we have held many times, using sufficiently comparable licenses is a generally reliable method of estimating the value of a patent." (p. 60)

- "This approach is generally reliable because 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." (p. 61)

Collectively, these statements from the Federal Circuit indicate that there are a variety of reliable methods for evaluating intellectual property damages, and that there may or may not be a single best method in any given case. Perhaps more importantly, the Federal Circuit indicated that even if there is a best method for calculating damages in a certain case, "[t]hat one approach may better account for one aspect of a royalty estimation does not make other approaches inadmissible."[11] This guidance suggests deficiencies in an expert's application of a reliable methodology should be subject to cross-examination, not exclusion.

Apple v. Motorola May Signal a Reverse in the Trend of Increasing Daubert Challenges

The Federal Circuit's opinion in Apple v. Motorola provides a tool to defenders of Daubert challenges and may ultimately result in a reduction of the number of successful challenges. For example, the Federal Circuit's guidance on a judge's role as gatekeeper may reduce the likelihood of successful Daubert challenges. The court stated, "A judge must be cautious not to overstep its gatekeeping role and weigh facts, evaluate the correctness of conclusions, impose its own preferred methodology, or judge credibility, including the credibility of one expert over another. These tasks are solely reserved for the fact finder."[12] This citation may be useful in defending any Daubert challenge directed at anything other than "unreliable principles or methods, or legally insufficient facts and data."[13]

The Apple v. Motorola opinion may prove helpful to both experts and attorneys that are confronted with Daubert challenges. First, the opinion is helpful to experts because it specifies a variety of potential methodologies that are admissible if they are reliably applied to the facts and circumstances of the case. In other words, experts can have an understanding of certain reliable methodologies before embarking on an evaluation of damages. Second, the statements are helpful to attorneys because they provide a variety of citations for defending a challenged aspect of any expert's analysis, making nonfatal deficiencies in the analysis an issue of weight rather than an issue of admissibility.

The opinion may also create efficiencies that result in savings of both judicial and client resources. Economic incentives to file Daubert challenges may be reduced along with the frequency of exclusion resulting from those challenges. If fewer challenges are filed, costs associated with those challenges, including additional expert analyses and legal motions, will be reduced for all entities involved.

Ultimately, the Federal Circuit appears to have endorsed a variety of methodologies that are appropriately applied to the facts and circumstances of the specific case at hand. We expect this opinion to provide a tool to defenders of Daubert challenges in certain cases and may reduce the frequency of successful Daubert challenges at the district court level.

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[1] Apple Inc., et. al., v. Motorola, Inc., No. 2012-1548, 1549, 2014 U.S. App. LEXIS

7757 (Fed. Cir. 2014).

[2] Daubert v. Merrell Dow Pharmaceuticals, Inc., 509 U.S. 579 (1993).

[3] PricewaterhouseCoopers, "Daubert Challenges to Financial Experts," 2012, at 7.

http://www.pwc.com/en_US/us/forensic-services/publications/assets/daubert-challenges.pdf.

PricewaterhouseCoopers, "Daubert Challenges to Financial Experts," 2013, at Cover.
http://www.pwc.com/en_US/us/forensic-services/publications/assets/daubert-study-2013.pdf.

[4] Lucent Technologies., Inc., et al. v. Gate-way, Inc., et al., 580 F.3d 1301 (Fed. Cir.

2009).

[5] ResQNet.com, Inc. v. Lansa, Inc., 594 F.3d. 860 (Fed. Cir. 2010).

[6] Uniloc USA, Inc. v. Microsoft Corp., 632 F.3d 1292 (Fed. Cir. 2011).

[7] LaserDynamics, Inc. v. Quanta Computer, Inc., 694 F.3d 51 (Fed. Cir. 2012).

[8] Dynetix Design Solutions, Inc. v. Synopsys, Inc., 11-cv-05973 (N.D. Cal.), Order

Granting Motion to Exclude Opinions and Testimony of Plaintiff's Damages Expert, Docket No. 564, 8/22/2103, at 1. (underline added)

[9] Dynetix Design Solutions, Inc. v. Synopsys, Inc., 11-cv-05973 (N.D. Cal.), Order

Granting Motion to Exclude Opinions and Testimony of Plaintiff's Damages Expert, Docket No. 564,

8/22/2103, at 1.

[10] Apple Inc., et. al., v. Motorola, Inc., No. 2012-1548, 1549, 2014 U.S. App. LEXIS 7757 (Fed. Cir. 2014).

[11] Apple Inc., et. al., v. Motorola, Inc., No. 2012-1548, 1549, 2014 U.S. App. LEXIS 7757 (Fed. Cir. 2014), at 42.

[12] Apple Inc., et. al., v. Motorola, Inc., No. 2012-1548, 1549, 2014 U.S. App. LEXIS 7757 (Fed. Cir. 2014), at 40.

[13] Apple Inc., et. al., v. Motorola, Inc., No. 2012-1548, 1549, 2014 U.S. App. LEXIS 7757 (Fed. Cir. 2014), at 40.