

**Putting on a Reasonable Royalty  
Case in Light of the Federal  
Circuit's *Apple v. Motorola***

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## 35 USC § 284

- “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.”

## 35 USC § 284 (cont.)

- “The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.”

# The Excluded Damages Expert

- The Court acts as “gatekeeper” with regard to expert opinions admitted to aid the jury
- *Daubert* motions to exclude expert witnesses have become the norm in almost every patent case
- Recently the exclusion of damages experts for failure to offer an opinion consistent with current law has been on the increase

# The Excluded Damages Expert (cont.)

- The impact of excluding a damages expert from offering his or her opinion at trial is potentially devastating and case determinative
- What sort of planning can be done to avoid or lessen this impact if this should happen to you?

# Apple v. Motorola: Background

- In 2012, Seventh Circuit Judge Richard Posner sitting as a district judge excluded damages witnesses for both sides in a massive patent case and then dismissed the case with prejudice
- At its core, Posner's *Daubert* opinion found the damages approach and analysis by both sides lacking and disagreed with the results

## Apple v. Motorola (cont.)

- Judge Posner found that neither party had proven to his satisfaction that any damages or basis for injunctive relief had been proven and thus there was no need to have a trial on liability
- Posner also held that the “no less than a reasonable royalty” language still required proof of damages and none were shown

# Apple v. Motorola (cont.)

- Posner ruled that his role as a gatekeeper meant that damages opinions with “disabling problems” were disallowed but that opinions with “weaknesses” were to be tested at trial
- The parties appealed from Judge Posner’s dismissal of their case as expected



## Apple v. Motorola (cont.)

- The Federal Circuit reversed the dismissal and took particular issue with Posner's handling of damages
- Posner was faulted for “substituting [his] own opinion rather than focusing on the reliability of the principles or methods used ...or the sufficiency of the facts and data relied upon.”

## Apple v. Motorola (cont.)

- The Federal Circuit also criticized Posner's conclusion that Apple was not entitled to damages because there was no reliable evidence on which to measure damages
- The court held “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”

# The Problem

- How to prepare to try a case in view of the *Apple v. Motorola* panel's placing on the fact-finder the burden to identify the amount of a non-zero reasonable royalty

# THE PATENTEE'S STRATEGY

# The Patentee's Strategy

- Complete and update Rule 26 disclosures
- Complete and update interrogatory answers
- Include multiple bases in expert report
- Ensure complete trial witness list
- Seek a do-over for excluded expert
- Rely on accused infringer's expert, and both sides' percipient witnesses and documents

# Rule 26 Disclosures

- Provide names of witnesses who support the underlying basis for the damages and include internal “experts” on issues such as licensing
- Update disclosures as frequently as possible
- Request leave of court to add newly discovered witnesses

# Interrogatory Answers

- Explain the basis for the reasonable royalties sought in responding to interrogatories; do not simply defer to the expert reports
- Identify those fact witnesses who have knowledge of the underlying facts in the interrogatory response
- Update and supplement as needed

# Exhibit List

- Make sure to mark all relevant damages documents (and make sure that you have a witness identified to get them admitted)
- Try to use as many of the damages documents as possible during depositions of fact witnesses
- Create demonstrative exhibits that can be used with fact witnesses to show royalties



# Expert Report

- Make sure that the expert understands the current legal landscape for damages
- Identify all sources of factual support in the report
- Use of license agreements found comparable is important but make sure they are truly comparable both technically and economically per Fed Cir

# Expert Report (cont.)

- Avoid EMV and smallest saleable unit problems
- Try to create a simplistic basis for calculating the royalties from sources likely to be admitted into evidence
- Encourage expert to develop and present multiple complementary damage theories

# Trial Witness List

- Identify as many damages related facts witnesses as possible and indicate that they are pertinent to the damages case
- Consider adding witnesses from the opposing party who might support aspects of the damages case
- Consider putting the opposing damages expert on the witness list

# Do-Over For Excluded Expert

- If a *Daubert* motion is granted, seek leave to file an amended and supplemental expert report to address the shortcomings
- Timing is critical; have the motion prepared if there seems to be a question about how the *Daubert* is going to be resolved
- At the very least this motion for leave may be important to the appeal

# Accused Infringer's Expert

- Use the deposition of the accused infringer's expert to your advantage
  - Try to get him/her to agree that the approach your expert is taking is reasonable
  - Have the opposing expert agree on the key licenses and the royalty base calculation

# Accused Infringer's Expert (cont.)

- Pose hypothetical questions for the opposing expert that might serve as the basis for a “fallback” royalty calculation that you might adopt if all else fails

# Percipient Witnesses

- Develop a “worst case” alternative means of establishing a reasonably royalty through the use of percipient witnesses from both sides
- Use depositions to create connections to damages case
- Keep the theory as simple as possible

# **THE ACCUSED INFRINGEMENT'S STRATEGY**



# The Accused Infringer's Strategy

- Focus attack on the expert
- Prevent the expert do-over
- Limit percipient witnesses
- Restrict documents
- Spike your own expert
- Creatively challenge patentee's case

# Focus Attack on the Expert

- In deposition and *Daubert* motion, focus on weaknesses relevant to Rule 702:
  - Helpfulness to trier of fact
  - Sufficiency of facts or data
  - Reliability of principles and methods
  - Reliability of application of principles and methods to facts

# Prevent the Expert Do-Over

- Raise opposition to do-over early
- Rely on Rule 37(c)(1), which forbids use at trial of information not properly disclosed
- Use relevant circuit's test: prejudice, ability to cure, extent of disruption, and bad faith or willfulness (3d Cir.'s *Pennypack*, 7th Cir.'s *Spray-Rite*, 9th Cir.'s *Price*):
- Stress policy laid down by J. Alsup

# Limit Percipient Witnesses

- In deposition, scrub patentee's witnesses re:
  - Knowledge of bases for damages claim
  - Knowledge of important documents
  - Conversations with damages expert
- Use in-limine motion to preclude percipient witnesses from giving damages opinions

# Restrict Documents

- In deposition, ask percipient witnesses re knowledge of relevant documents
- In deposition, ask expert re knowledge of persons that could establish foundation
- On summary judgment, point out that documents are in record only as unauthenticated exhibits to expert's report

# Spike Your Own Expert

- Have your expert testify to a cap rather than a number
- Have your expert identify any factors that would drive reasonable royalty below cap
- Have your expert identify any of patentee's evidentiary failures that prevent identification of a reasonable royalty

# Creatively Challenge Patentee's Case

- Test patentee's (and your) assumptions and consider cutting-edge challenges, e.g.:
  - Can agreement between patentee and accused infringer establish a royalty?
  - Is percipient witness testimony contrary to hypothetical negotiation assumptions?
  - Can patentee prove reasonable royalty without an expert?

# THE COURT'S STRATEGY



# The Court's Strategy

- Provide findings and conclusions
- Respond to challenger's concerns
- Separate wheat from chaff
- Consider a *Daubert* hearing
- Resolve *Daubert* challenges early

# Provide Findings and Conclusions

- “[T]he district court must furnish enough of a record to permit a reviewing court to say with confidence that it ‘properly applied the relevant law.’”
  - *StorageCraft Tech. Co. v. Kirby*, 744 F.3d 1183 (10<sup>th</sup> Cir. 2014)

# Respond to Challenger's Concerns

- “[R]eply in some meaningful way to the *Daubert* concerns the objector has raised.”
- Need not recite all reliability factors, but should “focus its attention on the specific factors implicated by the circumstances”
  - *StorageCraft Tech. Co. v. Kirby*, 744 F.3d 1183 (10th Cir. 2014)

# Separate Wheat From Chaff

- Wheat: legally insufficient facts or data, unreliable principles and methods, unreliable application of principles and methods to the facts of the case
- Chaff: evidentiary weight, credibility of witness, correctness of conclusions

# Consider a Daubert Hearing

- Gatekeeper role in assessing testimony cannot be delegated to the jury
- Although hearings not required, they are common (at least in non-patent cases)
- Helpful in determining whether expert meets the threshold established by Rule 702
  - *Estate of Barabin v. AstenJohnson*, 740 F.3d 457 (9th Cir. 2014)

# Resolve Daubert Challenges Early

- *Daubert* rulings can focus case for trial and enhance likelihood of settlement
- Schedule *Daubert* process separate from and earlier than in-limine and summary judgment motions
- Consider “preliminary” pretrial conference devoted exclusively to damages issues

# CONCLUDING THOUGHTS

# LIST OF RELATED CASES



# List of Related Cases

- **CASES RE: DENIAL OF REASONABLE ROYALTY DAMAGES**

- *Norian Corp. v. Stryker Corp.*, 363 F.3d 1321, 1333 (Fed. Cir. 2004) (holding that, because the patent damages statute “requires” that reasonable royalty damages be awarded, “[t]he jury’s finding of no damages cannot be supported”)
- *Dow Chem. Co. v. Mee Indus., Inc.*, 341 F.3d 1370, 1381-82 (Fed. Cir. 2003) (reversing finding of no damages that was based on lack of expert evidence because “there is a presumption of damages where infringement has been established” and “there is other evidence in the record” to support a reasonable royalty)
- *Riles v. Shell Exploration and Prod. Co.*, 298 F.3d 1302, 1313 (Fed. Cir. 2002) (although noting that none of the damages models presented by plaintiff’s expert was adequate to support reasonable royalty award, nevertheless finding that § 284 “promises the patentee, as a minimum, a reasonable royalty as compensation for infringement” and remanding to trial court “to carry out the mandate of the statute”)

# List of Related Cases (cont.)

- **CASES RE: DENIAL OF REASONABLE ROYALTY DAMAGES(CONT.)**
  - *SmithKline Diagnostics, Inc. v. Helena Labs. Corp.*, 926 F.2d 1161, 1164 (Fed. Cir. 1991) (“[T]he amount of a prevailing party’s damages is a finding of fact on which the plaintiff bears the burden of proof by a preponderance of the evidence.”)
  - *Gustafson, Inc. v. Intersystems Indus. Products, Inc.*, 897 F.2d 508, 509 (Fed. Cir. 1990) (affirming award of no damages “because none were proven”)
  - *Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co.*, 895 F.2d 1403, 1406 (Fed. Cir. 1990) (stating that “the fact of infringement establishes the fact of damage because the patentee’s right to exclude has been violated,” but further noting that “[t]he patentee must then prove the amount of damage”)
  - *Devex Corp. v. Gen. Motors Corp.*, 667 F.2d 347, 363 (3d Cir. 1981) (“Even if there is no burden of proof on the party seeking damages in this type of case to come forward with a reasonable royalty, there must at the least be enough evidence in the record to allow the factfinder to formulate a royalty.”)

# List of Related Cases (cont.)

- **CASES RE: LITIGATION STRATEGY**
  - **Challenging Expert Testimony for Faulty Methodology**
    - *Riles*, 298 F.3d at 1311 (vacating damages award based on expert’s “legally incorrect” assumptions)
  - **Exclusion of Expert Evidence under Rule 37(c)(1)**
    - *Yeti by Molly, Ltd. v. Deckers Outdoor Corp.*, 259 F.3d 1101, 1105-07 (9th Cir. 2001) (affirming exclusion of expert testimony under Rule 37(c)(1) as a sanction for untimely disclosure)
    - *TracBeam, L.L.C. v. Google, Inc.*, No. 6:13-CV-93, ECF No. 179 at 6-7 (E.D. Tex. Apr. 14, 2014) (excluding expert testimony under Rule 37(c)(1) due to untimely disclosure)
    - *NXP B.V. v. Blackberry Ltd.*, No. 6:12-CV-498, ECF No. 411 at 2-3 (M.D. Fla. March 21, 2014) (same)

# List of Related Cases (cont.)

- **CASES RE: LITIGATION STRATEGY**
  - **Exclusion of Expert Evidence in General**
    - *Meyers v. Pennypack Woods Home Ownership Ass’n*, 559 F.2d 894, 905 (3d Cir. 1977) (listing factors for whether expert testimony should be excluded)
    - *Spray-Rite Serv. Corp. v. Monsanto Co.*, 684 F.2d 1226, 1245 (7th Cir. 1982) (citing *Pennypack* factors)
    - *Price v. Seydel*, 961 F.2d 1470, 1474 (9th Cir. 1992) (citing *Spray-Rite* and *Pennypack*)

# List of Related Cases (cont.)

- **CASES RE: LITIGATION STRATEGY (CONT.)**
  - **Expert Do-Overs**
    - *ePlus, Inc. v. Lawson Software, Inc.*, 700 F.3d 509, 515 (Fed. Cir. 2012) (trial court did not abuse its discretion by precluding trial testimony reflecting new damages theory, where theory had not been disclosed pursuant to Rule 26(f))
    - *Golden Bridge Tech. v. Apple Inc.*, No. 5:12-CV-04882, ECF No. 471 at 14 (N.D. Cal. May 18, 2014) (granting Apple’s motion to exclude damages expert’s report, but stating that although those “opinions will not be admitted in their current form, ... the court will give him another shot”) (citing *Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279 (N.D.N.Y. Mar. 30, 2009)); *id.*, ECF No. 494 at 3 (excluding amended expert report because “there is simply too great an analytical gap between the data and the opinion proffered”))

# List of Related Cases (cont.)

- **CASES RE: LITIGATION STRATEGY (CONT.)**
  - **Expert Do-Overs (cont.)**
    - *Rembrandt Social Media, LP v. Facebook, Inc.*, No. 1:13-CV-158, ECF No. 435 (E.D. Va. May 6, 2014) (denying motion to testify to new theory after exclusion of original expert report)
    - *Apple Inc. v. Samsung Elecs. Co., Ltd.*, No. 11-CV-01846, ECF No. 2719 at 2 (N.D. Cal. Nov. 12, 2013) (granting a motion to preclude the patentee from offering a new, non-*Panduit* lost profit damages theory at trial, after its expert’s *Panduit* lost profits analysis had been excluded, noting that “Apple has for the first time declared, less than 48 hours before the retrial on damages is set to begin, that it intends to argue for lost profits damages” based on a “vague combination of other evidence” that does not rely on either expert testimony or on a *Panduit* analysis)

# List of Related Cases (cont.)

- **CASES RE: LITIGATION STRATEGY (CONT.)**
  - **Expert Do-Overs (cont.)**
    - *Network Prot. Scis. v. Fortinet*, No. C 12-01106, ECF No. 334 at 13-14 (N.D. Cal. Sept. 26, 2013) (Alsup, J.) (“[G]iving a second bite simply encourages overreaching on the first bite (by both sides). A second bite may be appropriate where the expert report can be salvaged with minimal disruption to an orderly trial, but where the report is not even close, there is a positive need to deny a second bite in order to encourage candor in the first place.”)

# List of Related Cases (cont.)

- **CASES RE: LITIGATION STRATEGY (CONT.)**
  - **Carrying on Without Experts**
    - *AVM Techs., LLC v. Intel Corp.*, 927 F. Supp. 2d 139, 146 (D. Del. 2013) (excluding inventor’s damages testimony on the grounds that it was improper expert opinion, improper speculation, and was not properly disclosed, but admissible as lay opinion “as to facts within his personal knowledge”)
    - *NetAirus Tech., LLC v. Apple Inc.*, No. CV10-3257, ECF No. 619 (C.D. Cal. Nov. 11, 2013) (allowing patentee to call accused infringer’s damages expert in its case-in-chief after exclusion of patentee’s expert)



# List of Related Cases (cont.)

- **CASES RE: LITIGATION STRATEGY (CONT.)**
  - **Carrying on Without Experts (cont.)**
    - *Unicom Monitoring, LLC v. Cencom, Inc.*, No. 3:06-cv-1166, ECF No. 134 (D.N.J. Apr. 19, 2013) (granting summary judgment after excluding expert testimony because percipient witness testimony inconsistent with assumptions underlying hypothetical negotiation)
    - *Bowling v. Hasbro, Inc.*, 582 F. Supp. 2d 192, 203 (D.R.I. 2008) (despite exclusion of patentee’s damages expert testimony, patentee sufficiently established damages primarily through testimony of inventor and two of the accused infringer’s executives, which together addressed most, if not all, *Georgia-Pacific* factors; inventor testified to what he would have charged to either license the patent, or sell the patented product, to the defendant)