

Federal Circuit Patent Bulletin: *Apple Inc. v. Motorola, Inc.*

April 28, 2014

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On April 25, 2014, in *Apple Inc. v. Motorola, Inc.*, the U.S. Court of Appeals for the Federal Circuit (Rader, Prost, Reyna*) affirmed-in-part, reversed-in-part, vacated-in-part, and remanded the district court's summary judgment that neither Apple nor Motorola was entitled to any damages or an injunction for the infringement of U.S. Patents No. 7,479,949, No. 6,343,263, and No. 5,946,647 (Apple) or U.S. Patents No. 6,359,898, No. 6,175,559, and No. 5,319,712 (Motorola), all of which related to smartphone technology. The Federal Circuit stated:

The legal framework for admission of expert testimony is provided by the Federal Rules of Evidence, along with *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579 (1993) and its progeny. [A] district court judge, acting as a gatekeeper, may exclude evidence if it is based upon unreliable principles or methods, or legally insufficient facts and data. 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. . . . That the gatekeeping role of the judge is limited to excluding testimony based on unreliable principles and methods is particularly essential in the context of patent damages. [E]stimating a "reasonable royalty" is not an exact science. As such, the record may support a range of "reasonable" royalties, rather than a single value. Likewise, there may be more than one reliable method for estimating a reasonable royalty. For example, 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. All approaches have certain strengths and weaknesses and, depending upon the facts, one or all may produce admissible testimony in a single case. It is common for parties to choose different, reliable approaches in a single case and, when they do, the relative strengths and weaknesses may be exposed at trial or attacked during cross-examination. That one approach may better account for one aspect of a royalty estimation does not make other approaches

inadmissible. For example, actual royalties paid for technologies similar to the claims at issue may inherently account for available, non-infringing alternatives. On the other hand, an analytical comparison of the same non-infringing alternatives to the claims may more directly account for this cost. The fact that one of these methods may be said to more accurately value this aspect of a reasonable royalty calculation does not, necessarily, make the other approach inadmissible.

As to the '949 patent, we find that the district court improperly excluded Apple's proposed expert testimony on damages. First, [the] district court based its damages analysis on an incorrect claim construction. This error, alone, would require reversal and remand because the erroneous claim construction here tainted the district court's damages analysis. Second, the district court erred by not considering the full scope of the asserted claims, questioning the conclusions of Apple's expert, and substituting its own opinion, rather than focusing on the reliability of the principles and methods used or the sufficiency of the facts and data relied upon. These errors also require reversal and remand.

In order to estimate the value of the asserted claims of the '949 patent, Apple's expert (Brian W. Napper) analyzed Apple's Magic Trackpad ("Trackpad"). [T]here 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. Factually, if the Trackpad is not an accurate benchmark, Motorola is free to challenge the benchmark or argue for a more accurate benchmark. But such an argument goes to evidentiary weight, not admissibility, especially when, as here, an expert has applied reliable methods to demonstrate a relationship between the benchmark and the infringed claims. . . . Whether Napper's testimony was the product of reliable principles and methods is the focus of admissibility; whether the testimony produced a correct degree of estimation of the value of the '949 patent is a factual consideration reserved for the fact finder. Here, the district court resolved admissibility based upon its own view on the correct estimate of value for the '949 patent, a question that should have been reserved for the jury. . . .

Experts routinely rely upon other experts hired by the party they represent for expertise outside of their field. Rule 703 explicitly allows an expert to rely on information he has been made aware of "if experts in the particular field would reasonably rely on those kinds of facts or data in forming an opinion on the subject." This Rule does not predicate admissibility on the source of the facts or data or, in particular, on whether the source is employed by either of the parties. Consistent with Rule 703, patent damages experts often rely on technical expertise outside of their field when evaluating design around options or valuing the importance of the specific, infringing features in a complex device. For example, 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. Patent damages calculations are often intertwined with highly technical issues precisely because

damages must be based on the scope of infringement, often an involved technical question. . . .

If Apple hired Napper to value the asserted claims of the '263 patent outside of litigation and there was technical issue Napper did not understand, it would be reasonable for Napper to ask a technical expert hired by Apple. For example, it would be reasonable for an Apple expert to explain the background of Apple's patent, how the claimed invention fits into a larger product, or the key advances over the prior art. All of this information would be outside of Napper's expertise but helpful, if not critical, to his task of valuing the patent. Indeed, if the technical information needed was within the expertise of Apple employees, it would be wasteful for Apple, if not otherwise disadvantageous, not to provide it and, in certain circumstances, even deceitful. Overall, outside of litigation, it would be reasonable, and quite common, for Napper to rely on technical information provided by Apple or one of its experts in order to value the cost to design around Apple's technology. Indeed, such an approach would carry the same intellectual rigor as the approach employed in the courtroom in this case. . . .

The district court assumed that the royalty rates proposed by Motorola satisfied its fair, reasonable and nondiscriminatory ("FRAND") licensing obligations but, nevertheless, excluded all [the proposed testimony of Motorola's damages expert Carla S. Mulhern] because she "failed to consider the range of plausible alternatives . . . facing Apple." [T]he 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. Testimony based upon this theory maybe admissible if properly tied to the claimed invention. But here, where a potentially reliable theory is not tied to the facts of the case, the expert testimony is inadmissible. . . .

After the district court excluded the majority of the damages expert testimony, both parties moved for summary judgment regarding damages and injunctive relief. Having excluded their damages evidence, the court found that neither party was entitled to any damages or an injunction and granted the motions. [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. . . . If a patentee's evidence fails to support its specific royalty estimate, the fact finder is still required to determine what royalty is supported by the record. . . . Indeed, if the record evidence does not fully support either party's royalty estimate, the fact finder must still determine what constitutes a reasonable royalty from the record evidence. Certainly, if the patentee's proof is weak, the court is free to award a low, perhaps nominal, royalty, as long as that royalty is supported by the record. Thus, a fact finder may award no damages only when the record supports a zero royalty award. For example, in a case completely lacking any evidence on which to base a damages award, the record may well support a zero royalty award. Also, a record could demonstrate that, at the time of infringement, the defendant considered the patent valueless and the patentee would have accepted no payment for the defendant's

infringement. Of course, it seems unlikely that a willing licensor and willing licensee would agree to a zero royalty payment in a hypothetical negotiation, where both infringement and validity are assumed. [S]imply because a patentee fails to show that its royalty estimate is correct does not, by itself, justify awarding a royalty of zero at summary judgment, as the district court did here. . . .

To the extent that the district court applied a per se rule that injunctions are unavailable for SEPs [(standard-essential patents)], it erred. While Motorola's FRAND commitments are certainly criteria relevant to its entitlement to an injunction, we see no reason to create, as some amici urge, a separate rule or analytical framework for addressing injunctions for FRAND-committed patents. . . . A patentee subject to FRAND commitments may have difficulty establishing irreparable harm. On the other hand, an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect. To be clear, this does not mean that an alleged infringer's refusal to accept any license offer necessarily justifies issuing an injunction. For example, the license offered may not be on FRAND terms. In addition, the public has an interest in encouraging participation in standard-setting organizations but also in ensuring that SEPs are not overvalued. While these are important concerns, the district courts are more than capable of considering these factual issues when deciding whether to issue an injunction