



IP: Going for broke on damages claims

LACK OF DAMAGES PROOFS DOOMS ENTIRE CASE FOR BOTH PARTIES IN APPLE V. MOTOROLA

[My last article](#) reviewed the May 22 opinion of 7th Circuit Judge Richard A. Posner, who is sitting by designation in the Northern District of Illinois as the trial judge in *Apple Inc. v. Motorola, Inc.* In that opinion, Judge Posner applied the *Daubert* principles to strike patent damages experts for both sides.

After issuing his opinion, Judge Posner questioned whether the case had lost its legs and should be dismissed. On June 22, the court answered his question with a resounding “yes.” The opinion provides an excellent example of what can happen when part of a case is gutted.

Exclusion of damages experts means no damages proofs

As background, Apple and Motorola asserted patent infringement against each other and each ultimately moved to exclude the opposing party’s damages experts. The court’s May 22 opinion excluded three of the four damage experts. The court then held a hearing to consider pending summary judgment motions and whether either party could obtain injunctive or declaratory relief if

there were no provable damages.

Apple conceded that the exclusion of its expert doomed its damages claim for two of its asserted patents. As for the remaining two, Apple argued that its technical expert had identified a non-infringing alternative that could be used to determine Motorola’s design-around cost and this cost could form the basis of a reasonable royalty calculation. Judge Posner was not impressed, finding that the technical expert did not have the requisite experience to testify on the substitutes for the patented features and the expert’s testimony was accordingly excluded. The takeaways from this portion of the opinion are:

- ◆ The cost of having to invent around (including the infringer’s sales lost during the design-around process) is one method of estimating a reasonable royalty.
- ◆ In a reasonable royalty determination that considers the cost of non-infringing alternatives, the patent owner must prove that any non-infringing

alternative is commercially reasonable and feasible.

Because Apple was unable to prove actual damages, the court then broached the issue of nominal damages. Although Apple was not claiming nominal damages, the court nonetheless considered the question of whether a claim for nominal damages could give rise to federal court subject matter jurisdiction. “Nominal damages are a symbolic recognition of a wrong that produced no harm, though it may have infringed a right,” the court wrote. “Without an actual or prospective tangible injury, a federal court has no subject matter jurisdiction.” So, even nominal damages may be an insufficient “tangible injury” to support jurisdiction.

Without deciding this jurisdictional question, the court addressed the requirement that it “shall award” the prevailing patentee “damages adequate to compensate for the infringement.” Faced with this “shall award” requirement, Judge Posner focused on the factors set out in *Georgia-Pacific Corp. v. United State Plywood Corp.* His view on the *Georgia-Pacific*

factors is likely the same as that of every trial attorney who has relied on them in a trial: “Could a judge or jury really balance 15 or more factors and come up with anything resembling an objective assessment?”

On these factors, the court simply remarked that Apple did not present admissible evidence directed to them. Thus, Judge Posner concluded that Apple provided no evidence of any patent infringement damages.

The court then turned to Motorola’s damages request on its portfolio of patents that the company asserted were standard essential patents. Motorola had previously committed to licensing the portfolio on fair, reasonable and non-discriminatory (FRAND) terms.

Because Motorola’s main damages expert had been excluded earlier, it relied on another expert. According to that expert, although the FRAND rate for the entire portfolio should be 2.25 percent, the rate for the single patent remaining in the suit, if separately licensed, should be up to 40 to 50 percent of the royalty for the entire portfolio. According to the court, this showed that Motorola was “going for broke” in its damages claim.

On this, Motorola went “broke” because the expert provided no basis for his view. Moreover, the expert did not use the correct method for assessing the royalty. As the court said: “The proper method of computing a FRAND royalty starts with what the cost to the license would have been of obtaining, just before the patented invention was declared essential to compliance with the industry standard, a license for

the function performed by the patent.”

This pre-declaration of essential patent approach would negate the patentee’s increased leverage occasioned by the patent being deemed essential. The goal of this approach is to cabin the patentee’s royalty demand to the value attributable to the patent and thus exclude the additional “hold-up value” that typically is associated with a standards-essential patent. Because the expert failed to address this method, his testimony was excluded.

Injunction standards not met

Having determined that neither side could prove monetary damages, Judge Posner next addressed the parties’ injunction requests. Patent injunctions apply the normal equity four part standard:

1. The infringement causes irreparable harm to the patentee
2. Legal remedies, such as monetary relief, are inadequate to compensate for the harm caused
3. The balance of hardship to the patentee if an injunction is not issued outweighs the hardship to the defendant if one is issued
4. The public interest is not disserved by issuance of an injunction.

As to Motorola, the court was quick to point out that by committing to license its patents on FRAND terms, Motorola acknowledged that a royalty was adequate to compensate for a

license to its patents. Thus, when a patentee has committed to licensing patents on FRAND terms, the “FRAND royalty would provide all the relief” to which the patentee is entitled if infringement is established.

Under this circumstance, the patentee cannot show that monetary damages are inadequate and, consequently, is not entitled to an injunction.

Indeed, the court carried this analysis one step farther, concluding that because the parties failed to present evidence on the actual damages, neither could prove that monetary damages were inadequate. In the words, of the court: “True, neither [party] has presented sufficient evidence of damages to withstand summary judgment—but that is not because damages are impossible to calculate with reasonable certainty and are therefore an inadequate remedy; it’s because the parties have failed to present enough evidence to create a triable issue.”

These failures of proofs meant that neither party could meet the injunction standard.

The court then looked to another form of equitable remedy, such as a compulsory license. This type of license would obligate the licensee to pay royalties for so long as the licensee continued to sell the infringing products. Here too, however, the court concluded that the parties’ experts provided no basis for computing a going forward royalty. Thus, the compulsory license was a no-go. As the court succinctly stated: “Damages experts in a patent case would be expected to estimate running royalties as well as past damages.”

No declaratory judgment either

Finally, the court addressed each party's request for declaratory judgment of patent invalidity and non-infringement of the opposing party's patents. Motorola conceded that it had no basis for declaratory relief once its damages claim and injunction request were out of the case. Apple made no such concession, arguing that the case was ready for trial, it would be wasteful to shut it down, and it could, in any event, simply refile. Judge Posner noted another jurisdictional point: "A party may sue for declaratory relief in federal court only if it or its opponent could bring a federal suit for injunctive or monetary relief."

Here, however, the court had already ruled that neither party could obtain monetary or injunctive relief and, consequently, a declaratory judgment in favor of one or the other would provide no benefit to the winner. Thus, there would be no federal subject matter jurisdiction. Moreover, because a decision to grant declaratory judgment is discretionary, the court concluded that declaratory relief would not be granted because issuance of that type of judgment would have no practical effect.

As to the final relief entered, the court's concluding sentences say it all: "It would be ridiculous to dismiss a suit for failure to prove damages and allow the plaintiff to refile the suit so that he could have a second chance to prove damages. This case is therefore dismissed with prejudice."

Given that this case was pending for almost two years, nearly 100 attorneys filed formal

appearances for the parties and the court's docket included 1,043 entries, a dismissal with prejudice might seem harsh. However, the case teaches that the details truly matter.

Experts had better be expert, and expert reports had better cover all the bases and alternatives. Otherwise, *Daubert* may sink the ship.

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