



## IP: “Dummkopf! You’re fired”

**DAUBERT DERAILS DAMAGES EXPERTS FOR BOTH SIDES IN APPLE-MOTOROLA IP BATTLE**

The title of this article is quoted from an opinion issued by Judge Richard A. Posner on May 22, in the case of *Apple, Inc. v. Motorola, Inc.* Judge Posner, of the 7th Circuit, is sitting by designation as the trial judge.

Judge Posner’s opinion applies the *Daubert* principles to expert reports and testimony. He sets out a number of points that should be kept in mind as experts are readied for trial and then applies them when ruling on *Daubert* motions. Interestingly, his analysis seems to be contrary to the way experts typically prepare for trial, as noted below.

The *Apple* case involves assertions by Apple that certain Motorola cell phones and tablets contain features that infringe four Apple patents. In turn, Motorola alleges that Apple cell phones contain features infringing two Motorola patents.

Motorola retained three damages experts (Mr. Wagner and two others) and Apple retained one (Mr. Napper). After the parties submitted *Daubert* motions and briefs challenging the proposed testimony of the damages

experts, the court held an evidentiary hearing at which the experts testified.

Judge Posner’s opinion begins with general remarks concerning the challenges faced by judges when ruling on *Daubert* motions. He notes that courts must distinguish between a “disabling problem,” which is grounds for excluding the testimony, and weaknesses in the testimony, which is a matter for the trier of fact. On this, Judge Posner noted several tests:

- ◆ Did the expert’s work involve the same level of intellectual strictness that characterizes the practice of others in the expert’s field?
- ◆ Did the expert use the same approach required by the expert’s applicable professional standards when dealing with identical issues outside of the litigation context?
- ◆ Did the expert adequately explain how the opinions were derived from the evidence considered?

- ◆ Were the methods used by the expert properly applied to the facts of the case?

If one or more of these questions is answered “yes,” then the proposed testimony may not be subject to disabling problems and could be admissible. Interestingly, the court provided no guidance as to how the proof of the practices of others in the expert’s field and the relevant professional standards are to be presented.

When considering the expert opinions, the court noted that Motorola’s damages expert Wagner asserted that a reasonable royalty for Motorola’s use of one of the patents would be \$100,000. He arrived at this number by concluding that creating the allegedly infringing feature cost \$67,000, and it would cost less to develop a non-infringing alternative. Wagner based his conclusion on an interview of one of Motorola’s technical experts in the case.

Judge Posner was not impressed. First, the testimony about the \$67,000 cost was fact, not expert, testimony. Second, reliance on what Motorola’s technical

expert told him was not the approach an expert would use outside of litigation. Outside of litigation, Wagner would canvass independent third parties about the cost to design around the patent; he would not rely on a Motorola employee.

In relation to another patent, the court applied this same reasoning to the approach taken by Apple's expert. Apple's expert Napper stated that for another of the patents it would cost Motorola \$29-\$31 million to add a chip to its smartphones that would replace the functionality of Apple's patented feature and that he obtained this information from Apple's technical expert. Judge Posner applied Napper's analytical approach to a non-litigation hypothetical in which he assumed that Napper had been hired by Motorola to advise on how at the lowest cost Motorola might get the patent's functionality without infringing. He provided this hypothetical dialogue:

Motorola: "What will it cost us to invent around, for that will place a ceiling on the royalty we'll pay Apple?"

Napper: "Brace yourself: \$35 million greenbacks."

Motorola: "That sounds high; where did you get the figure?"

Napper: "I asked an engineer who works for Apple."

Motorola: "*Dummkopf!* You're fired."

According to the court, in the real world, Napper would have consulted an independent third party to obtain the information needed to formulate an expert

opinion. Because he did not, his testimony on this other patent was excluded.

Because neither Wagner nor Napper used the same approach in the litigation that would be used outside of litigation, their methodology was flawed. Judge Posner thus excluded each expert's testimony on respective patents. This conclusion raises the interesting question of to whom the expert may speak to get information to be considered when formulating the expert opinion. According to Judge Posner, reliance on a party's technical expert is not appropriate. Thus, in what may be a surprise to many trial attorneys, the opinion teaches that a testifying expert should not rely on information obtained from another testifying expert (or perhaps even from a party employee) if the information can be obtained from independent sources.

The court also considered the damages assessments propounded by each expert. As noted, for one of the patents, Wagner proposed a royalty of \$100,000. Apple's expert, Napper, estimated that a reasonable royalty for Motorola's infringement of the same patent was \$14 million. According to the court, this provides another test to assess the admissibility of the testimony. The size of the disparity of damages estimates is a warning sign. Either one of the experts is way off, or the estimation of the reasonable royalty is guesswork.

Napper based his estimate on a consumer survey performed by Motorola. However, that survey did not compare devices that had the patented feature with those that did not. Because the

patented feature was critical in the damages analysis, Napper's entire approach was flawed. As the court stated in a hypothetical view of what Napper's approach would have accomplished outside of litigation:

"Dummy! You haven't estimated the value of the [patented] feature."

Here again, Judge Posner provides another test for the identifying a "disabling problem": If an expert fails to conduct a responsible, relevant inquiry that would have been feasible to do, the expert opinion is suspect.

Ultimately, the court excluded both Wagner's and Napper's testimony on this patent.

Turning to the remaining patents, the court noted that consumer surveys measuring user preference for particular features in products have become increasingly routine in patent litigation. But the survey had better be done correctly and measure the preference for the patented feature and not some other attribute. This is so because evidence tending to apportion the defendant's profits and the patentee's damages between the patented and unpatented features is needed in virtually every patent damages assessment.

Judge Posner also noted that damages experts cannot just look at the patented feature and the accused product and stop there. Rather, he provided another point for consideration: The existence of lower cost alternatives to avoid infringement may act as a ceiling on the amount a defendant is willing to pay for a license.

The expert thus needs to consider the alternatives and, if they are rejected, cogent reasons for doing so must be provided. Failure to consider alternatives may render the expert's testimony subject to exclusion.

Judge Posner uses much of the foregoing in his consideration of the expert opinions for the remaining patents. And, he excludes all of the opinions. Thus, as the case stood on May 22, neither party had a witness to provide damages testimony or prove any actual damages.

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*Donald W. Rupert is a litigation partner at Marshall, Gerstein & Borun LLP. For over 35 years, Don has litigated patent and other IP cases in federal and state courts throughout the U.S. He has acted as first chair trial attorney in jury and bench trials, has argued cases before state and federal appellate courts and is a member of the Commercial Panel of the American Arbitration Association, arbitrating IP disputes. Mr. Rupert may be reached at (312)-474-9571 or [drupert@marshallip.com](mailto:drupert@marshallip.com).*

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