OPPORTUNITY LOST: ECONOMIC ANALYSIS IN APPLE V. MOTOROLA

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QUICK VIEW

Two years ago Judge Posner wrote an opinion in *Apple v. Motorola*[2] that caught the attention of economic experts and the lawyers who work with them. He excluded expert reports on both sides of the case, notably imagining a conversation in which one of Apple's experts reported his methodology to a client, to be rewarded with a resounding "*Dummkopf! You're fired*."[3]

Judge Posner made three central points, each plausibly grounded in what he saw as the requirement that economic experts employ in litigation the practices clients would demand from a business consultant. The first point was that such experts must add value; they may not simply recite contentions advanced by other experts. The second point was that economic experts may not extrapolate opinions from irrelevant comparisons. The third was that such experts must consider all economic options available to an accused infringer.

These points were sound and they implied a broader critique. Judge Posner plainly felt that customary practices in the economic analysis of patent cases are deficient and should be reformed. He rightly noted that when two opinions differ by a factor of 140, a difference present in this case and

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[2] Apple, Inc. v. Motorola, Inc., No. 1:11–cv–08540, 2012 WL 1959560 (N.D. Ill. May 22, 2012); Apple, Inc. v. Motorola, Inc. et al - Document 956, http://law.justia.com/cases/federal/district-courts/illinois/ilndce/1:2011cv08540/262961/956.

[3] *See Apple, Inc.*, 2012 WL 1959560, at *9 ("So again imagine this imaginary conversation between Napper and Motorola, which I'll pretend hired Napper to advise on how at lowest cost to duplicate the patent's functionality without infringement: 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.'").

unsurprising to those who litigate such cases, something fundamental is wrong. His opinion was transparently an exercise in what he saw as swamp draining.

After an initial wave of *schadenfreude* rippled through the expert ranks everyone had the same question: Will this approach stick? Last Friday came the answer: No. The Federal Circuit's opinion reversing Judge Posner sees no swamp, and that is unfortunate.[4]

Although notionally applying regional (7th) circuit law to the *Daubert* questions Judge Posner decided, the court's opinion establishes principles likely to influence future patent cases in any forum. None of these principles is compelled by *Daubert* or by the rules of evidence. Together they are likely to worsen economic analysis in patent cases.

The Federal Circuit's opinion rejects each of Judge Posner's central points. On the first point the court seemed to chide Judge Posner when it warned against a court imposing "its own preferred methodology"[5] at the expense of plausible alternatives, an ironic comment for a field in which experts routinely slog through the *Georgia Pacific* factors–a test articulated by a district court.[6] The court held "questions regarding which facts are most relevant or reliable to calculating a reasonable royalty are `for the jury.'"[7] Such questions are a large part of what a "method" is in this context, so we may expect looser constraints on methodology in the future.

The Federal Circuit's opinion does not explain what value an economist adds by repeating an engineer's statement about a competitor's costs. To add value, one would think, an economic consultant would analyze market data. In this regard Judge Posner's literary flourish proved costly. The Federal Circuit quoted, and seemed put off by, the *dummkopf* passage. The court held "[t]he district court's decision states a rule that neither exists nor is correct. Experts routinely rely upon other experts hired by the party they represent for expertise outside of their field."[8] Quite true. That, in part, was why Judge Posner perceived a systemic rather than an idiosyncratic problem.

The Federal Circuit's opinion is more significant on Judge Posner's second point and third points—extrapolations from comparisons and consideration of alternatives. Judge Posner excluded one expert's opinion in part on the ground that his figures with respect to one phone feature (turning a page with a tap rather than a swipe) actually aimed at another feature

[4] *See* Apple Inc. v. Motorola, Inc., 2014 WL 1646435 (Fed. Cir. Apr. 25, 2014).

[5] *See id.* at *19 ("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.").

[6] *See* Georgia–Pac. Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970).

[7] *Apple Inc.*, 2014 WL 1646435, at *19

[8] *Id.* at *25.

(which interpreted an imperfectly vertical swipe as a vertical swipe), which in turn were extrapolated from the price difference between a computer mouse and a trackpad. Judge Posner held the mouse-trackpad difference "tells one nothing about what they will pay to avoid occasionally swiping unsuccessfully because their swiping finger wasn't actually vertical to the screen,"[9] the function that was itself a proxy for the relevant damages figure. The Federal Circuit disagreed, noting that both the trackpad and the swipe feature involve finger gestures to communicate commands and that one of the client's engineers vouched for comparability. Imagine that.

The Federal Circuit relegated the comparability question largely to the jury:

> [I]f 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.[10]

The net result? If your technical expert tells your damages expert two technologies are comparable, everything else is for the jury. This aspect of the holding exemplifies what will no doubt be the most common lesson taken from the case: unless an expert is filmed throwing darts at numbers, even the most cogent criticisms will be held to go to weight rather than admissibility.

This aspect of the opinion threatens to bleed into the use of licenses rather than technology to derive a royalty. With respect to a separate issue the court held that "whether [asserted] licenses are sufficiently comparable such that Motorola's calculation is a reasonable royalty goes to the weight of the evidence, not its admissibility."[11] Taken literally that rule could undo much of the work the Federal Circuit has been doing in cases such as *LaserDynamics, Inc. v. Quanta Computer, Inc.*,[12] which held that "[w]hen relying on licenses to prove a reasonable royalty, alleging a loose or vague comparability between different technologies or licenses does not suffice."[13] Does it now suffice because it is a jury issue?

The Federal Circuit applied a similar approach to consideration of alternatives. Judge Posner's point was that a consultant asked to minimize costs from infringement would be derelict if he or she considered only

[9] *Apple, Inc.*, 2012 WL 1959560, at *8.
[10] *Apple Inc.*, 2014 WL 1646435, at *23.
[11] *Id.* at *30.
[12] LaserDynamics, Inc. v. Quanta Computer, Inc., 694 F.3d 51 (Fed. Cir. 2012).
[13] *Id.* at 79.

non-infringing ways to implement a function and ignored the possibility that the function could be deleted profitably. The Federal Circuit was unimpressed:

> [t]hat 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.[14]

Taken as a general rule (and the trackpad discussion certainly invites such a reading), the language will encourage fanciful comparisons at the expense of economically more probable options. Litigants will draw such comparisons in an effort to anchor jurors on a high or low number. Opinions that differ by a factor of 140 will be even more common than they are now. Not good.

Are the methods of patent damages analysis really so elastic that a difference of 140x bespeaks no cause for concern? Must we tolerate in innovation policy practices no one would rely on to decide any important question in their own lives? The Federal Circuit's decision implies that the answer is yes. Its opinion will ensure that we will see plenty more such differences. It could have been, and should have been, otherwise.

Cited as:

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[14] *Apple Inc.*, 2014 WL 1646435, at *29.