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How Apple v. Motorola could alter patent litigation

Judge Posner's decision increases importance of damage assessments

BY STEVEN SEIDENBERG
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It's a high-profile lawsuit between two industry giants. Apple Inc. and Motorola Inc. (now owned by Google Inc.) are accusing each other of patent infringement. At stake are hundreds of millions of dollars in damages, as well as court orders forbidding future smartphone sales in a market worth billions of dollars. So, of course, top legal talent represented both sides.

Yet somehow, both sides managed to lose.

On June 22, Judge Richard Posner ruled that both parties had failed to provide adequate evidence of their damages. Because the court couldn't calculate damages, neither side could obtain damages or an injunction. Moreover, Posner held, because Motorola had allowed its patent to be included in the technical standards for smartphones and had agreed to license this patent on fair, reasonable and nondiscriminatory (FRAND) terms, Motorola couldn't get an injunction to protect this patent.

Neither party, therefore, was entitled to obtain a remedy against the other. So Posner threw out the lawsuit, dismissing with prejudice both parties' infringement claims.

This decision could have wide ramifications—partly because it was issued by Judge Posner. A star academic at University of Chicago Law School and a member of the 7th Circuit for more than 30 years (he volunteered to preside over this patent trial), Posner is one of the most famous and respected judges in the nation. “He is brilliant, the most-cited U.S. legal scholar of the 20th century,” says IP consultant Florian Mueller.

Many experts thus expect Posner’s ruling in *Apple, Inc. v. Motorola, Inc.* will strongly influence other courts and administrative agencies. If that happens, damage assessments will become far more important in patent infringement cases. Parties will need to adopt new, more rigorous methods for determining patent damages. And patentees will be unable to obtain injunctions for infringements of their FRAND patents. All this “will fundamentally alter the nature of patent litigation,” says J. Gregory Sidak, chairman of Criterion Economics, which supplies economic analyses for use in legal disputes.

Trending Topic

Posner’s ruling is part of a recent trend. Federal Circuit rulings such as *Lucent Tech. Inc. v. Gateway Inc.* (2009), *ResQNet.com Inc. v. Lansa Inc.* (2010) and *Uniloc USA Inc. v. Microsoft Corp.* (2011) have required patentees to prove their infringement damages with increasing rigor.

“Judge Posner’s most recent decision is in line with cases requiring parties to apply economic expertise to patent damages, rather than just have contending experts on both sides,” says Paul Swanson, a member of Lane Powell. But, he adds, this ruling “does raise the bar further.” Posner applied the economic analysis requirement “more rigorously than most litigants have come to expect.”

Posner found major flaws in the analyses of both parties’ damage experts. These experts relied on information that their own side of the dispute provided rather than a disinterested third party. They failed to consider all possible methods of inventing around the patents. They used inapposite license agreements as a basis for calculating proposed royalty payments. They failed to isolate the value that consumers place on the patents, relying instead on the value consumers place on the overall product using the patents.

The result, according to Posner, was that the proposed testimony of both parties’ damages experts was too unreliable to be admitted into evidence. And without any evidence of damages, neither party would be entitled to any relief. The upcoming trial on infringement would be moot. So on the eve of trial, Judge Posner threw out both parties’ infringement suits.

Irreparable Harm

Posner's decision also builds on the Supreme Court's 2006 decision in *eBay Inc. v. MercExchange, L.L.C.* That decision rejected the practice of automatically granting injunctions to stop patent infringements. The high court held that patentees could obtain injunctions only after proving they had satisfied the usual standards for injunctive relief, including irreparable harm.

In order to show irreparable harm, a patentee must provide solid, admissible evidence of financial harm, Posner held in *Apple v. Motorola*. Neither Apple nor Motorola provided such evidence, so neither could get an injunction.

"Judge Posner's reasoning is that the inadequacy of monetary compensation—an indispensable requirement for injunctive relief—can only be determined if there's a credible damages report to start from. He didn't want to jump to the conclusion of inadequacy without having some reasonably reliable numbers on the table concerning monetary compensation," Mueller says.

This may seem reasonable. But it creates a dilemma for any patentee seeking an injunction, according to Mueller. If a patentee estimates its damages conservatively, a court is more likely to find that estimate is based on solid evidence; but the court is also more likely to find damages are an adequate remedy—and so deny an injunction. If a patentee provides a more ambitious estimate of damages, a court would be more likely to find irreparable harm; but the court also would be more likely to reject the estimate as not firmly supported by evidence—increasing the odds that the patentee would wind up with neither an injunction nor damages.

Thus, under Posner's standard, "parties must sometimes make a strategic decision whether to pursue damages rather than an injunction," says William Trueba, Jr., a member of Espinosa Trueba.

No Backdoors

Sometimes, parties won't have any choice in the matter. Those who allow their patents to be adopted as industry standards—and thereby agree to license their patents on a FRAND basis—cannot obtain injunctions against infringement of these patents, according to Posner. By agreeing to license a patent on FRAND terms, the patentee implicitly acknowledges that a royalty could adequately compensate it for infringement—and thus waives its right to an injunction. That's why, according to Posner, Motorola could not obtain an injunction on its FRAND patent.

"This is a ringing endorsement of the 'no injunction' policy on standard-essential patents," Mueller stated in a blog post. "Judge Posner's position on FRAND injunctions is unequivocal. He doesn't allow backdoors such as arguing that after someone has refused an offer, an injunction should be available."

Posner was the first judge to rule on the availability of injunctions for FRAND patents. He is unlikely to be the last. Posner's decision has been appealed, and experts are eager to see how much of this decision will be upheld.

"The Federal Circuit tends to reverse [district court rulings] at a higher rate than other circuit courts," Swanson says. But he adds that appellate judges "can't help but be influenced by who the trial judge is."

Patent Standards

Judge Richard Posner isn't the only one who thinks FRAND patents and injunctions don't mix. The Federal Trade Commission (FTC) told the Senate Judiciary Committee in July that it is dangerous to allow patentees to obtain injunctions against infringements of FRAND patents.

The FTC explained that as soon as a patent becomes part of a standard, the patentee obtains "the ability to demand and obtain royalty payments much higher than might have been available prior to adoption of the standard because these rates need not be based on the true market value of its patents, but instead on the costs and delays of switching away from the standardized technology. In other words, as Judge Posner noted, 'once a patent becomes essential to a standard, the patentee's bargaining power surges because a prospective licensee has no alternative to licensing the patent; he is at the patentee's mercy.'"

Nevertheless, the FTC didn't adopt an absolutist position that would always deny injunctions for FRAND patents. The agency left open the possibility that injunctive-type relief should be available when an infringer refuses to license a FRAND patent on reasonable terms.

COMMENTS

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