The Top 10 Expert Rulings of 2011

By Robert Ambrogi

Two Supreme Court opinions top our annual list of the year's most important cases involving expert witnesses. While one of the Supreme Court cases makes the list for what the court did, the other is included for what the court did not do.

Also on the list are two Federal Circuit cases that provide further guidance for attorneys and experts in patent litigation, two circuit cases that push the boundaries of Daubert, a mass-tort case right out of a John Grisham novel, and even a case from across the pond that is causing ripples here in the U.S.

As always, we welcome your feedback. Let us know what you think of our picks and of any cases you believe should be listed here.

1. Supreme Court Affirms Standard of Proof in Patent Cases

In an important opinion for every lawyer and expert involved in patent litigation, the Supreme Court ruled June 9 that proof of a patent's invalidity must be established by clear and convincing evidence. In so ruling, the court rejected arguments by Microsoft Corp. and other technology companies that a more lenient standard, proof by a preponderance of the evidence, should apply.

In its opinion, *Microsoft v. i4i Limited Partnership*, the court affirmed the standard of proof that the Federal Circuit Court of Appeals had applied for nearly 30 years and that had been the common law of patents prior to enactment of the Patent Act of 1952. Although the 1952 act stated that a patent is to be presumed valid and that a party challenging its validity bears the burden of proof, the act did not specify the standard of proof that courts should apply in such cases.

In a 1934 decision, the Supreme Court had held that the presumption of a patent's validity is "not to be overthrown except by clear and cogent evidence." The Federal Circuit, in a 1984 case, concluded that Congress intended to carry forth that standard when it wrote the 1952 act.

Rejecting Microsoft's arguments that a more lenient "preponderance of the evidence" standard should apply, the Supreme Court sided with the Federal Circuit. "Basic principles of statutory construction" require the conclusion that Congress meant to incorporate the clear and convincing standard, Justice Sonia Sotomayor wrote for the majority. "Squint as we may," she continued, "we fail to see the qualifications that Microsoft purports to identify in our cases."

2. Supreme Court Sidesteps 'Daubert' Use at Class Stage

When the Supreme Court agreed to hear the case of *Wal-Mart Stores Inc. v. Dukes* during its 2010-2011 term, many observers believed it would finally put to rest a question that has divided the circuits: To what extent must a court vet an expert witness under the *Daubert* standard prior to certification of a class action?

As it turned out, the court's opinion in the case, issued June 20, was notable for what it did not decide. Rather than face the *Daubert* issue directly, the court stepped gingerly around it, touching on it in its discussion but not deciding it.

Even so, the five-justice majority dropped a nugget of dictum that suggested how they would rule if they were to decide the issue. "The District Court concluded that *Daubert* did not apply to expert testimony at the certification stage of class-action proceedings," Justice Antonin Scalia wrote. "We doubt that is so."

A decisive ruling would have been significant because the circuits are split. In the *Wal-Mart* case appealed to the Supreme Court, the 9th Circuit had delivered an *en banc* opinion on April 26, 2010, holding that a full *Daubert* review is not required at the class certification stage. Just two weeks earlier, on April 7, 2010, the 7th Circuit had come to the opposite conclusion in *American Honda Motor Company Inc. v. Allen*, 600 F.3d 813, ruling that a full *Daubert* review is required if the expert's evidence is critical to class certification.

More recently, in a July 6, 2011, opinion, *Cox v. Zurn Pex Inc.*, the 8th Circuit affirmed a middle-of-the-road approach, where the trial judge held only a limited *Daubert* inquiry into whether the plaintiffs' experts' opinions should be considered in deciding the issues relating to class certification. All that is required at the certification stage, the circuit court held, is that the trial court scrutinizes the expert testimony "in light of the criteria for class certification and the current state of the evidence."

The 11th Circuit also ruled on the issue this year in a March 9 opinion, siding with the 7th Circuit and requiring a full *Daubert* hearing. However, the court designated its opinion in the case, *Sher v. Raytheon Co.*, as unpublished and non-precedential.

While the Supreme Court's decision in *Wal-Mart* could put the uncertainty to rest, the case instead earns a spot on our top-10 list for its failure to take a stand.

3. Tossing Out the Formula for Setting Reasonable Royalties

Damages experts in patent cases were sent scrambling back to their calculators after the Federal Circuit Court of Appeals set aside a $388 million jury verdict against software giant Microsoft Corp in January. In the Jan. 4 decision, *Uniloc USA, Inc. v. Microsoft Corporation*, the court concluded that a formula widely used by experts to calculate reasonable royalties in patent litigation was "fundamentally flawed" and did not stand up to the test for admissibility of expert testimony.

At issue was the 25 percent rule of thumb routinely used by licensing and accounting experts to approximate the reasonable royalty rate that a manufacturer would be willing to pay for a license to use a patented product. Although it had its critics, the 25 percent rule has been commonly used in patent litigation, particularly in software cases, and its admissibility into evidence rarely had been challenged.

Even the Federal Circuit, by its own admission, "has passively tolerated" the use of the rule "where its acceptability has not been the focus of the case."

All that changed with this opinion squarely rejected the rule as a basis for calculating damages. "This court now holds as a matter of Federal Circuit law that the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation," the court said.

"Evidence relying on the 25 percent rule of thumb is thus inadmissible under *Daubert* and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue."

Fortunately for attorneys and experts alike, the court offered guidance as to what types of evidence they could use going forward. "To be admissible, expert testimony on a reasonable royalty rate must 'carefully tie proof of damages to the claimed invention's footprint in the market place,'" the court said.

And as it has done before, the court expressly sanctioned the use of the so-called *George-Pacific* factors, a set of considerations for calculating a reasonable royalty derived from the opinion, *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970). But the court cautioned that any evidence "must be tied to the relevant facts and circumstances of the particular case at issue and the hypothetical negotiations that would have taken place in light of those facts and circumstances at the relevant time."

4. Federal Circuit Further Refines Test for Process Patentability

In an Aug. 16 opinion, *CyberSource Corp. v. Retail Decisions Inc.*, Federal Circuit Court of Appeals held that a method for verifying the validity of credit-card transactions over the Internet is not patentable. In so ruling, the Federal Circuit had its first significant opportunity to address the law of business-process and software patents since the Supreme Court's 2010 opinion in *Bilski v. Kappos*.

In *Bilski*, the Supreme Court endorsed the Federal Circuit's "machine-or-transformation" test for analyzing the patentability of a process under § 101 of the Patent Act. However, it rejected that as the only test, while passing on the chance to say what other tests should be employed, short of emphasizing the broad rule that a process cannot be patented if it is purely an "abstract idea."

In *CyberSource*, the Federal Circuit's ruling turned on its conclusion that the process at issue was one that could be performed by the human mind. Citing two Supreme Court cases from the 1970s, the court said that "methods which can be performed mentally, or which are the equivalent of human mental work, are unpatentable abstract ideas." In the context of computer applications, if the same outcome could be achieved using "pencil and paper," then it is a mental process and therefore not a patentable one, the court said.

At issue was a method used to verify credit card transactions by comparing information about a card user's Internet address with other Internet addresses that have been used in connection with the same card. Concluding that all of the claimed patent's steps "can be performed in the human mind, or by a human using a pen and paper," the court held that it is not patentable.

For the same reason, the court struck down a second claim of the patent – a so-called *Beauregard* claim after a 1995 Federal Circuit decision – that related to computer-readable medium containing program instructions for a computer to perform a particular process. The mere fact that CyberSource coupled its unpatentable mental process with a machine-readable medium would not, of itself, change the outcome, the court said.

Even so, the court suggested that it might have reached a different conclusion if, "as a practical matter, the use of a computer is required to perform the claimed method."

5. Requiring Expert Testimony to Test a Plaintiff's Claim

As judges become more aggressive in managing their dockets, one tool they are using is the "Lone Pine" order. Derived from a 1986 New Jersey toxic tort case, *Lore v. Lone Pine Corp.*, a Lone Pine order is a case management device in which the judge requires plaintiffs to make a *prima facie* showing of their injuries and damages and to provide some level of evidentiary support for the key aspects of their claims.

While Lone Pine orders have become increasingly common among trial judges in both state and federal courts, only one federal circuit court had directly ruled on their propriety. In a 2000 opinion, *Acuna v. Brown & Root Inc.*, the 5th Circuit upheld the use of a Lone Pine order as consistent with "the wide discretion afforded district judges over the management of discovery under Fed.R.Civ.P. 16."

For that reason alone, the Jan. 27, 2011, opinion from the 9th U.S. Circuit Court of Appeals, *Avila v. Willits Environmental Remediation Trust*, was significant, marking just the second federal circuit to address the issue. But what earns the case a spot on this list is that the court specifically addressed whether a Lone Pine order could require expert evidence without violating established rules of procedure for discovery and summary judgment.

In the trial court, the judge entered a Lone Pine order directing each of the plaintiffs to provide a written statement setting forth "all facts" supporting their claims of toxic exposure, together with written statements from experts describing the conditions for which they sought recovery, identifying the chemicals to which they were exposed, explaining the routes of exposure, opining on causation, and setting forth the scientific and medical basis upon which the opinions were based.

On appeal, the plaintiffs asked the 9th Circuit to invalidate the order, contending that it bypassed established rules of procedure for discovery and summary judgment. The 9th Circuit disagreed, concluding that the trial judge's order was fully consistent with *Daubert*. "A case management order that focuses on key issues for expert opinion is in aid of the *Daubert* responsibilities the district judge must discharge," the court said.

6. Can a Replacement Judge Undo an Earlier *Daubert* Ruling?

When a trial judge conducts a *Daubert* hearing and makes a decision to allow an expert's testimony, you might think that would be the end of the story. But it is not necessarily so, according to an Aug. 3 ruling by the 10th U.S. Circuit Court of Appeals. A second trial judge who takes over a case has discretion to reverse the earlier judge's *Daubert* determination, the court held.

In *Rimbert v. Eli Lilly and Company*, the 10th Circuit refused to accept the plaintiff's argument that the "law of the case" legal doctrine should preclude the second trial judge from revisiting the first judge's ruling. The court said it would not apply the doctrine to rulings revisited prior to entry of final judgment, reasoning that judges generally remain free to reconsider their earlier interlocutory orders. This holds true even when a case is reassigned from one judge to another, the circuit panel said.

In their appeal, the plaintiffs argued that the "law of the case" doctrine should constrain the second judge's ability to revisit the first judge's discretionary *Daubert* ruling. The doctrine is designed to promote finality and prevent re-litigation of previously decided issues, they asserted.

But the 10th Circuit disagreed, noting that it had previously refused to apply the doctrine to prevent a trial judge from revisiting the judge's own rulings prior to entry of final judgment. The same reasoning holds true even when the case is reassigned from one judge to another, the court said.

"The doctrine does not bind a judge to follow rulings in the same case by another judge of coordinate jurisdiction as long as prejudice does not ensue to the party seeking the benefit of the doctrine," the court explained.

7. A U.K. Case Raises Concerns about Expert Immunity in the U.S.

On March 30, 2011, the U.K. Supreme Court overturned 400 years of legal precedent and ruled that expert witnesses could be sued for negligence. While judicial opinions from across the pond rarely get much notice here in the U.S., this one sent shockwaves that rocked experts even here.

In the U.K. case, *Jones v. Kaney*, the court held that there was no justification in law or practice to continue to hold expert witnesses immune from suit with regard to the evidence they give in court or the views they express in anticipation of court proceedings.

In the U.S., the case provided a reminder that a principle long held as inviolable may not in fact be so. Yes, in federal courts, the immunity of expert witnesses remains the rule and there appears to be no threat of it eroding. However, in state courts, experts may not be so safe. In recent years, six state courts have lowered the shield that protects experts from liability, allowing them to be sued in actions for professional malpractice.

Notably, the erosion of expert immunity is occurring in cases brought by the very parties who retained the experts. Plaintiffs are suing so-called friendly experts – the same experts they once selected and retained – alleging that they were professionally negligent in their trial testimony or trial preparation.

In cases in California, Connecticut, Missouri, New Jersey, Pennsylvania and Texas, courts have been receptive to such lawsuits, concluding that experts do not have blanket immunity from civil liability when they are negligent in providing their opinions.

Thus, the decision of the U.K. Supreme Court is significant not so much for its impact across the pond, but as a reminder that, even here, experts are not necessarily safe from suits.

8. When an Expert's Change of Mind carries a $42 Million Price Tag

It was a case with a plot twist worthy of a John Grisham novel. And it highlighted the potentially cataclysmic consequences of an expert's change of mind.

On Feb. 4, the Kentucky Court of Appeals reversed a $42 million judgment against plaintiffs' attorneys in a Fen-Phen class action. That judgment, in turn, had resulted from an earlier case, a class action against American Home Products over the diet drug known as Fen-Phen. That case was settled for $200 million.

But when the plaintiffs later discovered that their attorneys had paid $127 million of the settlement funds to themselves and others, they sued the lawyers for fraudulent misrepresentation and breach of fiduciary relationship. On plaintiffs' motion for summary judgment, the trial judge sided with plaintiffs and awarded them $42 million.

In opposing summary judgment, the defendant attorneys had submitted the affidavit of mass tort expert Kenneth R. Feinberg, a lawyer well known for having overseen the September 11th and the BP Deepwater Horizon Disaster victim compensation funds. Feinberg's affidavit expressed the opinion that the attorneys had handled the settlement funds "properly and ethically." "I have seen nothing that credibly suggests any misconduct by the attorneys."

On appeal, the Court of Appeals reversed the $42 million judgment, based solely on Feinberg's affidavit. That alone was enough to raise a genuine issue of fact requiring that the case be scheduled for trial, the court held.

What the Court of Appeals apparently did not know, however, was that by then Feinberg had already renounced his own opinion. In a separate proceeding brought by the Kentucky Bar Association to disbar one of the plaintiffs' lawyers, Stanley Chesley, for his conduct with regard to the Fen-Phen case fees, Feinberg testified that he had prepared the affidavit to help Chesley, who was a friend of his, and that he relied on information provided by one of Chesley's Fen-Phen co-counsel.

As the trial commissioner who presided over the disbarment wrote about Feinberg's testimony, "In this proceeding Feinberg disavowed the information which he provided in his affidavit and stated that if he knew what he knows now he would have thrown the affidavit in the wastebasket."

With that ironic twist, attorneys for the plaintiffs said they would take the matter to the Kentucky Supreme Court, hoping to reinstate the $42 million judgment.

9. Court Cuts Experts' Fees as Unreasonably High

When a litigant seeks to depose an expert under the Federal Rules of Civil Procedure, it must "unless manifest injustice would result … pay the expert a reasonable fee." But can an expert's fee be so exorbitant that its payment would necessarily result in manifest injustice?

That was the contention raised by the U.S. Securities and Exchange Commission in a civil-enforcement action against Lisa Berry, former general counsel of KLA-Tencor Corp, brought in federal court in San Jose, Calif. The SEC said it should not have to pay the costs of deposing Berry's experts because their fees were so high that it would suffer "manifest injustice."

But because the SEC was neither indigent nor able to demonstrate that payment of the fees would cause it undue hardship, U.S. Magistrate Judge Howard R. Lloyd concluded that the manifest injustice exception did not apply and that the SEC must pay the deposition fees of Barry's experts.

That was not the end of the story, however. Noting that the rule also requires an expert's fees to be reasonable, the judge found that two of Berry's experts were charging fees that were unreasonably high. One charged $950 an hour and the other charged $1,600 an hour, while all the other experts in the case charged between $295 and $750 an hour.

Thus, while the judge said the SEC must pay the fees, he reduced the amounts these two experts could charge, dropping the $950 hourly rate to $750 and the $1,600 hourly rate to $800. (*SEC v. Berry*, No. C07-04431.)

10. A Stalwart Hold-Out State Adopts Daubert

The Supreme Court issued its seminal opinion on expert evidence, *Daubert v. Merrell Dow Pharmaceuticals*, in 1993. Ever since, a growing number of state courts have adopted the *Daubert* holding as their own. Even so, one rigid hold-out was Arizona, where the courts had long adhered to the standard set by the 1923 case, *Frye v. United States* – the very case that *Daubert* superseded.

Last year, in an attempt to change this, the Arizona legislature passed a bill making *Daubert* the law of the state. But in January the state Supreme Court struck down the law as unconstitutional, ruling that the Arizona constitution gave it the exclusive power "to make rules relative to all procedural matters in any court."

Given this history, it was notable when, on Sept. 7, 2011, the Arizona Supreme Court issued an order amending the state's Rules of Evidence to mirror Rule 702 of the Federal Rules of Evidence and the *Daubert* principles it embodies. The amendment is to take effect on Jan. 1, 2012.

"The amendment recognizes that trial courts should serve as gatekeepers in assuring that proposed expert testimony is reliable and thus helpful to the jury's determination of facts at issue," said the explanatory comment that accompanied the amendment.

"The amendment is not intended to supplant traditional jury determinations of credibility and the weight to be afforded otherwise admissible testimony, nor is the amendment intended to permit a challenge to the testimony of every expert, preclude the testimony of experience-based experts, or prohibit testimony based on competing methodologies within a field of expertise," the comment continued.

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