



Spotlight on Intellectual Property Damages

A newsletter covering recent court decisions addressing intellectual property damages

Excerpt from Issue 1 – April 2019

Northern California Court Denies Discovery of Foreign Customers and Sales Data on Non-Accused Products in Reasonable Royalty Case

MLC Intellectual Property LLC v. Micron Technology, Inc., Case No. 14-cv-03657 (N.D. Cal.), Order Denying Plaintiff's Motion to Compel, January 14, 2019

Executive Summary

MLC Intellectual Property LLC filed a motion to compel against Micron Technology, Inc. Among the issues presented to the court were: (1) whether Micron should be compelled to identify its customers for foreign sales for which damages can be sought under *Power Integrations*; and (2) whether Micron should be compelled to provide sales data and other discovery regarding products that MLC did not accuse of infringement.

As to the first issue, the court determined that *Power Integrations* did not support MLC's request for Micron to identify its foreign customers. As to the second issue, the court found that MLC's complaint and infringement contentions did not accuse all of Micron's MLC/TLC NAND flash products or exemplary products. Therefore, the court denied MLC's motion to reopen discovery. The court, however, did not address whether MLC may seek damages on the broader group of products and left that issue for another day.

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On August 12, 2014, MLC filed a complaint against Micron in the Northern District of California for infringement of U.S. Patent No. 5,764,571 ("the '571 patent").¹ The '571 patented invention generally relates to non-volatile memory devices and in particular involves "an apparatus and method for programming multi-level memory cells that may be programmed to multiple states and reliable ways to program and correctly read cells for multiple programmed states."² MLC alleged that certain of Micron's flash memory products, which may be used in consumer products such as tablet computers, personal music players, smart phones, and other wireless devices, infringed the '571 patent.³

On December 19, 2018, after the close of fact discovery, MLC filed a motion to compel seeking to compel Micron 1) to identify its customers for foreign sales for which damages can be sought under *Power Integrations*; and 2) to provide sales data and other discovery regarding products that MLC did not accuse of infringement.⁴ After a hearing, the court denied MLC's motion to compel.⁵

Identification of Micron's Customers of Foreign Sales

MLC moved the court to order Micron to "identify customers for [products involved in foreign sales] and produce all necessary information to identify all foreign sales for which damages can be sought" under *Power Integrations*.⁶ MLC stated, "In its November 26 Order, the Court recognized that some courts have found worldwide sales information to be relevant to reasonable royalty calculations" and "[t]he Court further recognized that although the 'case law



regarding the relevance of foreign sales to the calculation of damages is developing' ... these cases compel discovery of foreign sales."⁷

In its order, the court acknowledged that its prior order "directed Micron to produce foreign sales information," however, the court was not persuaded that MLC was "also entitled to know the identities of Micron's customers for those foreign sales under *Power Integrations*."⁸ The court explained that in *Power Integrations*, the plaintiff and defendant were competitors, and the court in that case held that the plaintiff could seek damages for lost foreign sales which the plaintiff would have made but for the defendant's domestic infringement.⁹ The court went on to state, "Here, [MLC] is a non-practicing entity, and is seeking a reasonable royalty and not lost profits as damages."¹⁰ Accordingly, the court determined that *Power Integrations* does not support MLC's request for Micron to identify its foreign customers.¹¹

Sales Data and Other Discovery Re: Micron's Unaccused Products

MLC also moved the court for discovery to be reopened on the grounds that Micron had not met its discovery obligations by withholding discovery regarding certain MLC/TLC products that correspond to other Design IDs aside from the 13 Design IDs that had already been produced through discovery.¹² Micron responded that it had produced discovery for all accused products and a broader group of covered products and that MLC was improperly requesting discovery on products that it did not accuse of infringement in its complaint or infringement contentions.¹³ Micron also asserted that MLC was not diligent in pursuing discovery, arguing that Micron had earlier notified MLC "as early as 2017 that the 174 Accused Products (or larger group of products covered by the 13 Design IDs) did not constitute the entire universe of Micron's MLC/TLC NAND flash products."¹⁴

The court held that Micron met its discovery obligations on the accused devices, finding that the "complaint and the infringement contentions did not accuse 'all' of Micron's MLC/TLC NAND flash products, nor did the complaint and infringement contentions accuse exemplary products."¹⁵ The court cited generally to Patent L.R. 3-4 "requiring production of '[d]ocuments sufficient to show the sales, revenue, cost, and profits for accused instrumentalities ... for any period of alleged infringement,'" and to cases "denying motion to compel discovery related to products that were not specifically identified as accused products in the plaintiff's preliminary infringement contentions."¹⁶

The court noted that Micron's discovery responses "may have led MLC to believe that the 174 MPNs and the 13 Design IDs covered the exact same group of products."¹⁷ The court's order reads: "The Court leaves for another day whether MLC may seek damages for the broader group of products covered by the 13 Design IDs."¹⁸ However, the court determined that MLC's interrogatories and Micron's responses, and the parties' meet and confer e-mails, show that MLC and Micron distinguished between the Accused Products and the larger universe of Micron's MLC and TLC NAND flash products.¹⁹ Accordingly, the court denied MLC's motion to reopen discovery on Micron's unaccused products.²⁰

Author(s): Armando C. Chavez

Editor(s): Barry L. Bell

Cases Referenced:

Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.,
No. CV 04-1371 LPS, 2018 WL 4804685 (D. Del. Oct. 4, 2018)
Power Integrations, Inc. v. Fairchild Semiconductor Int'l Inc.,



¹ Complaint for Patent Infringement, *MLC Intellectual Property LLC v. Micron Technology, Inc.*, Case No. 14-cv-03657 (N.D. Cal.), August 12, 2014; Order Denying Defendant's Motion for Leave to Amend Invalidity Contentions, *MLC Intellectual Property LLC v. Micron Technology, Inc.*, Case No. 14-cv-03657 (N.D. Cal.), November 19, 2018, at 1.

² *Id.* at 1.

³ *Id.* at 2-4.

⁴ The Court also addressed the issue of "has Micron complied with the Court's November 26, 2018 discovery order and related discovery orders." Order Denying Plaintiff's Motion to Compel, *MLC Intellectual Property LLC v. Micron Technology, Inc.*, Case No. 14-cv-03657 (N.D. Cal.), January 14, 2019, at 1.

⁵ *Id.*

⁶ *Id.* at 1.

⁷ *Id.* at 17.

⁸ Order Denying Plaintiff's Motion to Compel, *MLC Intellectual Property LLC v. Micron Technology, Inc.*, Case No. 14-cv-03657 (N.D. Cal.), January 14, 2019, at 4.

⁹ *Id.* at 4.

¹⁰ *Id.* at 5.

¹¹ *Id.* at 5.

¹² *Id.* at 2.

¹³ *Id.* at 2.

¹⁴ *Id.* at 2.

¹⁵ *Id.* at 2-4.

¹⁶ *Id.* at 4.

¹⁷ *Id.* at 3.

¹⁸ *Id.* at 3.

¹⁹ *Id.* at 3.

²⁰ *Id.* at 4.



Delaware Court Partially Excludes Plaintiff's and Defendant's Damages Expert Opinions Due to Methodology and Support Issues

Bayer Healthcare LLC v. Baxalta Inc., et al., Case No. 16-CV-1122-RGA (U.S.D. Del., Jan. 25, 2019)

Executive Summary

Delaware District Court denied portions of both plaintiff's and defendants' damages expert opinions after each side sought to exclude the opposing party's expert testimony.

Plaintiff contended that Defendants' damages opinion 1) failed to fully incorporate the assumption that the patent is valid and infringed, 2) included an arbitrary apportionment analysis lacking economic foundation, and 3) failed to demonstrate that the comparability of licenses relied upon to the hypothetical negotiation-based license. On the arguments related to infringement and apportionment, the court disagreed with Plaintiff. However, the court agreed with Plaintiff that some portions of Defendant's expert's opinions did not properly include an assumption of infringement and accordingly excluded portions of the expert's opinions. On the issue of license comparability, the court rejected the Plaintiff's argument regarding technical comparability but agreed with its arguments on economic comparability and excluded Defendants' damages expert's comparable license opinion.

Defendants argued to exclude portions of Plaintiff's damages expert's testimony due to the Plaintiff's expert 1) use of the Nash Bargaining Solution without tying the analysis to the particular facts and circumstances in the instant case and 2) failure to properly apportion damages. The court sided with Defendants on the first issue finding that the expert's analysis failed to tie the facts and circumstances of the case to the analysis and excluded the expert's reasonable royalty rate opinion, which was based on the Nash Bargaining Solution. On the second argument regarding apportionment, the court found Plaintiff's expert's analysis adequately reliable and appropriately connected to the facts and circumstances of the case and admitted the expert's reasonable royalty opinion.

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In December 2016, Bayer Healthcare LLC ("Bayer" or "Plaintiff") filed suit against Baxalta Inc., Baxalta US Inc., and Nektar Therapeutics ("Baxalta" or "Defendants") alleging infringement of Bayer's U.S. Patent No. 9,364,520 ("the 520 patent") related to a protein factor essential to blood clotting when an injury has occurred.¹ Both sides sought to exclude the opposing experts' opinions on numerous bases.

Bayer's Motion to Exclude

Bayer sought exclusion of Baxalta's damages expert for failure 1) to assume a valid and infringed patent, 2) to perform a proper apportionment, and 3) to demonstrate technical and economic comparability of licenses.

Assumption of Validity and Infringement

Bayer contended that Baxalta's damages expert failed to fully incorporate a fundamental assumption that the patent is valid and infringed, arguing that Baxalta's damages expert based his analysis on Defendants' technical expert's assertions that the patent-at-issue provides little incremental value over prior art.



On the point of validity, the court disagreed, finding that Defendants' damages expert's testimony is not "inconsistent with the assumption that the '520 patent is valid"² but "that the patent 'makes at most a small 'improvement' to the prior art,' and thus the parties to the hypothetical negotiation 'would have accorded little or no value to the '520 patent compared to prior art."³ The court also noted, "Validity does not define a patent's economic value—a patent can be valid yet offer little economic value over existing inventions. Thus ... damages may require technical comparisons between claimed invention and prior art."⁴

Regarding the assumption of infringement, the court did find that portions of Defendants' damages expert's testimony was "inconsistent with the assumption of infringement" based on the court's claim construction and accordingly excluded the related portions of the expert's opinions.⁵

Apportionment

Bayer also argued that Baxalta's damages expert's apportionment analysis was arbitrary and lacking in economic foundation.⁶ The court, however, found that the expert "provided sufficient evidence to show that he applies reliable methods to the facts of this case to support"⁷ the apportionment analysis. The court also noted that Bayer's arguments were issues of weight and credibility better addressed through cross-examination.

Comparability of Licenses

Bayer further maintained that Baxalta's damages expert failed to demonstrate that the licenses relied upon were technically and economically comparable to the license to which the parties would have agreed in the hypothetical negotiation.

On the issue of technical comparability, Bayer contended that the expert's criteria for selecting comparable licenses was overly broad and referenced *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1327-32 (Fed. Cir. 2009) and *M2M Solutions LLC v. Enfora, Inc.*, 167 F Supp. 3d 665 (D. Del. 2016). In response, the court noted that in both of these cases, "the parties failed to even identify the relevant technology in the asserted patent and the prior licenses."⁸ In this matter, however, the court found that Baxalta's expert met the standard under *Daubert* regarding technical comparability by identifying the relevant field of manufacturing and describing "the specific manufacturing technology in each of the prior licenses."⁹

Regarding economic comparability, Bayer maintained that a license resulting from the hypothetical negotiation would be a "non-exclusive, running royalty license between competitors."¹⁰ It argued that Baxalta's damages expert's four selected licenses were not comparable to the hypothetical license in that only one of the selected licenses was non-exclusive, only two were between competitors, and none included a running royalty.

The court acknowledged the strength of Bayer's argument regarding the running royalty license that would result from the hypothetical negotiation and the lump sum licenses used by Baxalta's expert. Citing *Lucent*, the court noted, "Significant differences exist between a running royalty license and a lump-sum license."¹¹ However, provided some basis for comparability can be demonstrated, such lump sum licenses can still be relevant to a running royalty damages analysis.

After reviewing the payment terms of the licenses used by Baxalta's damages expert, the court found that the expert failed "to show 'some basis for comparison' to rely on the selected licenses to support his running royalty opinion"¹² and excluded the expert's comparable license opinion.



Baxalta's Motion to Exclude

Baxalta also sought to exclude portions of Bayer's damages expert's opinions due to the expert's failure to tie his Nash Bargaining Solution analysis to case facts and to perform an appropriate apportionment analysis.

Failing to Tie Methodology to Case Facts

Citing *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1325, 1333-34 (Fed. Cir. 2014), Baxalta argued that Bayer's expert use of the Nash Bargaining Solution without tying the analysis to the particular facts and circumstances in this case essentially turned the Nash Bargaining Solution into "a 'rule of thumb' inadmissible under *Daubert*."¹³ In response, Bayer cited *AstraZeneca AB v. Apotex Corp.*, 782 F.3d 1324, 1332-33 (Fed. Cir. 2015) in which the Federal Circuit upheld the district court's affirmation of the use of a 50/50 profit split to determine royalty damages.

In this matter, Bayer's damages expert performed an analysis to determine the maximum and minimum royalty rates based on an incremental profit analysis and then, under his assumption that the parties to the hypothetical negotiation would have had equal bargaining power, concluded that the reasonable royalty would be the midpoint between the maximum and minimum incremental profits amounts. Bayer argued that this methodology is not employing the Nash Bargaining Solution but rather an analysis under "the *Georgia-Pacific* framework to account for the similar size and sophistication of the negotiation parties, which indicates equal bargaining power."¹⁴

The court, however, sided with Baxalta stating the expert's "50/50 split analysis is materially identical to the excluded testimony in *VirnetX*. [Plaintiff's expert] invokes the Nash Bargaining Solution without establishing the necessary Nash premises. Instead of applying the 50/50 split to the incremental profits directly, like the expert in *VirnetX*, [Plaintiff's expert] applies the split to a range of royalty rates, with the upper bound based on the incremental profits. See *VirnetX*, 767 F.3d at 1331-34. I do not think that changes the admissibility analysis. [Plaintiff's expert's] use of a range of royalty rates does not cure his failure to tie the Nash premises to the facts of this case. Therefore, [Plaintiff's expert's] opinion that a reasonable royalty rate is 'the mid-point of the bargaining range' is excluded, including any subsequent opinions that rely on that mid-point rate."¹⁵

Apportionment

Second, Baxalta claimed that Bayer's damages expert did not properly apportion damages. In his analysis, Bayer's expert calculated the difference in profits between the infringing product and a prior generation product considered almost identical absent the infringing features. Baxalta argued that apportioning down to the product was not sufficient but rather further apportionment should be performed to account for the non-infringing features of each product. The court disagreed, however, finding Bayer's expert's "apportionment analysis sufficiently reliable and related to the facts of this case,"¹⁶ and did not exclude the expert's reasonable royalty opinion.

Author(s): Krista L. Santino

Editor(s): Barry L. Bell

Cases Referenced:

Bayer Healthcare LLC v. Baxalta Inc. et al., Case No. 16-cv-1122-RGA (D. Del. Jan. 25, 2019)



Lucent Techs., Inc. v. Gateway, Inc., 580 F.3d 1301, 1327-32 (Fed. Cir. 2009)

M2M Solutions LLC v. Enfora, Inc., 167 F. Supp 3d 665 (D. Del. 2016)

VirnetX, Inc. v. Cisco Sys., Inc., 767 F.3d 1308, 1325, 1333-34 (Fed. Cir. 2014)

AstraZeneca AB v. Apotex Corp., 782 F.3d 1324, 1332-33 (Fed. Cir. 2015)

¹ Complaint, *Bayer Healthcare LLC v. Baxalta Inc., et al.*, Case No. 16-CV-1122-RGA (U.S.D. Del.), Dec. 5, 2016; Memorandum Order, *Bayer Healthcare LLC v. Baxalta Inc., et al.*, Case No. 16-CV-1122-RGA (U.S.D. Del.), Jan 25, 2019, at 4.

² Memorandum Order, *Bayer Healthcare LLC v. Baxalta Inc., et al.*, Case No. 16-CV-1122-RGA (U.S.D. Del.), Jan. 25, 2019, at 4.

³ *Id.* at 4.

⁴ *Id.* at 4.

⁵ *Id.* at 5.

⁶ *Id.* at 6.

⁷ *Id.* at 7.

⁸ *Id.* at 9.

⁹ *Id.* at 9.

¹⁰ *Id.* at 9.

¹¹ *Id.* at 10.

¹² *Id.* at 11.

¹³ *Id.* at 12.

¹⁴ *Id.* at 14.

¹⁵ *Id.* at 15–16.

¹⁶ *Id.* at 18.



Eastern District of Texas Court Denies Defendants' Motion to Exclude Plaintiff's Damages Expert

Red Rock Analytics, LLC v. Samsung Electronics Co., Ltd., et. al., Case No. 2:17-CV-00101-RWS-RSP (E.D. Tex. Feb. 6, 2019)

Executive Summary

U.S. Magistrate Judge Roy Pain rejected all four of the arguments brought by Samsung Electronics Co., Ltd., et. al, in its motion to exclude Red Rock's damages expert. Samsung had argued that Red Rock's damages expert's 1) calculations through the date of patent expiration were speculative, 2) apportionment analysis was unreliable, 3) reliance on Red Rock's technical expert's analysis was flawed due to improper apportionment, and 4) the *Georgia-Pacific* analysis improperly converted lump-sum license arrangements into a running royalty. Overall, the court disagreed with Samsung's arguments noting that these issues would better be addressed through cross examination and decided by the jury.

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In this matter, originally filed in February 2017, Red Rock alleged Samsung infringed Red Rock's U.S. Patent No. 7,346,313 ("313 Patent").¹ Accused products include mobile hotspots, cellular phones, tablets, and notebooks.² Red Rock's damages expert opined that Red Rock was owed a minimum of \$75.9 million in reasonable royalty damages.³

In seeking to exclude portions of Red Rock's damages testimony, Samsung presented four primary arguments.

Future Damages

First, Samsung argued that Red Rock's damages expert's calculation of damages through the date of patent expiration was "based on guesswork, not evidence."⁴ To this point, Samsung disagreed with the expert's use of a constant sales amount from 2017 through the patent expiration date without sufficient evidence.

The court found Samsung's arguments unpersuasive citing prior case law that states a "lump sum may be based on developments that have occurred after the date of the hypothetical negotiations, including realistic projections of future sales."⁵ The court also maintained that Red Rock's expert attempted to project sales using available sales data and that Samsung failed to demonstrate why the analysis was "purely speculative."⁶

Apportionment

Second, Samsung argued that Red Rock's expert's apportionment analysis was "unreliable because he relied on a licensing program that was rejected by the Federal Circuit as being impacted by standardization."⁷

The judge rejected Samsung's argument noting that at most this argument went more to the issue of comparability and less to the issue of apportionment. "Apportionment concerns what part of the infringing features are incorporated into the accused products, whereas comparability concerns whether the ... Licenses are a good measure of the value of the patented invention."⁸ The judge further noted that the issue regarding comparability is better left to cross-examination the expert as opposed to any exclusion by the court.



Reliance on Technical Expert

In its third argument, Samsung contended that Red Rock’s damages expert’s reliance on the technical expert’s analysis was flawed because that technical expert’s analysis failed to properly apportion the alleged value of the ‘313 patent.

On this point, the judge found that Red Rock’s technical expert did appropriately account for “the claimed invention’s footprint in the market place,” and its damages expert “explicitly” accounted for non-infringing aspects of the technology at issue.⁹ The court further noted that Samsung’s arguments on this point were with the damages expert’s conclusions, not the methodologies employed. Accordingly, the court found the methodology reasonable and rejected Samsung’s arguments denying the motion for exclusion on this basis.

Conversion of Lump Sum to Running Royalty

Finally, Samsung argued that Red Rock’s expert’s analysis under *Georgia-Pacific* converted lump-sum license arrangements into a running royalty rate thereby ignoring evidence that prior patent license agreements entered into by Samsung did not include running-royalty type arrangements.

The court responded that while the analysis performed by Red Rock’s damages expert was not consistent with the specific license Samsung used in its argument, this fact alone did not invalidate the analysis. In denying Samsung’s argument, the court further noted, “Whether his specific methodology and the reasoning are persuasive is a question for the jury.”¹⁰

Overall, the motion to exclude certain opinions offered by Red Rock’s damages expert was denied as the court disagreed with Samsung’s arguments on each of the four issues.

Author(s): Krista L. Santino

Editor(s): Barry L. Bell

Case Referenced:

Red Rock Analytics, LLC v. Samsung Elecs. Co.,
Case No. 2:17-CV-101-RWS-RSP (E.D. Tex. Feb. 6, 2019)

¹ Red Rock Analytics, LLC’s *Complaint for Patent Infringement, Red Rock Analytics, LLC v. Samsung Electronics Co., Ltd., et. al.*, Case No. 2:17-CV-00101-RWS-RSP (E.D. Tex.), Feb. 1, 2017, at 4–5.

² *Id.* at 4–5.

³ Memorandum Order, *Red Rock Analytics, LLC v. Samsung Electronics Co., Ltd., et. al.*, Case No. 2:17-CV-00101-RWS-RSP (E.D. Tex.), Feb. 6, 2019, at 1.

⁴ *Id.* at 4.

⁵ *Id.* at 5, citing *Ericson Inc. v. TCL Commc’n Tech. Holdings, Ltd.*, 2018 WL 3089701, at *7 (E.D. Tex.) Mar. 7, 2018.

⁶ *Id.* at 5.

⁷ *Id.* at 4.

⁸ *Id.* at 6.

⁹ *Id.* at 8, 10.

¹⁰ *Id.* at 11.



Northern District of Ohio Court Grants Permanent Injunction While Denying Plaintiff Damages

Dynamic Mounting, LLC v. AV Express, Case No. 1:18-CV-1931 (N.D. Ohio, Feb. 19, 2019)

Executive Summary

After finding AV Express liable for patent infringement and granting Dynamic Mounting, LLC a permanent injunction, the court denied Dynamic's request for reasonable royalty damages due to a lack of sufficient evidence supporting its royalty claims, a failure to properly apportion damages based on the incremental value provided by the patent, and a speculative analysis extrapolating product review numbers from a webpage to determine infringing revenues.

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In September 2018, Dynamic Mounting filed its complaint against AV alleging infringement of Dynamic's U.S. Patent No. 8,724,037 for a mounting system for televisions. When AV failed to answer the complaint by the deadline, the court entered a default judgment against AV. Dynamic then sought a permanent injunction against AV's selling infringing products and requested monetary damages as well as attorney fees and costs.

Given AV's failure to respond to the complaint, the court found AV liable for patent infringement and granted the permanent injunction.

However, the court denied Dynamic's request for reasonable royalty damages in which it asserted it would have reluctantly agreed to a 15-percent royalty on infringing product sales. The court stated that Dynamic had failed to "provide any other evidence"¹ to support this royalty amount and that its assertion on its own was "insufficient to support Plaintiff's requested damages award."²

In denying the damages, the court noted that 1) Dynamic failed to provide any evidence that it had ever received the asserted royalty from any other licensee, 2) its motion lacked the appropriate evidence for the court to award a reasonable royalty, such as expert testimony, 3) its royalty amount did not consider the necessary apportionment "based on the incremental value that the patented invention adds to the final product[.]"³ and 4) its royalty base analysis, which estimated AV's revenues by "extrapolating from the review numbers on Defendant's webpage and its Amazon.com web page[.]" was speculative.⁴

Based on these shortcomings in Dynamic's royalty damages claim, the court denied damages recovery without prejudice.

Author(s): Krista L. Santino

Editor(s): Barry L. Bell

Case Referencd:

Dynamic Mounting, LLC v. AV Express,
Case No. 1:18-CV-1931 (N.D. Ohio, Feb. 19, 2019)

¹ Opinion & Order, *Dynamic Mounting, LLC v. AV Express*, Case No. 1:18-CV-1931 (N.D. Ohio), Feb. 19, 2019, at 6.

² *Id.* at 6.

³ *Id.* at 7.

⁴ *Id.* at 7.

Delaware Court Decides Multiple Issues Involving Admissibility of Expert Opinions on Lost Profits and Reasonable Royalty Claims

Zimmer Surgical, Inc. and Dornoch Medical Systems, Inc. v. Stryker Corporation and Stryker Sales Corporation v. Zimmer, Inc., Zimmer Surgical, Inc., Dornoch Medical Systems, Inc. and Zimmer U.S., Inc., Civil Action No. 16-679-RGA (D. Del.), Memorandum Opinion, March 7, 2019

Executive Summary

Zimmer moved to exclude Stryker's damages expert's opinions due to reliance on settlement agreements, an incorrect damages start date, and certain estimations and assumptions used in the expert's analysis.

The court found that Stryker's expert failed to demonstrate the technologically and economically comparability of the settlement agreement to the patent at issue and precluded the expert's reliance on the license. As to the incorrect start date, the court determined that exclusion was unwarranted because Zimmer offered no objection to the underlying damages methodology. Finally, the court found that the expert had sufficiently supported the expert's estimations and analysis.

On the other hand, Stryker moved to exclude Zimmer's damages expert's opinions for a failure to appropriately apportion and for including additional damages in the expert's reply report.

Addressing apportionment, the court stated, "The Federal Circuit does not limit apportionment to specific methodologies because flexibility is required to determine fact-dependent damages," and ruled that Stryker's apportionment argument in this case is an issue of weight of the evidence and witness credibility.¹ On the second issue, the court agreed with Stryker that the expert's additional damages disclosure was untimely, however, the court, citing the *Pennypack* factors, elected not to exclude the expert's additional damages opinions.

Stryker also moved to exclude Zimmer's technical expert's opinions regarding noninfringing alternatives under *Daubert* because the expert assessed noninfringing alternatives in view of the allegedly infringing products instead of Zimmer's products. The court agreed and precluded the technical expert from offering opinions as to noninfringing alternatives.

In addition, Stryker argued in a motion for summary judgment that Zimmer was not entitled to lost profits because of its failure to establish the absence of noninfringing alternatives and it was not entitled to damages for certain product sales because these products are not required for infringement and are unpatented products.

The court denied summary judgment on both issues, finding the questions to involve a dispute of fact. However, the court found that if the subject products were determined not to be part of the infringing system, Zimmer was not entitled to lost profits on these products for lack of evidence that the patented features drove customer demand.

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On August 8, 2016, Zimmer Surgical, Inc. and Dornoch Medical Systems, Inc. sued Stryker Corporation and Stryker Sales Corporation in the U.S. District Court for the District of Delaware for infringement of U.S. Patent No. RE 44,920 (“the ‘920 patent”).² The technology of the ‘920 patent involves “a fluid waste management system combining a movable waste fluid collection cart with a waste fluid disposal unit.”³ Zimmer claimed that Stryker’s Neptune 2 and Neptune 3 waste management systems infringe the ‘920 patent.⁴ On May 22, 2018, Stryker filed counterclaims alleging infringement of U.S. Patent No. 9,579,428 (“the ‘428 patent”) by Zimmer Surgical, Inc., Dornoch Medical Systems, Inc., Zimmer Inc., and Zimmer U.S. Inc.⁵ The technology of the ‘428 patent involves “a waste collection system having a removable intake manifold that prevents the release of uncollected waste still in the manifold.”⁶ Stryker claimed that Dornoch’s Transposal® UltrafleX Fluid Waste Management System and IntelliCart system infringe the ‘428 patent.⁷

On November 5, 2018, the parties filed *Daubert* motions and motions for summary judgment seeking exclusion of certain opinions offered by both damages and technical experts.⁸ In its March 7, 2019 memorandum opinion, the court chose to exclude some expert opinions while finding that others were sufficient or subject to a determination of fact.

Zimmer’s Daubert Motion to Exclude Stryker’s Damages Expert’s Opinions

Zimmer requested that the court exclude Stryker’s damages expert’s opinions due to the expert’s reliance on certain settlement licensing agreements between Dornoch Medical Systems, Bemis Manufacturing Company, and the Educator Partnership to establish a reasonable royalty rate.⁹ Zimmer also asked the court to exclude Stryker’s damages expert’s opinions on the damages for alleged infringement of the ‘428 patent calculated from an incorrect start date.¹⁰ Zimmer further moved the court to exclude Stryker’s damages expert’s opinions on calculations that Zimmer claimed used “speculative manifold-per-day-rates, assumed equipment life expectancies, or unestablished discount rates.”¹¹

Stryker opposed the motion by responding that the Bemis licensing agreement “is the most relevant in the record and is technically and economically comparable to the accused products and the patents-in-suit,” and by arguing that its damage expert’s calculations “are legally proper and disagreements between experts are a matter of weight.”¹²

Bemis License

Under the Bemis License Agreement, which occurred eight to eleven years before the hypothetical negotiation, Dornoch agreed to pay two lump sum payments and a royalty on licensed product sales with the minimum annual royalty for a non-exclusive worldwide license for three patents in relation to specific products.¹³ The court noted that the Bemis Agreement arose from litigation as a follow-on to a previous settlement agreement.¹⁴ Further supporting the litigation context surrounding the agreement, the court pointed to the history of infringement allegations against Dornoch; Dornoch’s assertions of invalidity and non-infringement; and language contained in the agreement itself.¹⁵

Zimmer moved to exclude the Stryker damages expert’s opinions that relied on the Bemis License agreement arguing that the license was not technologically or economically comparable to the ‘920 patent.¹⁶ Zimmer claimed that Stryker’s expert failed to provide a basis for technological comparability and that the Bemis license was not economically comparable to the ‘920 patent or the ‘428 patent because it licensed patent rights to multiple patents, set multiple royalty rates, was a settlement agreement, was entered eight to eleven years before the



hypothetical negotiations, and was in “a much different context than a hypothetical negotiation.”¹⁷ Stryker responded that its damages expert, relying on its technical expert, established the Bemis License to be the most relevant license in the record and economically and technologically comparable to the accused products and the asserted patents.¹⁸

Citing *W.L. Gore & Assocs.*, the court stated, “In determining the reasonable royalty, an expert witness may rely on existing royalty agreements entered into at arms-length as long as those agreements are sufficiently comparable to the hypothetical license at issue in suit.”¹⁹ The court also quoted *Lucent Techs. and ResQNet.com*: “To show that a license is ‘sufficiently comparable,’ the expert must demonstrate ‘how similar or dissimilar the patented technology’ covered by the prior licenses is to the patents-in-suit ...and ‘account for the technological and economic differences’ between the patented technology covered by the licenses and the patent-in-suit.”²⁰ From *AstraZeneca and LaserDynamics*, the court stated, “Though ‘there is no per se rule barring reference to settlements simply because they arise from litigation,’ ... the Federal Circuit has questioned ‘the propriety of using prior settlement agreements to prove the amount of a reasonable royalty.’ ... (noting ‘longstanding disapproval of relying on settlement agreements to establish reasonable royalty damages’).”²¹ Further, quoting *M2M SoIs*, the court stated, “Federal Circuit precedent is hostile toward using litigation settlement agreements in proving a reasonable royalty, except in limited circumstances.”²²

The court cited to *Lucent* in opining that Stryker’s damages expert “has not established ‘that the technology and value of the patents licensed in the prior agreements are comparable to the technology and value of the patent-in-suit.’”²³ Instead, the court found that Stryker’s expert “use[d] broad and nebulous language to describe the technological comparability of the patents in the Bemis license.”²⁴ The court observed that Stryker’s technical expert also failed to provide any analysis of comparability but instead merely provided a general identification of the Bemis patents.²⁵ Citing *LaserDynamics*, the court stated, “[A]lleging a loose or vague comparability between different technologies or licenses does not suffice.”²⁶ Thus, the court determined that Stryker’s damages expert failed to establish technological comparability of the Bemis license.²⁷

The court additionally found that Stryker’s damages expert did not show the Bemis license to be economically comparable to the patents-in-suit.²⁸ Referencing *MAZ Encryption Techs.*, the court stated that the Bemis license was “made in the context of settling a litigation dispute, and thus did not reflect the royalty the parties would have reached just before infringement began.”²⁹ Citing *AVM Techs.*, the court stated, “Without analysis of the litigation, the conclusion cannot be based on ‘sound economic and factual predicates.’”³⁰ The court determined that Stryker’s damages expert “engage[d] in no analysis of the underlying litigation and how it may have affected the royalty rate” and failed to “address the effect of the fixed payments in addition to the royalty rate, the effect of multiple patents being included in the license, or the fact that this license was one of a series of licenses.”³¹

Accordingly, the court precluded Stryker’s damages expert’s reliance on the Bemis license in the reasonable royalty analysis for lack of demonstrated technical and economic comparability.³²

Start Date on Damages

Zimmer asked the court to exclude Stryker’s damages expert’s analysis for the ‘428 patent as unreliable arguing that the expert used an incorrect starting date for the damages calculation.³³ Stryker responded that its expert’s methodology was reliable and it was a matter of accounting to adjust the calculation to the correct start date.³⁴ Agreeing with Stryker, the court stated that



“[t]he start date for damages, at least in this case, is a legal issue.”³⁵ The court also noted that Stryker’s damages expert, in a reply report, agreed with Zimmer’s damages expert’s adjusted damages calculation using Stryker’s damages expert methodology and the proper start date.³⁶ Citing to *Sys. Dev. Integration*, the court determined that exclusion was unwarranted because there was no objection to the underlying methodology.³⁷

Calculations Regarding Intervening Rights Defense

Stryker asserted an intervening rights defense, arguing that Zimmer is only entitled to damages on manifolds used with accused systems sold after the ‘920 patent issued, and provided expert testimony based on underlying data to establish the number of manifolds it believes will be subject to intervening rights.³⁸ Zimmer requested that the court preclude Stryker’s damages expert from testifying on calculations derived from certain manifold-per-day rates, equipment life expectancies, or discount rates.³⁹ Zimmer argued that Stryker’s damages expert’s opinions regarding these manifold-per-day use rates and equipment life expectancies “are unreliable because they are premised on speculation and incorrect assumptions.”⁴⁰ Stryker countered that its damages expert’s use rate was based on Stryker data as well as Stryker witnesses testimony and that the equipment lifespan used by its expert was based on Stryker witness testimony.⁴¹

Quoting *Sensonics*, the court stated, “[I]f actual damages can not be ascertained with precision because the evidence available from the infringer is inadequate, damages may be estimated on the best available evidence.”⁴² However, citing to *Oiness*, the court noted, “[E]ven where defendant’s records are not complete, damages may ‘not be determined by mere speculation or guess.’”⁴³

In denying this portion of Zimmer’s motion to exclude, the court found that the expert pointed to specific evidence to support the expert’s estimations and determined that, to the extent Zimmer disputes Stryker’s damages expert’s analysis, the issue is one of weight appropriate for cross-examination.⁴⁴ The court also found that Stryker’s damages expert sufficiently identified the basis and source for the expert’s discount rate and that this issue was also one of weight rather than admissibility.⁴⁵

Stryker’s Daubert Motion to Exclude Zimmer’s Damages Expert’s Opinions

Stryker moved the court to exclude Zimmer’s damages expert’s reasonable royalty calculations arguing that the expert failed to perform a proper apportionment analysis.⁴⁶ Stryker also moved to exclude the addition of lost profit and reasonable royalty damages related to additional products as these damages were included for the first time in the expert’s reply report, which Stryker argued was an untimely disclosure.⁴⁷

Apportionment

While Stryker argued that Zimmer’s damages expert had failed to perform a proper apportionment analysis, Zimmer countered that its damages expert had considered changes between Neptune 1 (non-accused prior-generation products) and Neptune 2 (accused products) in the expert’s apportionment analysis.⁴⁸

In denying Stryker’s motion to exclude, the court found that Zimmer’s damages expert “applies a legally sound and verifiable methodology and appropriately relies on ... technical opinions regarding the differences between the Neptune 1 and Neptune 2.”⁴⁹ Citing to *Ericsson and Commonwealth*, the court stated, “The Federal Circuit does not limit apportionment to specific methodologies because flexibility is required to determine fact-dependent damages.”⁵⁰ The



court found, “To the extent that Stryker disagrees with [Zimmer’s damages expert’s] apportionment analysis, it is an issue of the weight of the evidence and witness credibility.”⁵¹

Timeliness of Additional Damages

Stryker asked the court to exclude Zimmer’s damages expert’s opinion on damages for specimen collection manifolds on the basis that the disclosure in the expert’s reply report was untimely and legally flawed.⁵² Zimmer responded that the damages claim was not untimely, did not prejudice Stryker, and was proper.⁵³

The court found that Zimmer’s damages expert’s inclusion of an additional component of damages in the expert’s reply report did violate rule 26(a) because it did not “solely ‘contradict or rebut’ evidence raised in Stryker’s rebuttal report.”⁵⁴ However, citing the *Pennypack* factors addressing “whether a violation of Rule 26(a) was substantially justified or harmless,” the court noted the existence of little prejudice to Stryker, as Stryker’s own damages expert included the subject manifolds in the expert’s damages calculations.⁵⁵ The court further stated, “To the extent there is any prejudice, that prejudice may be cured by permitting Stryker to file a sur-reply report.”⁵⁶ The court also noted an absence of bad faith in the untimely disclosure.⁵⁷

Stryker’s Daubert Motion to Exclude Zimmer’s Technical Expert Opinions Regarding Noninfringing Alternatives

Stryker asserted that Zimmer’s technical expert’s opinions regarding noninfringing alternatives should be excluded because the expert “wrongly assessed [noninfringing alternatives] in view of the allegedly infringing products” rather than Zimmer’s products.⁵⁸ Zimmer argued against exclusion because its expert “analyzed whether Stryker’s proposed noninfringing substitutes had the features demanded by customers and were acceptable alternatives to the system claimed in the ‘920 patent.”⁵⁹

Citing *Grain Processing*, the court stated, “To recover lost profits, the patent owner must show ‘causation in fact,’ establishing that ‘but for’ the infringement, he would have made additional profits.”⁶⁰ Pointing to *Micro Chem.* and *Presidio*, the court stated, “A patentee may show causation by either establishing a two-supplier market . . . or the absence of noninfringing alternatives in the market” and “[t]o establish the absence of noninfringing alternatives, ‘[t]he correct inquiry . . . is whether a noninfringing alternative would be acceptable compared to the patent owner’s product, not whether it is a substitute for the infringing product.”⁶¹ The court observed that “Zimmer asserts that *Presidio* is inapposite as [Zimmer’s technical expert’s] analysis reflects the two-supplier market for high fluid waste management systems.⁶² However, the court noted that the “parties appear to dispute whether a two-supplier market exists” in this case.⁶³

The court acknowledged that Zimmer’s technical expert’s opening report and rebuttal report discuss noninfringing alternatives by comparing them to the accused infringing product and to the patented system.⁶⁴ The court observed that Zimmer’s technical expert, however, “then stated at deposition that [the expert] did not compare the purported non-infringing alternatives to Zimmer’s products in determining whether the purported alternatives would be acceptable.”⁶⁵ The court determined this to be “a legally incorrect analysis” and precluded Zimmer’s technical expert from offering opinions on noninfringing alternatives.⁶⁶

Despite the exclusion related to noninfringing alternatives, the court ruled that Zimmer’s damages expert would not be precluded from relying on Zimmer’s technical expert’s opinions



related to the differences between the non-accused Neptune 1 and accused Neptune 2 products as part of the expert's apportionment analysis.⁶⁷

Stryker's Motion for Summary Judgment that Zimmer Is Not Entitled to Lost Profits

Stryker argued that Zimmer did not establish the absence of noninfringing alternatives and was not entitled to lost profits on the '920 patent.⁶⁸ Zimmer responded that a presumption of causation for lost profits exists in a two-supplier market and a factual dispute existed about the number of suppliers in the relevant market.⁶⁹ Zimmer also asserted that Stryker had "opted to assert supposed noninfringing alternatives that Stryker itself refused to market during the FDA recall" of its accused infringing product.⁷⁰ The court denied Stryker's motion for summary judgment of no lost profits, finding material disputes of fact as to whether noninfringing alternatives existed.⁷¹

Stryker's Motion for Summary Judgment that Zimmer Is Not Entitled to Damages on Manifold Sales

In seeking to preclude Zimmer damages on manifold sales, Stryker argued that its manifold products were unpatented products not required for infringement.⁷² Zimmer opposed the motion arguing that its technical expert had testified that the manifolds were part of the claimed infringing system.⁷³

The court observed that Zimmer's technical expert offered two alternate theories on infringement and found that a reasonable jury could find that the manifold is part of the infringing system.⁷⁴ Therefore, the court denied Stryker's motion for summary judgment on this issue.⁷⁵

In the alternative, Zimmer argued that even "if a manifold is not necessary for infringement, [Zimmer] is still entitled to damages for the manifold sales under a functional and economic 'single-unit' theory."⁷⁶ The court, referring to *Rite-Hite* and *Juicy Whip*, stated, "[T]he Federal Circuit 'explained that the entire market value rule was a principle of patent damages that defined a patentee's ability to recover lost profits on unpatented components typically sold with a patented item.'"⁷⁷ Citing *Am. Seating*, the court further explained, "The entire market value rule 'permits recovery of damages based on the value of a patentee's entire apparatus containing several features when the patent related feature is the basis for customer demand'... Thus, '[a] patentee may recover lost profits on . . . a convoyed sale[] if both the patented and unpatented products 'together were considered to be components of a single assembly or parts of a complete machine, or they together constituted a functional unit' and the patent-related feature drives demand for the functional unit as a whole.'"⁷⁸

The court found Stryker's manifolds and the fluid carts are "analogous to parts of a single assembly or a complete machine," but noted an absence of evidence that the patented features drove demand "for the functional unit as a whole."⁷⁹ Accordingly, the court found that if Stryker's manifolds are not part of the infringing system, Zimmer is not entitled to lost profits damages for the manifolds as 'convoyed sales' on the basis that Zimmer cannot show that its patented features drive customer demand.⁸⁰

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