UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
WESTERN DIVISION

INFO-HOLD, INC.,	:	Case No. 1:11-cv-283
	:	
Plaintiff,	:	Judge Timothy S. Black
	:	
vs.	:	
	:	
MUZAK LLC,	:	
	:	
Defendant.	:	

ORDER:

GRANTING DEFENDANT'S MOTION TO STRIKE THE EXPERT REPORTS OF ROBERT L. WHITE AND TO PRECLUDE MR. WHITE'S TESTIMONY (Doc. 162) AND GRANTING DEFENDANT'S MOTION FOR PARTIAL SUMMARY JUDGMENT THAT PLAINTIFF INFO-HOLD IS NOT ENTITLED TO REASONABLE ROYALTY DAMAGES (Doc. 160)

This civil action is before the Court on Defendant's Motion to Strike the Expert Reports of Robert L. White and to Preclude Mr. White's Testimony (Doc. 162), Defendant's Motion for Partial Summary Judgment that Plaintiff Info-Hold is Not Entitled to Reasonable Royalty Damages and for Dismissal (Doc. 160), and the parties' responsive memoranda (Docs. 177, 180, 185, and 186).

I. BACKGROUND

Plaintiff Info-Hold, Inc. brings this patent infringement suit against Muzak LLC accusing it of direct infringement, contributory infringement, and induced infringement of U.S. Patent No. 5,991,374.

Defendant now moves, first, to strike the expert reports of Robert L. White, the damages expert designated by Plaintiff, and to preclude Mr. White's testimony pursuant to Fed. R. Evid. 702 and 703 (Doc. 162); and, second, for entry of partial summary judgment that Plaintiff is not entitled to reasonable royalty damages as a measure of damages against Defendant; and, therefore, third, for dismissal of this action with prejudice on the basis that Plaintiff cannot prove it is entitled to any relief. (Doc. 160).

II. STANDARD OF REVIEW

A. Admission of Expert Testimony

In its role as gatekeeper, the Court must exclude expert testimony that does not squarely comport with the Federal Rules of Evidence, including the Rule 702 requirements of qualifications, reliability, and relevance and the Rule 703 standard governing the factual bases of an expert's testimony. Fed. R. Evid. 702, 703; *Daubert v. Merrill Dow Pharm*., Inc., 509 U.S. 57, 589 (1993) ("[T]he trial judge must ensure that any and all scientific testimony or evidence admitted is not only relevant, but reliable"); *see also Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 141 (1999) (the court's gatekeeping function under *Daubert* applies equally to nonscientific expert testimony that is based on technical or other specialized knowledge). A district court's decision to admit expert testimony under *Daubert* in a patent case follows the law of the regional circuit. *Micro Chem., Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1390-91 (Fed. Cir. 2003).

"The Court's gatekeeping role involves a two-prong inquiry: (1) whether the proffered testimony is reliable; and (2) whether the expert's reasoning or methodology can be properly applied to the facts at issue, i.e., whether the opinion is relevant to the facts at issue." *English Woods Civic Ass'n/Resident Cmty. Council v. Cincinnati Metro. Hous. Auth.*, No. 1:03-cv-186, 2004 WL 6043508, at *2 (S.D. Ohio Nov. 23, 2004). The party proffering an expert has the burden to show by a preponderance of evidence that the expert's testimony is reliable, relevant, and that the expert is qualified to give his opinion on each subject matter for which it is offered. *See, e.g., In re Scrap Metal Antitrust Litig.*, 527 F.3d 517, 531-32 (6th Cir. 2008); *Hardyman v. Norfolk & W. Ry. Co.*, 243 F.3d 255, 260 (6th Cir. 2001). *See also Berry v. City of Detroit*, 25 F.3d 1342, 1351 (6th Cir. 1994) ("the issue with regard to expert testimony is not the qualifications of a witness in the abstract, but whether those qualifications provide a foundation for a witness to answer a specific question").

B. Summary Judgment Standard

A motion for summary judgment should be granted if the evidence submitted to the Court demonstrates that there is no genuine issue as to any material fact, and that the movant is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c). *See Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247-48 (1986). As a basis for summary judgment, a moving party can point to a lack of evidence to support the facts its opponent must prove to carry its burden of proof.

Celotex, 477 U.S. at 325.

The moving party has the burden of showing the absence of genuine disputes over facts which, under the substantive law governing the issue, might affect the outcome of the action. *Id.* at 323. All facts and inferences must be construed in a light most favorable to the party opposing the motion. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986).

However, a party opposing a motion for summary judgment "may not rest upon the mere allegations or denials of his pleading, but . . . must set forth specific facts showing that there is a genuine issue for trial." *Anderson, supra*, 477 U.S. at 248.

III. ANALYSIS

A. Motion to Strike the Expert Reports of Robert L. White and to Preclude Mr. White's Testimony

As a threshold matter, Mr. White's testimony as presented in his expert reports is properly excluded because Plaintiff has not shown Mr. White to possess sufficient "scientific, technical, or other specialized knowledge [that] will help the trier of fact to understand the evidence or to determine a fact in issue." Fed. R. Evid. 702(a).

Mr. White and his firm have been doing tax and audit work for Plaintiff Info-Hold over the past fifteen to eighteen years. (*Id.* at 5). However, Mr. White is not specifically qualified to be an expert on damages in this case. He has never testified as a damages expert in a patent case before, and indeed has never testified as an expert in a federal

court case before. (Doc. 167-6 at 4). He has no prior experience with the *Georgia-Pacific* factors or with patent damages calculations at all, and no prior experience with patent licenses. (*Id.* at 5, 16, 38). He learned about patent damages from reviewing cases and reading the Poltorak treatise. Mr. White relied on the discredited and inadmissible 25 percent rule, unaware that it was discredited in 2011 in *Uniloc*. And Mr. White did not independently verify many of the important facts he purports to rely on in his reports.

The deficiencies in Mr. White's qualifications, his lack of knowledge of patent damages issues, and his total acceptance of a discredited rule of thumb for patent damages collectively show that his testimony is more advocacy for Plaintiff than expert testimony.

Thus, Plaintiff has failed to satisfy its burden as the party proffering Mr. White as an expert to show by a preponderance of evidence that his testimony is reliable, relevant and that he is qualified to give his opinion on each subject matter for which it is offered. *See, e.g.*, *In re Scrap Metal Antitrust Litig*., 527 F.3d at 531-32; *Hardyman v. Norfolk & W. Ry. Co*., 243 F.3d at 260. Plaintiff has not shown that Mr. White's "qualifications provide a foundation for a witness to answer a specific question" on patent damages.

Most egregiously, Mr. White's reasonable royalty testimony is inadmissible as irrelevant under *Daubert* because it starts from the 25 percent rule of thumb, which is an improper legal standard for calculating damages as a matter of law. See *Uniloc USA, Inc. v. Microsoft Corp*., 632 F.3d 1292, 1315 (Fed. Cir. 2011) ("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. 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").

In order for Info-Hold to carry its burden of proving damages for patent infringement, it must "sufficiently tie the expert testimony on damages to the facts of the case." *Uniloc*, 632 F.3d at 1315 (quoting *Daubert*, 509 U.S. at 591). Because Mr. White's testimony relies on an improper legal standard for calculating a reasonable royalty, without relying on other, legally acceptable grounds, it is not sufficiently tied to the facts of the case and will not "aid the jury in resolving a factual dispute." *Id*. at 1315-17 (explaining that "there must be a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue in the case" and that the 25 percent rule is an "abstract and largely theoretical construct [that] fails to satisfy this fundamental requirement"). Accordingly, Mr. White's testimony is irrelevant under *Daubert* and Rule 702 and must be excluded. *Id*. at 1317 (excluding testimony of patentee's damages expert when expert relied on the 25 percent rule because the expert's "starting point of a 25 percent royalty had no relation to the facts of the case, and as such, was arbitrary, unreliable, and irrelevant"). Mr. White's reliance on the 25 percent rule "fails to pass muster under *Daubert* and taints the jury's damages calculation." *Id.* at

1318.

Plaintiff claims that Mr. White's opinions do not rely on the discredited 25 percent rule, contending instead that Mr. White's report shows that the 25 percent rule is "an alternative method" for determining reasonable royalty damages. (Doc. 177 at 11-12). However, in the view of the Federal Circuit, the 25 percent rule is not "an alternative method" at all; it is a "fundamentally flawed," forbidden method, which the Court as gatekeeper cannot allow to taint the jury's consideration of damages. *Uniloc*, 632 F.3d at 1315. Even where the 25 percent rule is offered merely as a starting point to which the relevant factors for a reasonable royalty calculation found in *Georgia-Pacific* are then applied to adjust the rate, the taint of the 25 percent rule remains because "[b]eginning from a fundamentally flawed premise and adjusting it based on legitimate considerations specific to the facts of the case nevertheless results in a fundamentally flawed conclusions." *Uniloc*, 623 F.3d at 1317.

The same logic applies here. Mr. White started with a 15% royalty rate based on his application of the 25 percent rule. (Doc. 167-3 at 19-20). Although his description of his use of the 25 percent rule claims to employ it as an "alternative method," it is the only method Mr. White ever provides for deriving the 15% royalty rate upon which he bases his *Georgia-Pacific* analysis. Although Mr. White then purports to apply the *Georgia-Pacific* factors to arrive at the proper royalty rate, his analysis never actually deviates from the same 15% royalty rate he derived from his application of the 25 percent rule.

Mr. White also purports to base his royalty rate calculation on the Trusonic settlement agreement, the Hazenfield license, a treatise by Alexander Poltorak, two cases, *Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109 (Fed. Cir. 1996) and *Deere & Co. v. Int'l Harvester Co.*, 710 F.2d 1551 (Fed. Cir. 1983), and a document from the Securities and Exchange Commission website purporting to disclose Defendant's franchise royalty rates of 10% of billings for music services. (Doc. 167-3 at 19-20). However, Mr. White himself admits that all of this evidence is either not "pertinent" or is evidence he himself did not credit. (*Id*.; Doc. 167-6 at 44, 46, 49).[1]

Mr. White's opinions on the reasonable royalty rate all depend on his application of the 25 percent rule and rely on other evidence which Mr. White himself agrees is not "pertinent" or admittedly gave "no credit" to. His opinions on reasonable royalty rate therefore do not meet the *Daubert* standard for reliability and relevance.

Mr. White also improperly employs an entire market value calculation, failing to recognize that the entire market value rule applies "only where the patented feature creates the basis for customer demand" or "substantially create[s] the value of the component parts." *Lucent Technologies, Inc. v. Gateway, Inc*., 580 F.3d 1301, 1336

[1] As Defendant points out and Plaintiff does not contest, Mr. White admitted in his deposition that because the Trusonic Agreement was entered into in 2009, it was not relevant to any hypothetical 2008 negotiation. (Doc. 162 at 10-11). Mr. White also admits that he did not rely on published royalty rate standards by industry. (Doc. 167-6 at 46) Finally, Mr. White admitted that *Minco* did not concern the same industry as this case, was not decided at a time relevant to the hypothetical negotiation, and was not "pertinent" to the reasonable royalty analysis in this case. (Doc. 167-6 at 44, 49). Evidence that is admittedly not "pertinent" to the expert's opinions cannot be the basis for a properly supported opinion under *Daubert*. *See Anchor Wall*, 340 F.3d at 1313.

(Fed. Cir. 2009; *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549-50 (Fed. Cir. 1995). Instead of carrying out this analysis, Mr. White simply stated: "In this instance, an appropriate royalty base is comprised of all the revenue generated by Muzak on related client sales. We have included revenue generated from collateral sales (i.e., service, voice services – production services, sound system sales, appropriate consideration to these items is given in estimating the royalty rate," without providing any evidentiary basis for the statement. (Doc. 167-3 at 18).

Rule 26(a)(2)(B)(ii) requires an expert report to state the facts or data considered by the expert in forming the opinions to which the expert is expected to testify, and thus Mr. White's failure to state the factual basis for his application of the entire market value rule means that his opinions based on that application are not reliable, since they are not based on the methodology described in *Lucent Techs.*, and not relevant, since they are not tied to the facts of this case.

Moreover, to satisfy Rule 702's standards for reliability, an expert's testimony must be based on independent analysis and objective proof. *See, e.g, Johnson v. Manitowoc Boom Trucks, Inc.*, 484 F.3d 426, 430 (6th Cir. 2007).

Here, Mr. White has performed no independent analysis: instead, he relies, without verification, on Plaintiff's employees and Plaintiff's counsel for information crucial to his opinions. Mr. White assumed that all of Defendant's accused Encompass LE2 and MV revenues were driven by demand for the patented invention because he was

told to make this assumption by Plaintiff's counsel. (Doc. 167-6 at 40). All of Mr. White's knowledge regarding convoyed sales was derived from employees of Plaintiff. (*Id.* at 32-33). In fact, Mr. White did not independently verify anything that Plaintiff's CEO or Plaintiff's counsel told him. (*Id.* at 51). His testimony is more advocacy for Plaintiff than expert testimony.

Moreover, Mr. White relies entirely on the numbers provided in the report of Defendant's damages expert, David Paris, without examining any of Defendant's underlying documentation or independently verifying Mr. Paris' numbers. However, it is improper at law for Mr. White to form his opinions by relying on the facts and data of another expert's report without conducting his own investigation or independent verification. Fed. R. Evid. 703; *See, e.g., TK-7 Corp. v. Estate of Barbouti*, 993 F.2d 722, 732 (10th Cir. 1993). Additionally, Mr. White took the number of units of LE2 sales that Plaintiff allegedly would have made from an assumption presented by opposing counsel to Plaintiff's CEO at his deposition, and not based on Mr. White's own consideration of the evidence. (*Id.* at 24-25; Doc. 167-9 at 2).

Plaintiff has not shown Mr. White to possess sufficient "scientific, technical, or other specialized knowledge [that] will help the trier of fact to understand the evidence or to determine a fact in issue." Fed. R. Evid. 702(a). Accordingly, the Court strikes Mr. White's reports and precludes him from testifying at trial.

B. Motion for Partial Summary Judgment that Plaintiff Info-Hold is Not Entitled to Reasonable Royalty Damages and for Dismissal

There is no genuine dispute that, but for the now-excluded Mr. White, Info-Hold has disclosed no witness, expert or otherwise, to testify for it on the issue of reasonable royalty damages.

If Plaintiff were to present Mr. Hazenfield, Mr. Mason or Mr. Wood, the only "non-experts" identified as witnesses by Plaintiff for any purpose, as witnesses on reasonable royalty damages to testify to a hypothetical negotiation, their testimony would properly be excluded under Fed. R. Civ. P. 26(a)(2)(C) and Fed. R. Evid. 702, 703 and 705. [2]

First, lay witnesses may only give opinions limited to ones that are "rationally based on the witness's perception," Fed. R. Evid. 701(a), and testimony as to how a hypothetical negotiation might proceed is not based on the perception of the witness of events within their personal knowledge. Second, presenting testimony on the hypothetical negotiation requires that the witness "reconstruct the market, a necessarily hypothetical exercise, to project economic results that did not actually occur." *Riles v. Shell Exploration & Prod. Co*., 298 F.3d 1302, 1311 (Fed. Cir. 2002). Moreover, "to

[2] These witnesses have not submitted reports pursuant to Fed. R. Civ. P. 26(a)(2)(C) as witnesses not required to submit reports under Fed. R. Civ. P. 26(a)(2)(B) who are being called on to present evidence under Fed. R. Evid. 702, 703 or 705. Plaintiff's failure in this regard invokes Fed. R. Civ. P. 37(c)(1) which provides that "[i]f a party fails to provide information or identify a witness as required by Rule 26(a) or (e), the party is not allowed to use that information or witness to supply evidence on a motion, at a hearing, or at a trial, unless the failure was substantially justified or is harmless." And here the failure is neither substantially justified nor harmless.

prevent the hypothetical from lapsing into pure speculation, this court requires sound economic proof of the nature of the market and likely outcomes with infringement factored out of the economic picture." *Id.* There is no evidence that Plaintiff's lay witnesses have the knowledge or expertise to provide such evidence based on personal knowledge.

There are no potential damages witnesses for Plaintiff to call at trial whatsoever, leaving it with no admissible evidence on reasonable royalty damages. All the additional "evidence" referred to in Plaintiff's memorandum in opposition is either not in the record as required by Fed. R. Civ. P. 56(c)(1) and/or is not presented in a form that is admissible in evidence at trial. Fed. R. Civ. P. 56(c)(2). Therefore, because Plaintiff has not presented evidence to make out even a *prima facie* case of reasonable royalty damages, summary judgment is proper on the issue of reasonable royalty damages. *See, e.g., Apple, Inc. v. Motorola, Inc.*, 869 F.Supp.2d 901, 906 (N.D. Ill. 2012). To avoid summary judgment, Plaintiff needed to make of record now any admissible evidence it had to show that there is a triable damages case for the fact finder to consider. Plaintiff has not pointed to evidence in the record that would allow a reasonable jury to find reasonable royalty damages.

Accordingly, the Court grants Defendant's motion for entry of partial summary judgment on the issue of reasonable royalty damages.

Defendant's Motion to Strike the Expert Reports of Robert L. White and to Preclude Mr. White's Testimony (Doc. 162) is **GRANTED**. Defendant's Motion to Strike the Expert Reports of Robert L. White and to Preclude Mr. White's Testimony and for Dismissal (Doc. 162) is **GRANTED IN PART** as Defendant is entitled to entry of partial summary judgment on the issue of reasonable royalty damages, but the Motion is **DENIED IN PART** as to Dismissal, because Dismissal is not yet ripe, given the Scheduling Order reflected below.

Scheduling Order

Plaintiff has now been found not to be entitled to any measure of damages in this action and has conceded that it is not entitled to injunctive relief. (Docs. 130, 139). Accordingly, in a memorandum to be filed by September 11, 2013, Plaintiff shall show cause why final judgment should not be entered against it and this case closed in this Court. Defendant may file a reply by September 18, 2013.

The trial set to commence on October 15, 2013 is hereby **VACATED**, as is the Final Pretrial Conference of October 7, 2013.

IT IS SO ORDERED.

Date: August 20, 2013

s/ Timothy S. Black
Timothy S. Black
United States District Judge