

United States District Court  
For the Northern District of California

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UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN JOSE DIVISION

EMBLAZE LTD.,	)	Case No. 5:11-cv-01079-PSG
	)	
Plaintiff,	)	<b>ORDER RE: APPLE’S MOTIONS TO</b>
v.	)	<b>EXCLUDE EMBLAZE’S DAMAGES</b>
	)	<b>EXPERTS</b>
APPLE INC.,	)	
	)	<b>(Re: Docket Nos. 428 and 430)</b>
Defendant.	)	

Before the court are a pair of *Daubert* motions filed by Apple in this patent case.<sup>1</sup> The motions seek to exclude the opinions of Emblaze damages experts Catharine Lawton and David Teece. After considering the parties’ respective arguments, in both the papers and at the hearing, the court holds that Lawton and Teese may testify at trial, subject to the restrictions laid out below.

**I. BACKGROUND**

**A. Lawton’s Damages Analysis**

Lawton’s report analyzed the accused Apple products using the so-called “income approach” method.<sup>2</sup> The income approach

<sup>1</sup> See Docket Nos. 428 and 430; see also *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579 (1993).

<sup>2</sup> See Docket No. 463-6, Ex. A at 464-67. Tellingly, Lawton and Apple damages expert James Malackowski each adopt the income approach, albeit with very different results.

1 is a method used to value intellectual property assets based on the present value of the  
2 future income stream generated by an asset. There are three major inputs to the income  
3 approach: (1) expected future cash flows from the asset; (2) economic life of the asset; and  
4 (3) business risk associated with the realization of the cash flow stream. The key goal is to  
5 estimate the present value of incremental profits generated by the asset over its economic  
6 life, taking into account the risk associated with generating those profits. Once the present  
7 value of the incremental profits is determined, these profits are split in some manner  
8 between the licensor and licensee, typically in the form of a royalty. (citations omitted).<sup>3</sup>

9 Using the income approach, Lawton calculated the additional gross profit margin on each of the  
10 accused products from the date Apple’s http live-streaming (“HLS”) was included. This  
11 calculation served as a “high end” starting point for the reconstruction of the hypothetical royalty  
12 rate,<sup>4</sup> because the accused products include non-patented features.<sup>5</sup>

13 Lawton’s rate analysis then turned to the *Georgia-Pacific* factors.<sup>6</sup> Lawton concluded that  
14 factor 2 – the rate paid for comparable patents – supported minimum royalty rates in the range of  
15 \$.10 to \$3.10 per accused product unit. The other factors were either neutral (factors 1, 3-6 and  
16 12-13) or supported an increased hypothetically negotiated royalty rate (factors 7-11).<sup>7</sup> Lawton  
17 concluded that the facts of this case supported a \$2.00 per unit royalty for hardware and a  
18 1% royalty for software and application revenue.<sup>8</sup>

19 <sup>3</sup> See Docket No. 463-5, Ex. A at 464; Docket No. 463-18, Ex. O at 100 (citing *Economic Damages*  
20 *in Intellectual Property*).

21 <sup>4</sup> Docket No. 463-4 at 8 (“Using the Income Approach, Lawton analyzed the excess gross profit  
22 margin on each of the accused products beginning from the date HLS was launched in that product.  
That led her to the data point \$[], which she candidly acknowledged was on the ‘high end’ because  
it included non-patented features as well.”).

23 <sup>5</sup> See Docket No. 463-6, Ex. A at ¶ 924 (“The foregoing analysis—because of the impossibility of  
24 apportionment described previously—does not measure the contribution of the ’473 Patent alone.  
I am relying on this analysis [to] provide additional economic data that would inform the  
25 hypothetical negotiation.”); see also Docket No. 463-16, Ex. M at 164:21-165:5 (noting the  
addition of live streaming in June 2009 was an “incremental addition” to the accused products).

26 <sup>6</sup> See *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

27 <sup>7</sup> See Docket No. 463-6, Ex. A at 525.

28 <sup>8</sup> See *id.* Apple does not seek exclusion of Lawton’s opinion regarding damages resulting from  
software and application revenue.

1 **B. Teece’s Expert Opinion on Digital Convergence and Network Effects**

2 Teece was retained by Emblaze “to address three topics: the convergence between  
3 computing and communications, network effects in software, and the implications of digital  
4 convergence and network effects for licensing the ’473 patent at issue in this case.”<sup>9</sup>

5 **II. LEGAL STANDARDS**

6 Expert testimony may only be admitted in a manner consistent with the Federal Rules of  
7 Evidence, *Daubert, Kumho Tire Co. v. Carmichael*<sup>10</sup> and more recent appellate court progeny.<sup>11</sup>

8 **A. *Daubert* Generally**

9 Federal Rule of Evidence 702 allows admission of “scientific, technical, or other  
10 specialized knowledge” by a qualified expert if it will “help the trier of fact to understand the  
11 evidence or to determine a fact in issue.”<sup>12</sup> Expert testimony must be both relevant and reliable to  
12 be admitted pursuant to Rule 702.<sup>13</sup> When considering expert testimony, the trial court serves “as a  
13 ‘gatekeeper’ to exclude junk science that does not meet Federal Rule of Evidence 702’s reliability  
14 standards.”<sup>14</sup>

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17 <sup>9</sup> See Docket No. 428-1, Ex. 1 at ¶ 14.

18 <sup>10</sup> 526 U.S. 137 (1999).

19 <sup>11</sup> See *Apple Inc. v. Motorola, Inc.*, Case No. 2012-1548, 2014 WL 1646435  
20 (Fed. Cir. Apr. 25, 2014).

21 <sup>12</sup> See *Daubert*, 509 U.S. at 589 (“If scientific, technical, or other specialized knowledge will assist  
22 the trier of fact to understand the evidence or to determine a fact in issue” an expert “may testify  
thereto.”).

23 <sup>13</sup> See *id.* at 597.

24 To summarize: “General acceptance” is not a necessary precondition to the  
25 admissibility of scientific evidence under the Federal Rules of Evidence, but the Rules of  
Evidence—especially Rule 702—do assign to the trial judge the task of ensuring that an  
expert’s testimony both rests on a reliable foundation and is relevant to the task at hand.  
Pertinent evidence based on scientifically valid principles will satisfy those demands.

26 <sup>14</sup> *Estate of Barabin v. AstenJohnson, Inc.*, 740 F.3d 457, 463 (9th Cir. 2014); see *Kumho Tire Co.*  
27 *v. Carmichael*, 526 U.S. 137, 147-48 (1999); *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 142 (1997);  
28 *Daubert*, 509 U.S. at 589-90. A district court’s decision to admit expert testimony under *Daubert*  
in a patent case follows the law of the regional circuit. See *Micro Chem., Inc. v. Lextron, Inc.*,  
317 F.3d 1387, 1390-91 (Fed. Cir. 2003) (“Whether proffered evidence should be admitted in a

1 An expert witness may provide opinion testimony if: (1) “the testimony is based upon  
2 sufficient facts or data;” (2) “the testimony is the product of reliable principles and methods; and”  
3 (3) “the expert has reliably applied the principles and methods to the facts of the case.”<sup>15</sup> Under  
4 *Daubert*, courts consider (1) whether a theory or technique “can be (and has been) tested;” (2)  
5 “whether the theory or technique has been subjected to peer review and publication;” (3) “the  
6 known or potential rate of error;” and (4) whether there is “general acceptance” of the methodology  
7 in the “relevant scientific community.”<sup>16</sup>

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9 The inquiry into admissibility of expert opinion is a “flexible one,” where shaky “but  
10 admissible evidence is to be attacked by cross examination, contrary evidence, and attention to the  
11 burden of proof, not exclusion.”<sup>17</sup> “Under *Daubert*, the district judge is ‘a gatekeeper, not a fact  
12 finder.’ When an expert meets the threshold established by Rule 702 as explained in *Daubert*, the  
13 expert may testify and the jury decides how much weight to give that testimony.”<sup>18</sup>

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15 A trial court thus must be sure that its review of expert testimony focuses “solely on  
16 principles and methodology, not on the conclusions that they generate.”<sup>19</sup> “*Daubert* and Rule 702  
17 are safeguards against unreliable or irrelevant opinions, not guarantees of correctness.”<sup>20</sup> “A judge  
18 must be cautious not to overstep its gatekeeping role and weigh facts, evaluate the correctness of  
19 conclusions, impose its own preferred methodology, or judge credibility, including the credibility

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20 trial is a procedural issue not unique to patent law, and therefore we review the district court’s  
21 decision whether to admit expert testimony under the law of the regional circuit, here the Fifth  
22 Circuit.”).

23 <sup>15</sup> Fed. R. Evid. 702; *see also Sundance, Inc. v. DeMonte Fabricating Ltd.*, 550 F.3d 1356, 1360  
24 (Fed. Cir. 2008) (“Patent cases, like all other cases, are governed by Rule 702. There is, of course,  
25 no basis for carving out a special rule as to experts in patent cases.”).

26 <sup>16</sup> *Daubert*, 509 U.S. at 593-94.

27 <sup>17</sup> *Primiano v. Cook*, 598 F.3d 558, 564 (9th Cir. 2010) (citing *Daubert*, 509 U.S. at 594, 596).

28 <sup>18</sup> *Id.* (quoting *United States v. Sandoval-Mendoza*, 472 F.3d 645, 654 (9th Cir. 2006)).

<sup>19</sup> *Daubert*, 509 U.S. at 595.

<sup>20</sup> *i4i Ltd. Partnership v. Microsoft Corp.*, 598 F.3d 831, 854 (Fed. Cir. 2010).

1 of one expert over another. These tasks are solely reserved for the fact finder.”<sup>21</sup> “That the  
2 gatekeeping role of the judge is limited to excluding testimony based on unreliable principles and  
3 methods is particularly essential in the context of patent damages.”<sup>22</sup> The Federal Circuit “has  
4 recognized that questions regarding which facts are most relevant or reliable to calculating a  
5 reasonable royalty are ‘for the jury.’”<sup>23</sup>

6 **B. Section 284 and the *Georgia-Pacific* Factors**

7 35 U.S.C. § 284 provides that upon “finding for the claimant, the court shall award the  
8 claimant damages adequate to compensate for the infringement, but in no event less than a  
9 reasonable royalty for the use made of the invention by the infringer, together with interest and  
10 costs as fixed by the court.” Infringement compensation can be the patentee’s “lost profits” or the  
11 “reasonable royalty he would have received through arms-length bargaining.”<sup>24</sup> The goal of the  
12 damages award is not to punish the infringer, but rather to make the patentee whole by ascertaining  
13 what the patent holder would have made “had the infringer not infringed.”<sup>25</sup> “The burden of  
14 proving damages falls on the patentee.”<sup>26</sup>

15 No lost profits are claimed in this case. Lawton’s report instead proposes a per unit  
16 damages assessment for Apple’s alleged infringement of the patent claims in suit.<sup>27</sup> The  
17 *Georgia-Pacific* factors are used in the “hypothetical negotiation” approach to determining a  
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21 <sup>21</sup> *Apple Inc. v. Motorola, Inc.*, 2014 WL 1646435, at \*19.

22 <sup>22</sup> *Id.*

23 <sup>23</sup> *Id.* (citing *i4i*, 598 F.3d at 856 (“When the methodology is sound, and the evidence relied upon  
24 sufficiently related to the case at hand, disputes about the degree of relevance or accuracy (above  
25 this minimum threshold) may go to the testimony’s weight, but not its admissibility.”);  
26 *Micro Chem.*, 317 F.3d at 1392.).

27 <sup>24</sup> *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009).

28 <sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *See Georgia-Pacific*, 318 F. Supp. at 1120.

1 reasonable royalty.<sup>28</sup> The hypothetical negotiation approach “attempts to ascertain the royalty  
2 upon which the parties would have agreed had they successfully negotiated an agreement just  
3 before infringement began.”<sup>29</sup> “The hypothetical negotiation tries, as best as possible, to recreate  
4 the ex ante licensing negotiation scenario and to describe the resulting agreement.”<sup>30</sup>

5 The *Georgia-Pacific* factors constitute a non-exhaustive list of fifteen factors to consider in  
6 determining what reasonable royalty would result from the hypothetical negotiation.<sup>31</sup> The

7 *Georgia-Pacific* court explained:

8 A comprehensive list of evidentiary facts relevant, in general, to the determination of  
9 the amount of a reasonable royalty for a patent license may be drawn from a conspectus of  
10 the leading cases. The following are some of the factors mutatis mutandis seemingly more  
11 pertinent to the issue herein:

- 12 1. The royalties received by the patentee for the licensing of the patent in suit, proving or  
13 tending to prove an established royalty.
- 14 2. The rates paid by the licensee for the use of other patents comparable to the patent in  
15 suit.
- 16 3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or  
17 non-restricted in terms of territory or with respect to whom the manufactured product may  
18 be sold.
- 19 4. The licensor’s established policy and marketing program to maintain his patent  
20 monopoly by not licensing others to use the invention or by granting licenses under special  
21 conditions designed to preserve that monopoly.
- 22 5. The commercial relationship between the licensor and licensee, such as, whether they  
23 are competitors in the same territory in the same line of business; or whether they are  
24 inventor and promoter.
- 25 6. The effect of selling the patented specialty in promoting sales of other products of the  
26 licensee; that existing value of the invention to the licensor as a generator of sales of his  
27 non-patented items; and the extent of such derivative or convoyed sales.
- 28 7. The duration of the patent and the term of the license.
8. The established profitability of the product made under the patent; its commercial  
success; and its current popularity.
9. The utility and advantages of the patent property over the old modes or devices, if any,  
that had been used for working out similar results.

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<sup>28</sup> *See id.*

26 <sup>29</sup> *Lucent*, 580 F.3d at 1324 (Fed. Cir. 2009).

27 <sup>30</sup> *Id.* at 1325.

28 <sup>31</sup> *See Georgia-Pacific*, 318 F. Supp. at 1120.

1 10. The nature of the patented invention; the character of the commercial embodiment of it  
2 as owned and produced by the licensor; and the benefits to those who have used the  
3 invention.

4 11. The extent to which the infringer has made use of the invention; and any evidence  
5 probative of the value of that use.

6 12. The portion of the profit or of the selling price that may be customary in the particular  
7 business or in comparable businesses to allow for the use of the invention or analogous  
8 inventions.

9 13. The portion of the realizable profit that should be credited to the invention as  
10 distinguished from non-patented elements, the manufacturing process, business risks, or  
11 significant features or improvements added by the infringer.

12 14. The opinion testimony of qualified experts.

13 15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer)  
14 would have agreed upon (at the time the infringement began) if both had been reasonably  
15 and voluntarily trying to reach an agreement; that is, the amount which a prudent  
16 licensee--who desired, as a business proposition, to obtain a license to manufacture and sell  
17 a particular article embodying the patented invention—would have been willing to pay as a  
18 royalty and yet be able to make a reasonable profit and which amount would have been  
19 acceptable by a prudent patentee who was willing to grant a license.<sup>32</sup>

### 20 **C. The Entire Market Value Rule**

21 “By statute, reasonable royalty damages are deemed the minimum amount of infringement  
22 damages ‘adequate to compensate for the infringement.’”<sup>33</sup> To most accurately calculate the  
23 minimum amount of infringement damages adequate to compensate for infringement of an accused  
24 product, “it is generally required that royalties be based not on the entire product, but instead on the  
25 ‘smallest salable patent-practicing unit.’”<sup>34</sup> The entire market value rule is a “narrow exception to  
26 the general rule” requiring royalties to be based on the smallest salable patent-practicing unit.<sup>35</sup> “If  
27 it can be shown that the patented feature drives the demand for an entire multi-component product,  
28 a patentee may be awarded damages as a percentage of revenues or profits attributable to the entire  
product.”<sup>36</sup> “Where small elements of multi-component products are accused of infringement,

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29 <sup>32</sup> *Id.*

30 <sup>33</sup> *LaserDynamics*, 694 F.3d at 66 (quoting 35 U.S.C. § 284).

31 <sup>34</sup> *Id.* at 67 (citing *Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 283, 287-88  
(N.D.N.Y. 2009)).

32 <sup>35</sup> *Id.*

33 <sup>36</sup> *Id.* (citing *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1549, 1551 (Fed. Cir. 1995).

1 calculating a royalty on the entire product carries a considerable risk that the patentee will be  
2 improperly compensated for non-infringing components of that product.”<sup>37</sup>

3 Damages testimony attempting “to show economic entitlement to damages based on  
4 technology beyond the scope of the claimed” invention is not permissible.<sup>38</sup> The reasoning behind  
5 the entire market value and smallest salable patent-practicing unit doctrines also is consistent with  
6 the Federal Circuit’s rejection of the “25 percent rule of thumb” in *Uniloc* and the U.S. Supreme  
7 Court’s early apportionment case law, which holds that a patentee “must in every case give  
8 evidence tending to separate or apportion the defendant’s profits and the patentee’s damages  
9 between the patented feature and the unpatented features.”<sup>39</sup>

### 11 III. DISCUSSION

#### 12 A. Wholesale Exclusion of Lawton’s Testimony Is Not Warranted, But Limits on the 13 Scope of Her Testimony Are

14 Apple raises four essential challenges to the Lawton’s opinions, which are persuasive only  
15 in part.

16 First, Apple argues that Lawton uses an inadmissible base consisting of Apple’s  
17 unapportioned, additional gross margin following Apple’s introduction of HLS in June 2009.

18 According to Apple, such a base violates the EMVR because this unapportioned margin is not

19 <sup>37</sup> *Id.* at 67-68.

20 Regardless of the chosen royalty rate, one way in which the error of an improperly  
21 admitted entire market value rule theory manifests itself is in the disclosure of the revenues  
22 earned by the accused infringer associated with a complete product rather than the patented  
23 component only. In *Uniloc*, we observed that such disclosure to the jury of the overall  
24 product revenues “cannot help but skew the damages horizon for the jury, regardless of the  
25 contribution of the patented component to this revenue.” [*Uniloc USA, Inc. v. Microsoft  
26 Corp.*, 632 F.3d 1292, 1320 (Fed. Cir. 2011)] (noting that “the \$19 billion cat was never put  
27 back into the bag,” and that neither cross-examination nor a curative jury instruction could  
28 have offset the resulting unfair prejudice). Admission of such overall revenues, which have  
no demonstrated correlation to the value of the patented feature alone, only serve to make a  
patentee’s proffered damages amount appear modest by comparison, and to artificially  
inflate the jury’s damages calculation beyond that which is “adequate to compensate for the  
infringement.” *Id.*; see 35 U.S.C. § 284.

<sup>38</sup> *Cornell*, 609 F. Supp. 2d at 284-85.

<sup>39</sup> *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011) (quoting *Garretson v. Clark*, 111 U.S. 120, 121 (1884)).



1 focused on the smallest saleable patent-practicing unit.<sup>40</sup> Apple might be right about the  
2 inadmissibility of such a royalty base. But its argument nevertheless is puzzling, as Lawton plainly  
3 uses a base of every unit of the accused infringing product, not the incremental gross margin Apple  
4 complains about.<sup>41</sup> To the extent Lawton relies upon the incremental gross margin, she does so in  
5 her estimate of the hypothetical royalty rate, not the base.<sup>42</sup> Because Apple mischaracterizes the  
6 base relied upon the expert, this argument must be rejected.<sup>43</sup>

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8         Second, Apple argues that Lawton uses an inadmissible unit base of every unit sold.<sup>44</sup>  
9 Here, Apple emphasizes that no Apple units directly infringe. Putting aside the inconsistency of  
10 this characterization of Lawton’s base with Apple’s characterization described above, Lawton’s  
11 “all infringing unit” base is not methodologically flawed. Apple does not cite to a single case  
12 suggesting that the royalty base of a hypothetical negotiation must be limited to units deemed to  
13 directly infringe. Such a rule makes especially little sense in cases like this one, where indirect  
14 infringement by the defendant is alleged and the bulk of the direct infringement alleged is that of  
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17 <sup>40</sup> See Docket No. 429-4 at 16 (Lawton “treats the [gross margin increase] figure as an  
18 unapportioned royalty base, and then awards Emblaze a substantial fraction of that base based upon  
19 the accused technology’s purported value to Apple.”); Apple Slide Deck at 5 (\$[] billion royalty  
20 base is her “starting point” – accused device increased profits (\$[] per unit) since June 2009”).

21 <sup>41</sup> See Docket No. 429-6, Schedule 1B.

22 <sup>42</sup> Even Apple appears to concede this fully in its reply, if not in its slide deck at the hearing. See  
23 Docket No. 490-5 at 2 (“Emblaze and Ms. Lawton took a risk when they refused to apportion the  
24 royalty base, adopted an unapportioned \$[] per unit amount as the starting royalty rate, relied on  
25 incomparable licenses, and then picked a \$2 per unit royalty out of thin air.”).

26 <sup>43</sup> Lawton’s use of the margin in her rate estimate, as either an “anchor” or a “starting point” is  
27 nevertheless problematic in that it is plainly and nothing more than a big number used to justify a  
28 small number. Although here the resulting distortion is in the rate, not the base, Lawton invites the  
same type of jury error prohibited by the Federal Circuit in *Uniloc*. 632 F.3d 1292. This she will  
not be permitted to do; no reference to Apple’s unapportioned, additional gross margin following  
Apple’s introduction of HLS in June 2009 will be permitted.

<sup>44</sup> See Docket No. 429-4 at 5-6 (“Lawton beigns with a royalty base consisting of more than []  
million units of accused products sold (iPhones, iPads, iPod touches, Apple TVs, and Macs) and  
more than [] million units of operating system software upgrades in addition to Apple’s revenue  
from applications capable of live streaming [.]”) (citing Docket No. 429-6, Ex. 1 at 503,  
Schedule 1B); Apple Slide Deck at 12 (“Lawton’s unit base includes all units sold”).

1 third parties.<sup>45</sup>

2 Third, Apple argues that Lawton uses no discernable or reliable methodology. Apple  
3 focuses on both the “incomparable licenses or litigation demands” relied on by Lawton in her rate  
4 calculation and the fact that Lawton performs “no specific math” in her rate estimate.<sup>46</sup> But in  
5 contrast to the expert testimony recently rejected by Judge Koh in *GPNE v. Corp. v. Apple, Inc.*,  
6 Lawton’s analysis did not “fundamentally reduce to taking [her] opinion based on [] years of  
7 experience for granted.”<sup>47</sup> Lawton instead analyzed licenses and demands for the use of other  
8 patents she concluded were comparable to the hypothetical license at issue here among other  
9 *Georgia-Pacific* factors. Although Apple remains well within its rights to question whether these  
10 other licenses and demands are indeed comparable,<sup>48</sup> that ultimate question must be resolved by the  
11 jury, not this court. The court’s task here is simply to determine whether that Lawton has  
12 identified a sufficient nexus between the licenses and demands to the hypothetical license at  
13 issue.<sup>49</sup>

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18 <sup>45</sup> See *Chiuminatta Concrete Concepts, Inc. v. Cardinal Indusies., Inc.*, 1 Fed. Appx. 879, 884  
19 (Fed. Cir. 2001) (rejecting implication that patentee “is required to demonstrate a one-to-one  
20 correspondence between units sold and directly infringing customers”).

21 <sup>46</sup> Docket No. 490-5 at 2, 15.

22 <sup>47</sup> Case No. 12-cv-02885-LHK-PSG, 2014 WL 1494247, at \*6 (N.D. Cal. 2014).

23 <sup>48</sup> See *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010).

24 <sup>49</sup> See *i4i*, 598 F.3d at 856. An evaluation of the admissibility of licenses in support of a damages  
25 case necessarily weighs two considerations. First, license agreements must not be “radically  
26 different form the hypothetical agreement” under consideration. *Lucent*, 580 F.3d at 1327.  
27 Second, the jury must have an adequate basis to evaluate “the probative value of those  
28 agreements.” *Id.* at 1327-28. The patentee bears the burden to prove that licenses are sufficiently  
comparable. *Id.* The Federal Circuit has “long required district courts performing reasonable  
royalty calculations to exercise vigilance when considering past licenses to technologies other than  
the patents in suit.” *ResQNet.com*, 594 F.3d at 869. “Re-bundled,” untethered licenses  
inconsistent “with the other licenses” in the record, may not be used to support egregiously high  
royalty rates. *Id.* (“The inescapable conclusion is that Dr. David used unrelated licenses on  
marketing and other services—licenses that had a rate nearly eight times greater than the straight  
license on the claimed technology in some cases—to push the royalty up into double figures.”).

1           Because the court agrees with Apple that Lawton’s report does not “do anything to establish  
2 that [the patentee’s demands in *Apple v. Samsung* or the Apple-Motorola license disclosed in the  
3 *Apple v. Motorola* litigation] are technically and economically similar to the facts” of this case,  
4 Lawton may not rely on those licenses at trial.<sup>50</sup> Apple’s challenge with respect to the publically  
5 available standards-essential technology licenses relating to MP3, MPEG-4 and AVC/H.264 is  
6 another story. Here, Apple urges that public information regarding licensing in that space should  
7 be excluded not because of an insufficient nexus to this case, but because Apple has produced its  
8 own licenses to that technology.<sup>51</sup> The Federal Circuit, however, has approved the use of “publicly  
9 available information” and also held that the “existence of other facts” or data that could also have  
10 been relied upon does not make the evidence selected irrelevant.<sup>52</sup> Even if data are “imperfect, and  
11 more (or different) data might have resulted in a ‘better’ or more ‘accurate’ estimate in the absolute  
12 sense, it is not the district court’s role under *Daubert* to evaluate the correctness of facts underlying  
13 an expert’s testimony.<sup>53</sup> Questions about what facts are most relevant or reliable to calculating a  
14 reasonable royalty are for the jury.”<sup>54</sup> In addition, to the extent Lawton’s resulting estimates are  
15 imprecise, any reasonable royalty analysis “necessarily involves an element of approximation and  
16 uncertainty.”<sup>55</sup> Because the court does not find that the probative value of these publicly-available  
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21 <sup>50</sup> See Docket No. 429-4 at 21 (citing Docket No. 429-6, Ex. 1 at 413-17).

22 <sup>51</sup> See Docket No. 429-4 at 21-22 (“Lawton should be precluded from opining that unreliable  
23 public information about licenses to MP3, MPEG-4 and AVC/H.264 standards-essential  
24 technology would inform the hypothetical negotiation and influence the proper royalty rate, when  
25 Apple entered into actual license agreements to use this technology.”).

26 <sup>52</sup> *i4i*, 598 F.3d at 855-56.

27 <sup>53</sup> See *Micro Chem.*, 317 F.3d at 1392.

28 <sup>54</sup> *i4i*, 598 F.3d at 856.

<sup>55</sup> *Lucent*, 580 F.3d at 1325; *Paper Converting Machine Co. v. Magna-Graphic Corp.*, 745 F.2d 11,  
22 (Fed. Cir. 1984) (“while the damages may not be determined by mere speculation or guess, it  
will be enough if the evidence shows the extent of the damages as a matter of just and reasonable  
inference, although the result may be only approximate”).

1 licenses evidence will be substantially outweighed by the danger of unfair prejudice,<sup>56</sup> exclusion is  
2 not warranted.

3 Finally, Apple argues that Lawton has engaged in naked “Apple bashing.” Apple  
4 highlights a number choice quotes from Lawton’s report, ranging from a charge that Apple has  
5 “turned into paranoid security Nazis” to various excerpts suggesting Steve Jobs is a thief or  
6 worse.<sup>57</sup> Other quotes focus on Apple’s discovery practices.<sup>58</sup> This is an easy call. Lawton will  
7 not be permitted to engage in such emotional appeals.<sup>59</sup>

8 **B. Teece Shall Be Restricted to the General Expert Opinion Tendered in His Report**

9 Apple urges that the “degree of abstraction and imprecision of Teece’s opinions renders”  
10 them largely unhelpful “to the trier of fact, and therefore inadequate under Rule 702(a).”<sup>60</sup> In  
11 support, Apple points out Teece “mentioned ‘live streaming’ in only a single paragraph of his”  
12 report and used the rest of his report to propound abstract opinions regarding digital convergence  
13 and network effects/externalities.<sup>61</sup> Teece’s “conclusions” that “follow from the combination of  
14 digital convergence and network externalities” are only loosely connected to the facts and  
15 technology at issue in this case.<sup>62</sup> Teece’s deposition also revealed sizable separation between the  
16  
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18 \_\_\_\_\_  
19 <sup>56</sup> See Fed. R. Evid. 403 (“The court may exclude relevant evidence if its probative value is  
20 substantially outweighed by a danger of one or more of the following: unfair prejudice, confusing  
21 the issues, misleading the jury, undue delay, wasting time, or needlessly presenting cumulative  
22 evidence.”).

23 <sup>57</sup> Docket No. 429-6, Ex. 1 at 184.

24 <sup>58</sup> See Docket No. 429-4 at 7-8 (citing Docket No. 429-6, Ex. 1).

25 <sup>59</sup> The court already addressed objection to evidence and argument suggesting Apple and/or  
26 Steve Jobs “have always been shameless about stealing great ideas.” See Docket No. 519 at 3  
27 (“Emblaze shall not offer any evidence or argument regarding Apple or Steve Jobs’ alleged  
28 copying of third party products, ideas or inventions.”). Evidence to this effect will not be permitted  
at trial.

<sup>60</sup> Docket No. 428 at 4.

<sup>61</sup> See *id.* (citing Docket No. 428-1, Ex. 1 at ¶¶ 15-53, 55-58). Teece’s report appears to use  
network effects and network externalities interchangeably.

<sup>62</sup> *Id.* (citing Docket No. 428-1 at ¶ 49).

1 facts of this case and Teece's analysis. At deposition, Teece conceded he was only applying  
2 general principles to the case at the "level of principle" and not engaged in a "granular case-  
3 specific analysis."<sup>63</sup> At bottom, Teece's high-level opinions<sup>64</sup> are of limited use to the fact-finder  
4 in resolving any question of fact at issue in this case.

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7 <sup>63</sup> See Docket No. 428-3 at 24:11-17.

8 Q. Have you ever prepared an analysis on the impact of live video streaming and the  
9 massive convergence between computing and communications? A. I haven't done  
10 anything that specific.

11 *Id.* at 43:1-22

12 Well, there -- my understanding is that [Lawton] did a significant amount of review of the  
13 public record and, you know, what trade -- excuse me, what industry analysts, what the  
14 trade press and other commentators refer to. So I wasn't being all that specific there, but I  
15 was just generally referring to the fact that I'm also somewhat familiar with the trade press  
16 because I do follow it to some extent.

17 *Id.* at 45:1-48:25

18 I did have some discussions with Cathy Lawton. I was generally familiar with the kinds of  
19 things she was referring to.

20 \* \* \*

21 So there was some amount of discussion that was had between Cathy and myself and my  
22 staff that gave me a feel for some of the materials that she was relying on.

23 \* \* \*

24 I didn't look at any specific documents produced by Apple or Emblaze. Q. Did you review  
25 the patent-in-suit in this litigation? A. Yes, I did have access to that, and I think I read it  
26 online early on. Q. But that's not listed as a document you relied upon in forming your  
27 opinion, correct? A. That is correct. Q. Did you speak to anyone about the patent-in-suit  
28 in this litigation? A. Besides counsel, no. Q. And when you spoke to counsel about the  
patent-in-suit litigation, how many times would you estimate that you spoke to counsel  
about the patent-in-suit? A. Maybe once. It wasn't as to the details. I was just simply  
aware that there was a patent litigation going on around certain Emblaze patents. Q. And  
what was your understanding based on your conversation with counsel as to what the  
technology in the patent -- in that patent-in-suit is? A. That they -- that the patents were  
accused of -- well, excuse me -- that Apple was accused of infringing Emblaze -- Emblaze's  
patents or some of Emblaze's patents in its streaming technologies, its HTTP-based  
streaming technologies. Q. And is it your understanding that the patent-in-suit -- there's  
only one patent-in-suit -- covers all streaming, all types of streaming? A. No.

*Id.* at 49:6-24.

Q. Some -- did you review the complaint in this case? A. At one point, yes. I thought I'd  
answer that in response to your earlier question. I think I had seen it online. Q. Well, my  
earlier question was whether you had reviewed the patent-in-suit. That means just the  
actual patent document. A. Oh, okay. Then I misunderstood. Q. Oh, I see. A. Only  
inasmuch as there was some discussion of that, I think, in the complaint. Q. I see. So just  
to go back to my earlier question about whether you had reviewed the patent-in-suit, you  
didn't actually go on, like, Google Patents and look at the actual patent that was filed, the

1           Nevertheless, Rule 702 permits general principles testimony without substantive connection  
2 to the facts of a case. The committee explains:

3           If the expert purports to apply principles and methods to the facts of the case, it is  
4 important that this application be conducted reliably. Yet it might also be important in  
5 some cases for an expert to educate the factfinder about general principles, without ever  
6 attempting to apply these principles to the specific facts of the case. For example, experts  
7 might instruct the factfinder on the principles of thermodynamics, or bloodclotting, or on  
8 how financial markets respond to corporate reports, without ever knowing about or trying to  
9 tie their testimony into the facts of the case. The amendment does not alter the venerable  
10 practice of using expert testimony to educate the factfinder on general principles. For this  
11 kind of generalized testimony, Rule 702 simply requires that: (1) the expert be qualified; (2)  
12 the testimony address a subject matter on which the factfinder can be assisted by an expert;  
13 (3) the testimony be reliable; and (4) the testimony “fit” the facts of the case.<sup>65</sup>

14 Because Teece’s general expert testimony on digital convergence and network effects falls into this  
15 category of permissible testimony, exclusion is not warranted merely on the grounds that Teece has  
16 not sufficiently grounded his testimony in the case. Teece may generally opine that digital  
17 convergence and network effects could have affected the hypothetical negotiation. But that is it.

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18           issue? A. No. I’m not a technical expert, and it wouldn’t necessarily convey much  
19 meaning to me.

20 *Id.* at 53:5-56:8

21           Q. Can you recall any specific facts about this case that Ms. Lawton personally told you  
22 that shaped the content and scope of your opinion? A. No. Not -- not really. Because, as I  
23 said, it was, you know, more what -- what are the -- kind of the relevant background factors  
24 here that eventually, you know, a jury will need to understand to properly appreciate the  
25 context of any future or any hypothetical licensing negotiation. Q. And when you speak  
26 about the “relevant background factors,” do you mean the relevant background factors you  
27 learned from Ms. Lawton or relevant background factors you know from your research as  
28 an economist? A. Well, I would say it’s primarily the latter, but I didn’t want my  
testimony -- testimony to be shaped in a way that was unhelpful to the Court, so I needed to  
get some overall focus on the issues at hand in this litigation. Q. But you can’t name --  
recall any specific case fact that you learned from Ms. Lawton that would help to focus on  
the issue at hand? A. Well, you know, the -- the obvious points that this -- that the patents  
at issue implicated streaming, that, you know, the history seemed to indicate that Apple was  
a bit of a Johnny-come-lately to the streaming party, and -- and that, you know, there came  
a point in time where -- where Apple did successfully develop software on the HTTP  
protocol that enabled it not to just catch up, but -- but also to get ahead in -- in video  
streaming.

<sup>64</sup> See Docket No. 428-1 at 49-58.

<sup>65</sup> Fed. R. Evid. 702, Advisory Committee’s Notes (2000).

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**IT IS SO ORDERED.**

Dated: June 25, 2014

  
PAUL S. GREWAL  
United States Magistrate Judge