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**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF CALIFORNIA**

MULTIMEDIA PATENT TRUST,  
  
Plaintiff,  
  
vs.  
  
APPLE INC., et al.,  
  
Defendants.

CASE NO. 10-CV-2618-H (KSC)  
  
**ORDER GRANTING IN PART  
AND DENYING IN PART  
DEFENDANTS' DAUBERT  
MOTION TO EXCLUDE  
PLAINTIFF'S DAMAGES  
EXPERTS**  
  
[Doc. No. 495, 641]

On October 23, 2012, Defendants filed a Daubert motion to exclude MPT's damages experts. (Doc. No. 495) On November 6, 2012, MPT filed its response in opposition. (Doc. No. 597.) On November 13, 2012, Apple and LG filed their reply. (Doc. No. 625.) On November 17, 2012, MPT filed a notice of supplemental damages expert reports. (Doc. No. 638.) On November 19, 2012, Apple and LG filed a supplemental brief in support of their motion. (Doc. No. 641.) On November 20, 2012, the Court held a hearing on the matter. Christopher Mathews, Frederick Lorig, Sidford Brown, and Diane Hutnyan appeared for MPT. Justin Barnes, Kelly Hunsaker, Michael Tyler, Lara Garner, Richard Sterba, and Michael McKeon appeared for Apple and LG. Sarita Venkat appeared for Apple. For the reasons below, the Court **GRANTS IN PART** and **DENIES IN PART** Apple and LG's Daubert motion.

1 **BACKGROUND**

2 On December 20, 2010, Plaintiff Multimedia Patent Trust (“MPT”) filed a complaint  
3 for patent infringement against Defendants Apple, Inc. (“Apple”), LG<sup>1</sup>, and Canon.<sup>2</sup> (Doc. No.  
4 1, Compl.) The complaint alleges that Defendants are liable for infringement of one or more  
5 of three patents related to video compression technology: U.S. Patent Nos. 4,958,226 (“the  
6 ’266 Patent”), 5,227,878 (“the ’878 Patent”), and 5,136,377 (“the ’377 Patent”) (collectively  
7 the “Patents-in-Suit”). (*Id.*) On March 21, 2011, Apple, LG, and Canon filed their answers.  
8 (Doc. Nos. 38-39, 41.) On November 9, 2012, the Court granted Canon’s motion for summary  
9 judgment of its affirmative defense of patent exhaustion, removing Canon as a Defendant from  
10 this case. (Doc. No. 608 at 9-10.)

11 **DISCUSSION**

12 **I. Legal Standard for a Daubert Motion to Exclude Expert Testimony**

13 A district court’s decision to admit expert testimony under Daubert in a patent case  
14 follows the law of the regional circuit. Micro Chem., Inc. v. Lextron, Inc., 317 F.3d 1387,  
15 1390-91 (Fed. Cir. 2003). When considering expert testimony offered pursuant to Rule 702,  
16 the trial court acts as a “gatekeeper” by “making a preliminary determination of whether the  
17 expert’s testimony is reliable.” Elsayed Mukhtar v. Cal. State Univ., Hayward, 299 F.3d 1053,  
18 1063 (9th Cir. 2002); see Kumho Tire Co. v. Carmichael, 526 U.S. 137, 150 (1999); Daubert  
19 v. Merrell Dow Pharms., Inc., 509 U.S. 579, 597 (1993). Under Rule 702 of the Federal Rules  
20 of Evidence, a court may permit opinion testimony from an expert only if such testimony “will  
21 assist the trier of fact” and “(1) the testimony is based upon sufficient facts or data, (2) the  
22 testimony is the product of reliable principles and methods, and (3) the witness has applied the  
23 principles and methods reliably to the facts of the case.”

24 “The test for reliability [of expert testimony] is flexible and depends on the discipline

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26 <sup>1</sup> “LG” includes LG Electronics, Inc., LG Electronics U.S.A., Inc., and LG Electronics  
27 Mobilecomm U.S.A., Inc.

28 <sup>2</sup> “Canon” includes Canon U.S.A., Inc. and Canon, Inc.

1 involved.” Wagner v. Cnty. of Maricopa, 2012 U.S. App. LEXIS 23631, at \*14 (9th Cir. Nov.  
2 16, 2012). “Under Daubert, the district judge is ‘a gatekeeper, not a fact finder.’ When an  
3 expert meets the threshold established by Rule 702 as explained in Daubert, the expert may  
4 testify and the jury decides how much weight to give that testimony.” Primiano v. Cook, 598  
5 F.3d 558, 564-65 (9th Cir. 2010); see also Micro Chem., 317 F.3d at 1392 (“When . . . the  
6 parties’ experts rely on conflicting sets of facts, it is not the role of the trial court to evaluate  
7 the correctness of facts underlying one expert’s testimony.”). “[T]he test under Daubert is not  
8 the correctness of the expert’s conclusions but the soundness of his methodology.” Primiano,  
9 598 F.3d at 564. “Shaky but admissible evidence is to be attacked by cross examination,  
10 contrary evidence, and attention to the burden of proof, not exclusion.” Id. (citing Daubert,  
11 509 U.S. at 594, 596); accord i4i Ltd. P’ship v. Microsoft Corp., 598 F.3d 831, 856 (Fed. Cir.  
12 2010).

13 Whether to admit or exclude expert testimony lies within the trial court’s discretion.  
14 GE v. Joiner, 522 U.S. 136, 141-42 (1997); United States v. Calderon-Segura, 512 F.3d 1104,  
15 1109 (9th Cir. 2008). The Ninth Circuit has explained that “[a] trial court not only has broad  
16 latitude in determining whether an expert’s testimony is reliable, but also in deciding how to  
17 determine the testimony’s reliability.” Mukhtar v. Cal. State Univ., 299 F.3d 1053, 1064 (9th  
18 Cir. 2002).

## 19 **II. Legal Standards for Calculating Patent Damages**

20 “Upon finding for the claimant the court shall award the claimant damages adequate to  
21 compensate for the infringement, but in no event less than a reasonable royalty for the use  
22 made of the invention by the infringer, together with interest and costs as fixed by the court.”  
23 35 U.S.C. § 284. Two alternative methods exist for calculating damages in a patent case; they  
24 “are the patentee’s lost profits and the reasonable royalty he would have received through  
25 arms-length bargaining.” Lucent Techs., Inc. v. Gateway, Inc., 580 F.3d 1301, 1324 (Fed. Cir.  
26 2009). MPT does not contend that it is entitled to lost profits. [See Doc. No. 495-1,  
27 Declaration of Justin Barnes, Exs. A, C.] Accordingly, damages in this case should be  
28 calculated by determining the reasonable royalty MPT would have received through

1 arms-length negotiation. See Lucent, 580 F.3d at 1324.

2 To calculate the reasonable royalty, patentees generally consider a hypothetical  
3 negotiation, in which the asserted patent claims are assumed valid, enforceable, and infringed,  
4 and attempt “to ascertain the royalty upon which the parties would have agreed had they  
5 successfully negotiated an agreement just before infringement began.” Lucent, 580 F.3d at  
6 1324-25; see also Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1554 n.13 (Fed. Cir.1995) (en  
7 banc). This hypothetical negotiation “necessarily involves an element of approximation and  
8 uncertainty.” Lucent, 580 F.3d at 1325; see also Fromson v. Western Litho Plate & Supply  
9 Co., 853 F.2d 1568, 1574 (Fed. Cir. 1988) (“Determining a fair and reasonable royalty is often  
10 . . . a difficult judicial chore, seeming often to involve more the talents of a conjurer than those  
11 of a judge”). “Still, a reasonable royalty analysis requires a court to hypothesize, not to  
12 speculate.” ResQNet.com, Inc. v. Lansa, Inc., 594 F.3d 860, 869 (Fed. Cir. 2010). “A  
13 damages theory must be based on ‘sound economic and factual predicates.’” LaserDynamics,  
14 Inc. v. Quanta Computer, Inc., 694 F.3d 51, 67 (Fed. Cir. 2012) (quoting Riles v. Shell  
15 Exploration & Prod. Co., 298 F.3d 1302, 1311 (Fed. Cir. 2002)).

16 In determining the reasonable royalty that would have been agreed to at the hypothetical  
17 negotiation, parties in patent cases frequently utilize the fifteen factors enunciated in  
18 Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970). The  
19 Federal Circuit has expressly “sanctioned the use of the Georgia-Pacific factors to frame the  
20 reasonable royalty inquiry.” Uniloc USA, Inc. v. Microsoft Corp., 632 F.3d 1292, 1317 (Fed.  
21 Cir. 2011).

22 A hypothetical negotiation can result in either a lump-sum license or a running royalty  
23 license. See Lucent, 580 F.3d at 1326. A lump-sum license is an up-front payment in full for  
24 the invention that involves uncertainty about “whether the technology is commercially  
25 successful or even used.” Id. In contrast, a running royalty license is directly tied to how often  
26 the invention is incorporated into products by the licensee and is calculated by multiplying the  
27 proposed royalty rate by the proposed royalty base. See id. at 1326, 1338-39.

28 “The burden of proving damages falls on the patentee.” Lucent, 580 F.3d at 1324. To

1 properly carry this burden, the patentee must sufficiently tie the expert testimony on damages  
2 to the facts of the case. Uniloc, 632 F.3d at 1315 (citing Daubert, 509 U.S. at 591).

### 3 **III. Mr. Yurkerwich's Damages Analysis**

4 MPT's damages expert Mr. Yurkerwich's analysis begins by giving a general overview  
5 of the Patents-in-Suit, Alcatel-Lucent, MPT, IPValue, MPEG-LA, licenses involving the  
6 Patents-in-Suit, MPT's licensing activity, and the accused products. (Doc. No. 495-1,  
7 Declaration of Justin Barnes Ex. A ¶¶ 5-34, Ex. C. ¶¶ 5-40.) Mr. Yurkerwich then examines  
8 Apple and LG documents to analyze the Defendants' use of the H.264 standard. (Id. Ex. A ¶¶  
9 35-39, Ex. C. ¶¶ 41-62.)

10 Mr. Yurkerwich then utilizes the market approach to analyze the value of the Patents-in-  
11 Suit. (Doc. No. 495-1, Declaration of Justin Barnes Ex. A ¶¶ 44-71, Ex. C. ¶¶ 67-94.) Under  
12 this approach, Mr. Yurkerwich analyzes various licenses to the Patents-in-Suit. (Id.) Mr.  
13 Yurkerwich first identifies four Lucent licenses that provided Lucent with an initial lump sum  
14 payment and then a per unit royalty of \$1.50 to \$2.00 depending on certain circumstances for  
15 three of the licenses and a 0.5% running royalty for the fourth license. (Id. Ex. A ¶¶ 47-50, Ex.  
16 C ¶¶ 70-73.) Mr. Yurkerwich then identifies the 32 licenses that MPT has received for the  
17 Patents-in-Suit, which consists mostly of lump sum agreements. (Id. Ex. A ¶¶ 51-59, Ex. C  
18 ¶¶ 74-82.) Out of the 32 licenses, Mr. Yurkerwich analyzes the nine licenses that he had unit  
19 data for and calculates that the average per unit rate for this group of licenses was \$0.86 per  
20 unit.<sup>3</sup> (Id. Ex. A ¶¶ 60-63, Ex. C ¶¶ 83-86.) Mr. Yurkerwich then explains that MPT's licenses  
21 had litigation discount percentages from 20% to 55%, and that based on these litigation  
22 discounts the actual value of the licenses—if its is assumed that the patents are infringed and  
23 valid—should be adjusted upward by a multiple of between 1.25 and 2. (Id. Ex. A ¶¶ 66-71,  
24 Ex. C ¶¶ 89-94.)

25 Mr. Yurkerwich then takes this information and analyzes the fifteen Georgia-Pacific

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27 <sup>3</sup> On November 15, 2012, MPT served on Defendants supplement damages expert  
28 reports where Mr. Yurkerwich analyzes a tenth MPT lump sum license that it recently entered  
into with Motorola/Google. (Doc. No. 637, Declaration of Sidford Brown Exs. 1-2.)

1 factors to determine the reasonable royalty the parties would have agreed to during the  
2 hypothetical negotiation. (Doc. No. 495-1, Declaration of Justin Barnes Ex. A ¶¶ 74-97, Ex.  
3 C. ¶¶ 95-121.) Mr. Yurkerwich concludes that the reasonable royalty for Apple and LG’s  
4 alleged infringement that would have been reached at the hypothetical negotiation would be  
5 \$1.50 per unit, resulting in a total reasonable royalty of \$195.9 million for Apple and \$61.3  
6 million for LG.<sup>4</sup> (Id. Ex. A ¶¶ 4, 96-98, Ex. C ¶¶ 4, 118-22.) In explaining the reasonableness  
7 of his \$1.50 per unit royalty rate, Mr. Yurkwich states that the \$1.50 per unit rate would be  
8 approximately 0.25% of Apple’s accused product revenue and approximately 0.78% of LG’s  
9 accused product revenue. (Id. Ex. A ¶ 97, Ex. C ¶¶ 120-21.) Mr. Yurkerwich also states that  
10 at a 1% royalty rate the average per unit amount for Apple’s accused products would be \$6.00  
11 based on their average selling price of \$600 and the average per unit amount for LG’s products  
12 would be \$1.92 based on their average selling price of \$192. (Id. Ex. A ¶ 96, Ex. C ¶ 119.)

#### 13 **IV. Entire Market Value Rule**

14 Under the entire market value rule, a patentee may be awarded damages as a percentage  
15 of revenues or profits attributable to the entire product only “[i]f it can be shown that the  
16 patented feature drives the demand for an entire multi-component product.” LaserDynamics,  
17 694 F.3d at 67; see also Uniloc, 632 F.3d at 1318 (“The entire market value rule allows a  
18 patentee to assess damages based on the entire market value of the accused product only where  
19 the patented feature creates the ‘basis for customer demand’ or ‘substantially create[s] the  
20 value of the component parts.’”). “In other words, ‘[t]he entire market value rule allows for  
21 the recovery of damages based on the value of an entire apparatus containing several features,  
22 when the feature patented constitutes the basis for customer demand.’” LaserDynamics, 694  
23 F.3d at 67 (quoting Lucent, 580 F.3d at 1336). The entire market value rule is “derived from  
24 Supreme Court precedent requiring that ‘the patentee . . . must in every case give evidence  
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26 <sup>4</sup> On October 24, 2012, Mr. Yurkerwich revised his damages expert report for LG to  
27 account for the accused products struck by the Court in its Order granting in part and denying  
28 in part LG’s motion to strike MPT’s final infringement contentions. (Doc. No. 625,  
Declaration of Justin Barnes Ex. T.) In the revised damages expert report, Mr. Yurkerwich  
concludes that the total reasonable royalty for LG would now be \$9.1 million. (Id. ¶¶ 4, 98.)

1 tending to separate or apportion the defendant’s profits and the patentee’s damages between  
2 the patented feature and the unpatented features, and such evidence must be reliable and  
3 tangible, and not conjectural or speculative,’ or show that ‘the entire value of the whole  
4 machine, as a marketable article, is properly and legally attributable to the patented feature.’”  
5 Uniloc, 632 F.3d at 1318 (quoting Garretson v. Clark, 111 U.S. 120, 121 (1884)). “Where  
6 small elements of multi-component products are accused of infringement,” and the entire  
7 market value rule has not been satisfied, “it is generally required that royalties be based not on  
8 the entire product, but instead on the ‘smallest salable patent-practicing unit.’”  
9 LaserDynamics, 694 F.3d at 67 (quoting Cornell Univ. v. Hewlett-Packard Co., 609 F. Supp.  
10 2d 279, 283, 287-88 (N.D.N.Y. 2009) (Rader, J.)).

11 The patentee bears the burden of proving that the entire market value rule has been  
12 satisfied. See IP Innovation L.L.C. v. Red Hat, Inc., 705 F. Supp. 2d 687, 690 (E.D. Tex.  
13 2010) (Rader, J.); see also Lucent, 580 F.3d at 1336 (“[T]he patentee must prove that the  
14 patent-related feature is the basis for customer demand.” (quotation marks omitted)). A  
15 damages expert that improperly utilizes the entire market value rule in calculating the  
16 reasonable royalty should be excluded. See, e.g., IP Innovation, 705 F. Supp. 2d at 689-91.

17 Defendants argue that Mr. Yurkerwich’s damages analysis violates the entire market  
18 value rule. (Doc. No. 495 at 5-12.) Specifically, Defendants argue that Mr. Yurkerwich’s  
19 damages analysis is based on the entire market value of the accused products without  
20 performing any apportionment. (Id.) In response, MPT argues that Mr. Yurkerwich’s analysis  
21 does not violate the entire market value rule because Mr. Yurkerwich’s per-unit royalty is not  
22 based on the entire market value of the accused products. (Doc. No. 597 at 5-12.) MPT argues  
23 that because Mr. Yurkerwich’s royalty is based on the number of units sold, the entire market  
24 value rule is inapplicable. (Id. at 6, 10-11.)

25 In his expert reports, Mr. Yurkerwich concludes that the reasonable royalty for Apple  
26 and LG’s infringement that would have been reached at the hypothetical negotiation would be  
27 \$1.50 per unit. (Doc. No. 495-1, Declaration of Justin Barnes Ex. A ¶¶ 4, 96-98, Ex. C ¶¶ 4,  
28 118-22.) The Court concludes that Mr. Yurkerwich’s \$1.50 per unit royalty does not violate

1 the entire market value rule. The entire market value rule is applicable when a patentee uses  
2 the revenue or profits of an entire accused product as his royalty base. See LaserDynamics,  
3 694 F.3d at 67; Uniloc, 632 F.3d at 1318; Garretson, 111 U.S. at 121. In having a royalty of  
4 \$1.50 per product, Mr. Yurkerwich's royalty does not use Defendants' revenues or profits as  
5 a royalty base. His royalty is based on the number of units sold regardless of the amount of  
6 revenue or profits derived from the various products. Therefore, Mr. Yurkerwich's \$1.50 per  
7 unit royalty does not rely on the entire market value of Defendants' accused products, and the  
8 entire market value rule does not apply.

9 Defendants argue that Mr. Yurkerwich's \$1.50 per unit royalty is actual based on the  
10 entire value of the accused products because he relies on MPT's purported practice to negotiate  
11 licenses in which payments were based on a 1%, 0.5%, or 0.1% royalty of revenue, with a  
12 minimum payment of \$1.50 per unit. (Doc. No. 495 at 7-9.) Although Mr. Yurkerwich relies  
13 on this alleged licensing practice, he does not seek a 1%, 0.5%, or 0.1% royalty rate in his  
14 report. He seeks a royalty rate of \$1.50 per unit, the minimum payment under the practice.  
15 This \$1.50 minimum per unit rate does not depend on the accused products' revenues or  
16 profits, and therefore the entire market value rule is not applicable.

17 Defendants attempt to argue that Mr. Yurkerwich's \$1.50 per unit royalty is similar to  
18 the royalty rate in Lucent v. Microsoft, which this Court found violated the entire market value  
19 rule. (Doc. No. 495 at 5; Doc. No. 625 at 2-3.) The Court disagrees. In Lucent, the patentee  
20 sought a 1% royalty rate and attempted to argue that the entire market value rule was not  
21 implicated by its proposed royalty so long as it stated the defendant's revenue in terms of unit  
22 price and number of units rather than in terms of total dollar revenue. See Lucent Techs., Inc.  
23 v. Microsoft Corp., 2011 U.S. Dist. LEXIS 75504, at \*29-31 (S.D. Cal. Jul. 13, 2011). This  
24 Court found that the entire market value rule applied because the patentee was seeking a  
25 royalty based on the entire market value of the accused products, i.e., a percentage of the  
26 products' revenue. See id. Here, MPT is not seeking a royalty rate based on a percentage of  
27 Defendants' revenue, as the patentee in Lucent was; instead, MPT is requesting a per unit  
28 royalty that is \$1.50 per product regardless of the revenue derived from the products.



1 Mr. Yurkerwich's damages analysis does not end with his conclusion that a \$1.50 per  
2 unit would be the appropriate reasonable royalty in this case. In an effort to support his \$1.50  
3 per unit royalty, Mr. Yurkwich states that the \$1.50 per unit rate would be approximately  
4 0.25% of Apple's accused product revenue and approximately 0.78% of LG's accused product  
5 revenue. (Doc. No. 495-1, Declaration of Justin Barnes Ex. A ¶ 97, Ex. C ¶¶ 120-21.) Mr.  
6 Yurkerwich also states that at a 1% royalty rate the average per unit amount for Apple's  
7 accused products would be \$6.00 based on their average selling price of \$600 and the average  
8 per unit amount for LG's products would be \$1.92 based on their average selling price of \$192.  
9 (Id. Ex. A ¶ 96, Ex. C ¶ 119.) These statements violate the entire market rule. See Uniloc, 632  
10 F.3d at 1321 (“[T]he fact that the entire market value was brought in as only a ‘check’ is of no  
11 moment.”). In making these statements, Mr. Yurkerwich relies on the total revenues of the  
12 accused products to support his royalty rate. Therefore, the entire market value rule is  
13 applicable to these statements. See LaserDynamics, 694 F.3d at 67; Uniloc, 632 F.3d at 1318;  
14 Garretson, 111 U.S. at 121. A patentee may only rely on the entire market value of the accused  
15 products in its reasonable royalty analysis if it can show that the patented feature, here video  
16 compression technology, drives the demand for the entire accused products. See  
17 LaserDynamics, 694 F.3d at 67. MPT does not even attempt to make such a showing.

18 Instead, MPT argues that its market approach complies with the entire market value  
19 rule. (Doc. No. 597 at 3-10.) MPT argues that its reasonable royalty analysis complies with  
20 the entire market value rule because Mr. Yurkerwich's analysis properly performs an  
21 apportionment of the royalty base by relying on comparable licenses. (Id. at 5-10.) The Court  
22 first notes that the entire market value rule is not satisfied simply because a patentee relies on  
23 comparable licenses in its damages analysis. Whether a reasonable royalty analysis properly  
24 relies on comparable licenses is a different legal inquiry from whether a reasonable royalty  
25 analysis violates the entire market value rule. See, e.g., LaserDynamics, 694 F.3d at 66-70,  
26 79-81 (performing a separate analysis for determining whether the entire market value rule was  
27 violated and whether the damages were based on comparable licenses); Lucent, 580 F.3d at  
28 1325-32, 1336-39 (same). However, the use of the accused products' entire market value as

1 a royalty base can be economically justified where sophisticated parties have entered into  
2 “agreements that base the value of the patented invention as a percentage of the commercial  
3 products’ sale price.” Lucent, 580 F.3d at 1339; see also Microsoft Corp. v. Motorola, Inc.,  
4 2012 U.S. Dist. LEXIS 152244, at \*29 (W.D. Wash. Oct. 22, 2012); Mondis Tech., Ltd. v. LG  
5 Elecs., Inc., 2011 U.S. Dist. LEXIS 78482, at \*17-18 (E.D. Tex. Jun. 14, 2011).

6 Here, MPT attempts to rely on several of its lump sum agreements with various  
7 licensees to justify its use of the entire market value of the accused products. (Doc. No. 597  
8 at 6-7; Doc. No. 495-1, Declaration of Justin Barnes Ex. A ¶¶ 82-84, Ex. C ¶¶ 105-07.) Lump  
9 sum agreements are inherently not based on a percentage of the commercial products’ sale  
10 price because they are entered into without the parties knowing the full extent to which the  
11 licensee will use the invention and the revenue and profits the licensee will derive from that  
12 use.<sup>5</sup> See Lucent, 580 F.3d at 1326 (“[A]n upfront, paid-in-full royalty removes, as an option  
13 for the licensee, the ability to reevaluate the usefulness, and thus the value, of the patented  
14 technology as it is used and/or sold by the licensee.”). MPT also relies on three agreements  
15 entered into by Lucent that contain royalty rates of \$1.50 to \$2.00 per unit. (Doc. No. 495-1,  
16 Declaration of Justin Barnes Ex. A ¶ 81, Ex. C ¶ 104.) Because the royalty rates in these  
17 Lucent agreements were based per unit dollar amounts, the royalty rates were not based on the  
18 covered products’ revenues or profits. Therefore, MPT’s evidence of comparable licenses is  
19 insufficient to justify its use of the entire market value of the Defendants’ accused products as

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22 <sup>5</sup> In his expert reports, Mr. Yurkerwich states: “MPT and the licensees chose to  
23 calculate the amounts potentially owed based on applying the revenue and per unit rates to the  
24 sales of potentially infringing products.” (Doc. No. 495-1, Declaration of Justin Barnes Ex.  
25 A ¶ 84, Ex. C ¶ 107.) Even assuming this is true, Mr. Yurkerwich fails to provide any  
26 evidence showing whether the ultimate lump sum payments were based on revenue rate, which  
27 involves the entire market value of the products, or a per unit rate, which does not. In addition,  
28 Mr. Yurkerwich does not support his statement with any language contained in the actual  
agreements. Mr. Yurkerwich’s statement appears to be based on MPT’s purported licensing  
policy as explained by its licensing trustee, Mr. DeBlasi. (Id. Ex. A ¶¶ 14-23; Ex. C ¶¶ 15-24.)  
MPT and Mr. Yurkerwich have failed to present any evidence showing that both parties to  
these agreements, not just MPT, understood that the lump sum payments were based on the  
revenue of the relevant products and were a reflection of a MPT’s royalty models. (See also  
id. Ex. A ¶ 22; Ex. C ¶ 23 (explaining that MPT royalty models “were not intended to  
document the ultimate payments agreed to with the licensee”).)

1 part of its damages analysis.

2 In addition, it is unnecessary for Mr. Yurkerwich to state his royalty rate as a percentage  
3 of Defendants' revenue or state what a 1% royalty of Defendants' accused products would be  
4 because his ultimate conclusion—based on the information he relied on—is that a reasonable  
5 royalty would be a rate of \$1.50 per product. Under these circumstances, any discussion of  
6 the Defendants' total revenue carries a substantial danger of unfair prejudice to the Defendant.  
7 See Uniloc, 632 F.3d at 1320 (“The disclosure that a company has made \$19 billion dollars in  
8 revenue from an infringing product cannot help but skew the damages horizon for the jury,  
9 regardless of the contribution of the patented component to this revenue.”). Therefore, the  
10 Court also concludes that any reference to the royalty rate as a percentage of Defendants'  
11 revenue should be excluded under Federal Rule of Evidence 403 because the probative value  
12 is substantially outweighed by the danger of unfair prejudice to the Defendants. Accordingly,  
13 the Court excludes Mr. Yurkerwich's testimony and damages analysis to the extent it relies on  
14 or is based on Defendants' revenues or profits of the accused products.

#### 15 **V. License Comparability**

16 Georgia-Pacific factor 1 considers: “The royalties received by the patentee for the  
17 licensing of the patent in suit, proving or tending to prove an established royalty.”  
18 Georgia-Pacific, 318 F. Supp. at 1120. For a damages expert to rely on a prior license, “there  
19 must be a basis in fact to associate the royalty rates used in prior licenses to the particular  
20 hypothetical negotiation at issue in the case.” Uniloc, 632 F.3d at 1317. Therefore, “licenses  
21 relied on by the patentee in proving damages [must be] sufficiently comparable to the  
22 hypothetical license at issue in suit.” Lucent, 580 F.3d at 1325.

23 A patentee may not rely on license agreements that are “‘radically different from the  
24 hypothetical agreement under consideration’ to determine a reasonable royalty.” Uniloc, 632  
25 F.3d at 1316 (quoting Lucent, 580 F.3d at 1328); see also, e.g., Wordtech Sys. v. Integrated  
26 Networks Solutions, Inc., 609 F.3d 1308, 1320 (Fed. Cir. 2010) (declining to find licenses  
27 comparable because they “arose from divergent circumstances and covered different  
28 material”); ResQNet.com, 594 F.3d at 870 (criticizing damages expert for relying on licenses

1 that showed no “discernible link to the claimed technology”). Further, “comparisons of past  
2 patent licenses to the infringement must account for ‘the technological and economic  
3 differences’ between them.” Wordtech, 609 F.3d at 1320 (quoting ResQNet, 594 F.3d at 873);  
4 see also Finjan, Inc. v. Secure Computing Corp., 626 F.3d 1197, 1211 (Fed. Cir. 2010) (“[U]se  
5 of past patent licenses under factors 1 and 2 must account for differences in the technologies  
6 and economic circumstances of the contracting parties.”). Moreover, “alleging a loose or  
7 vague comparability between different technologies or licenses does not suffice.”  
8 LaserDynamics, 694 F.3d at 79. The testimony of a damages expert in a patent suit who relies  
9 on non-comparable licenses in reaching his royalty rate should be excluded. See, e.g., IP  
10 Innovation L.L.C., 705 F. Supp. 2d at 690-91.

11 Defendants argue that the nine MPT licenses Mr. Yurkerwich primarily relies on in his  
12 analysis are not comparable to the license that would have been reached at the hypothetical  
13 negotiation as a matter of law. (Doc. No. 625 at 10.) Defendants point out that the MPT  
14 licenses grant rights to additional patents, include international rights, were related to different  
15 products, were in settlement of active litigation, and are dated several years after Apple’s  
16 hypothetical negotiation date. (Id.) However, under Federal Circuit precedent, a patentee may  
17 rely on licenses that are different from the hypothetical agreement as long as they are not  
18 “radically different.” Uniloc, 632 F.3d at 1316. Defendants have failed to show that these  
19 licenses are radically different. Indeed, Defendants’ own damages expert relies on some of  
20 these MPT licenses in performing his reasonable royalty analysis despite the differences noted  
21 by Defendants. (Doc. No. 597, Declaration of Sidford Brown Ex. 2 ¶ 58, Ex. 3 ¶ 66.) A  
22 damages expert may rely on comparable licenses that are different from the hypothetical  
23 agreement as long as he “account[s] for ‘the technological and economic differences’ between  
24 them.” Wordtech, 609 F.3d at 1320. Here, Mr. Yurkerwich acknowledges the differences  
25 noted by Defendants and explains how these differences do or do not affect his reasonable  
26 royalty calculation. (Doc. No. 495-1, Declaration of Justin Barnes Ex. A ¶¶ 14-23, 51-71,  
27 80-87, Ex. C ¶¶ 15-24, 74-94, 103-10.) For example, Mr. Yurkerwich explains that MPT’s  
28 licensing practice was not dependent on the number of patents being licensed and foreign

1 royalties were of limited importance in MPT’s royalty models, and Mr. Yurkerwich provides  
2 a basis to adjust the royalties of these licenses to account for the fact that they were reached  
3 in settlement of litigation. (Id. Ex. A ¶¶ 18, 58, 66-71, Ex. C ¶¶ 19, 81, 89-94; Doc. No. 637,  
4 Declaration of Sidford Brown Ex. 1 ¶ 8, 11, Ex. 2 ¶ 8, 11.) Defendants may argue that some  
5 of these explanations are not credible. However, shaky but admissible evidence is to be  
6 attacked by cross examination, contrary evidence, and attention to the burden of proof, not  
7 exclusion. Primiano, 598 F.3d at 564; i4i, 598 F.3d at 856.

8 Defendants also argue that Mr. Yurkerwich’s analysis is improper because he relies on  
9 only nine of the 32 MPT licenses in performing his reasonable royalty analysis. (Doc. No. 495  
10 at 15-18; Doc. No. 625 at 9-10.) Defendants argue that Mr. Yurkerwich impermissibly cherry  
11 picked these nine licenses to inflate his proposed royalty rate. (Id.) But, “Federal Circuit  
12 caselaw only requires a damages expert to rely on comparable licenses. It does not require an  
13 expert to rely on all comparable licenses . . . .” Dataquill Ltd. v. High Tech Computer Corp.,  
14 2012 U.S. Dist. LEXIS 53164, at \*17 (S.D. Cal. Apr. 16, 2012) (citing Uniloc, 632 F.3d at  
15 1316; Wordtech, 609 F.3d at 1320; ResQNet.com, 594 F.3d at 870). Indeed, Defendants’ own  
16 damages expert relies on several licenses in his damages analysis and concludes that some are  
17 more useful to the reasonable royalty analysis than others. (Doc. No. 597, Declaration of  
18 Sidford Brown Ex. 2 ¶¶ 43, 58, Ex. 3 ¶¶ 52, 66.) Mr. Yurkerwich explains in his expert reports  
19 that he relied on these nine licenses and not all 32 licenses because these are the only licenses  
20 for which he was able to locate the necessary per unit data. (Doc. No. 495-1, Declaration of  
21 Justin Barnes Ex. A ¶ 61, Ex. C ¶ 84.) Defendants may disagree with Mr. Yurkerwich’s  
22 decision to rely on these nine licenses, but the proper recourse then is for Defendants to present  
23 contrary evidence and attack Mr. Yurkerwich’s testimony on cross-examination rather than for  
24 the Court to exclude Mr. Yurkerwich’s testimony. See Primiano 598 F.3d at 564; Dataquill,  
25 2012 U.S. Dist. LEXIS 53164, at \*17-18.

26 Finally, Defendants argue that Mr. Yurkerwich improperly converts the nine MPT lump  
27 sum licenses into running royalties. (Doc. No. 495 at 18-20.) Lump-sum agreements can be  
28 relevant to running royalty damages, and vice versa, but “some basis for comparison must exist

1 in the evidence presented to the jury.” Wordtech, 609 F.3d at 1320 (quoting Lucent, 580 F.3d  
2 at 1330); accord Whitserve, LLC v. Computer Packages, Inc., 694 F.3d 10, 30 (Fed. Cir.  
3 2012). Here, Mr. Yurkerwich has provided a basis for comparison by relying on MPT’s unit  
4 data for these agreements and information about MPT’s licensing policies and calculations.  
5 (Doc. No. 495-1, Declaration of Justin Barnes Ex. A ¶¶ 60-63, Ex. C ¶¶ 83-86.) See, e.g.,  
6 Dataquill, 2012 U.S. Dist. LEXIS 53164, at \*16-17. Therefore, this is not a case where the  
7 expert “did not offer any testimony to explain how [the] payments could be converted to a  
8 royalty rate.” Whitserve, 694 F.3d at 30; see also Lucent, 580 F.3d at 1328. Accordingly, the  
9 Court declines to exclude Mr. Yurkerwich’s damages analysis based on his reliance on the nine  
10 MPT licenses.

## 11 **VI. Established Royalty**

12 Defendants argue that the Court should exclude Mr. Yurkerwich from opining that MPT  
13 has an “established royalty” or a “licensing program” with established rates because he has not  
14 satisfied the five-part test from Rude v. Wescott, 130 U.S. 152 (1889) to prove an established  
15 royalty. (Doc. No. 495 at 13-15.) In response, MPT argues that Defendants misconstrue Mr.  
16 Yurkerwich’s analysis. (Doc. No. 597 at 23-24.) MPT argues that Mr. Yurkerwich may  
17 consider MPT’s licenses under Georgia-Pacific factor 1 without establishing that there is a  
18 single unitary established royalty. (Id.)

19 The Court agrees with MPT. In his expert reports, Mr. Yurkerwich’s does not opine  
20 that MPT’s licensing policy constituted a single established royalty or that MPT had  
21 established rates. Mr. Yurkerwich simply states MPT’s licensing policy and relies on that  
22 information to interpret the MPT licenses under Georgia-Pacific factor 1. (Doc. No. 495-1,  
23 Declaration of Justin Barnes Ex. A ¶¶ 14-23, 51-65, 80-87, Ex. C ¶¶ 15-24, 74-86, 103-10.)  
24 Because Mr. Yurkerwich does not contend that there is an established royalty, there is no need  
25 for him to show that the five-part test from Rude v. Wescott has been satisfied in this case. See  
26 Caluori v. One World Techs., Inc., 2012 U.S. Dist. LEXIS 25508, at \*12 n.6 (C.D. Cal. Feb.  
27 27, 2012) (explaining that a expert may rely on evidence to show a reasonable royalty even if  
28 it does not constitute proof of an established royalty).

1 **VII. Reliance on Industry Data**

2 Defendants argue that Mr. Yurkerwich and MPT’s other expert, Prof. Teece, improperly  
3 rely on generic industry data that has no nexus to the parties, the patents, or the accused  
4 products. (Doc. No. 495 at 24-25.) In Uniloc, the Federal Circuit explained that evidence  
5 relevant to the calculation of a reasonable royalty “must be tied to the relevant facts and  
6 circumstances of the particular case at issue and the hypothetical negotiations that would have  
7 taken place in light of those facts and circumstances at the relevant time.” 632 F.3d at 1318.  
8 Therefore, a damages expert’s testimony should not be based on “an arbitrary, general rule,  
9 unrelated to the facts of this case.” Id. (granting new trial on damages based on the expert’s  
10 use of the 25% rule in forming his damages opinion); see also, e.g., Oracle Am., Inc. v. Google  
11 Inc., 798 F. Supp. 2d 1111, 1119-21 (N.D. Cal. 2011) (excluding expert testimony based on  
12 the Nash bargaining solution).

13 In his expert report, Mr. Yurkerwich relies on “various industry surveys” to support his  
14 calculation of the litigation discount that should be applied to MPT’s licenses. (Doc. No. 495-  
15 1, Declaration of Justin Barnes, Ex. A ¶ 69, Ex. C ¶ 92.) Mr. Yurkerwich states “[t]he  
16 probabilities of success in these surveys could be instructive when attempting to quantify this  
17 validity and infringement discount.” (Id.) Prof. Teece also relies on these same industry  
18 surveys in his expert reports. (Id. Ex. O ¶¶ 65-68, Ex. P ¶¶ 64-67.) In addition, Prof. Teece  
19 relies on industry royalty rates to support the reasonableness of MPT’s licensing policies. (Id.  
20 Ex. O ¶¶ 74-98, Ex. P ¶¶ 73-97.) This generic industry data is not tethered to the relevant facts  
21 and circumstances of the present case. Indeed, in its opposition, MPT fails to provide any  
22 explanation of how this industry data is related to the facts in this case. (See Doc. No. 597 at  
23 24-25.) Therefore, any damages testimony based on this industry data should be excluded.  
24 See Uniloc, 632 F.3d at 1318; Oracle, 798 F. Supp. 2d at 1119-21. Accordingly, the Court  
25 excludes Mr. Yurkerwich and Prof. Teece’s expert testimony to the extent it relies on or is  
26 based on generic industry data as part of their damages analysis.

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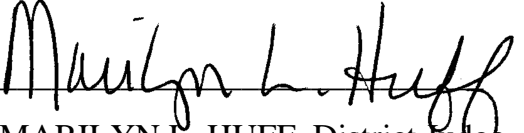
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**Conclusion**

After consideration of the parties' briefs and the arguments of counsel, the Court **GRANTS IN PART** and **DENIES IN PART** Defendants Daubert motion to exclude Mr. Yurkerwich's damages analysis. The Court excludes Mr. Yurkerwich's testimony and damages analysis to the extent it relies on or is based on Defendants' revenues or profits of the accused products. The Court excludes Mr. Yurkerwich and Prof. Teece's expert testimony to the extent it relies on or is based on generic industry data as part of their damages analysis. The Court denies the remainder of Defendants' motion to exclude without prejudice to any contemporaneous objections at trial made outside the presence of the jury.

**IT IS SO ORDERED.**

Dated: November 20, 2012

  
MARILYN L. HUFF, District Judge  
UNITED STATES DISTRICT COURT