



# CRA Insights: Intellectual Property

CRA Charles River  
Associates

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*CRA Insights: Intellectual Property* is a periodic newsletter that provides summaries of notable developments in IP litigation.

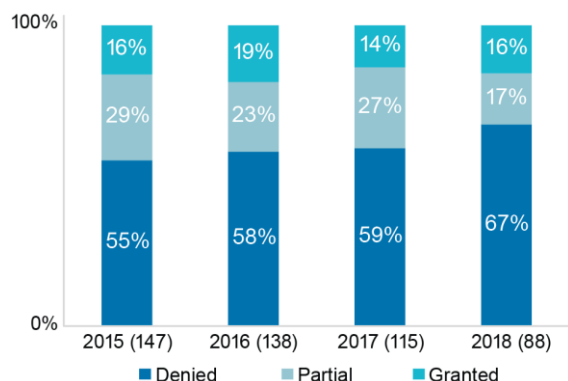
## Recent trends in Daubert Decisions

In this *Insights*, we highlight trends in Daubert Decisions.<sup>1</sup> We review available court decisions concerning damages experts in patent infringement matters in US districts courts that had sufficient information to analyze, and provide examples of specific challenges within several 2018 Daubert Decisions.

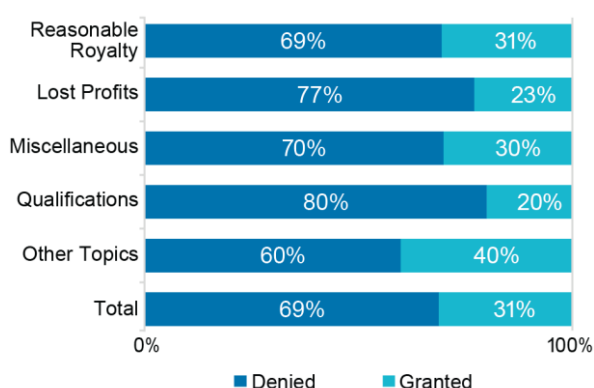
Over the last several years, the number of Daubert Decisions available to analyze decreased from 147 in 2015 to 88 in 2018. The overall exclusion rate for these decisions, where the Court excluded the expert's testimony entirely or in part, declined from 45% in 2015 to 33% in 2018.

As expected, more than 80% of the Daubert Decisions included challenges to the reliability or relevance of a damages expert's methodology. Reasonable royalty was by far the most common challenge area, and these challenges typically included apportionment, entire market value rule (EMVR), comparability of license/settlement agreements, or hypothetical negotiation issues. Lost profits methodologies were also challenged, though at a less frequent rate than reasonable royalty methodologies, for but-for sales, demand, non-infringing alternatives, or apportionment issues. Aside from reliability and relevancy, the available Daubert Decisions also included challenges concerning the expert's qualifications, or other topics such as disclosure issues, missed deadlines, and Rule 403 concerns.

**Table A: Daubert Decisions Outcomes by Year**



**Table B: Daubert Decisions Outcomes by Topic**



<sup>1</sup> Using PACER and Docket Navigator, we identified court decisions concerning damages experts in motions to disqualify expert, motions to strike expert, and motions in limine in patent infringement matters in US district courts from 2015 to 2018. We analyzed and categorized these court decisions, and excluded certain decisions with insufficient information to analyze. We refer to this available dataset as "Daubert Decisions" in this newsletter.

## ***Nox Medical Ehf v. Natus Neurology Inc.***<sup>2</sup>

### **But-for sales considerations lacked a reliable basis**

In August 2015, Nox Medical Ehf (Nox) filed a complaint against Natus Neurology Inc. (Natus), alleging that the Natus Embla XactTrace Pre-sized Single Use Belt (XactTrace) infringed Nox's patent, US 9,059,532. XactTrace is a biometric belt connector for respiratory belts, and used in sleep-monitoring devices.

Nox's damages expert claimed that "Nox would have made 75% of Natus' accused belt sales in the 'but for' world," based on three sales areas:

- sales to Nox's existing sleep monitoring device users (Nox's installed base),
- sales to additional users who would have purchased Nox's sleep monitoring devices, and
- sales to users of Natus or third party devices.

Natus argued that the second and third areas (i.e., not Nox's installed base) used to calculate the hypothetical but-for sales were unsupported and the methodology was unreliable.

In regards to the second sales area, Natus contested that Nox's damages expert did not provide the economic or factual basis that "customers would have made decisions about the purchase of capital equipment costing thousands of dollars based on the availability of an accessory (the patented belts) that costs a few dollars per study." Nox admitted that the damages expert relied on a single customer statement as support to quantify the additional users who would have purchased the Natus sleep monitoring device but for the infringement. The Court concluded that the damages expert had no reliable basis to quantify the additional sales but for the infringement, and excluded the expert opinions that relied on forecasted sales related to this second area.

In regards to the third area, Natus argued that to expand Nox's belt sales, Nox would need to introduce an adapter "to connect the patented belt to non-Nox devices" in the but-for world. In the actual world, Natus was the only company to offer an adapter. The damages expert opined that in the but-for world, Nox would introduce an adapter or Natus would still offer an adapter. The Court concluded that this topic was a failure of proof argument, not a Daubert argument, and could be addressed at trial.

The Court also denied challenges by Natus related to non-infringing alternatives, finding that the Natus arguments concerned failure of proof issues—rather than Daubert arguments—and could be addressed in cross examination at trial. Natus did not seek to exclude the damages expert's reasonable royalty opinion.

Court decision on March 26, 2018

*Case No. 01:15-cv-00709 filed in the District of Delaware*

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<sup>2</sup> The following case examples only summarize specific challenges within several 2018 Daubert Decisions. Please refer to the specific decisions and associated filings for a more comprehensive description of each matter.

## ***Dominion Assets LLC v. Masimo Corporation, et al.***

### **Economic comparability of settlement agreements, violation of EMVR, and lack of support for royalty rate**

In June 2014, Dominion Assets LLC (Dominion) filed a complaint against Masimo Corporation, et al. (Masimo) and alleged that Masimo's Rainbow products infringed US 5,379,764 ('764 Patent). The Rainbow products were based on Signal Extraction Technology (SET), which provided noninvasive measurements of parameters such as hemoglobin, carboxyhemoglobin, methemoglobin, and acoustic respiration rate.

Masimo filed a motion to exclude the testimony of Dominion's damages expert asserting that the expert's reasonable royalty methodology was flawed and unreliable. Specifically, Masimo challenged the expert's opinions concerning economic comparability of settlement agreements, apportionment, and inability to tie the royalty rate to the facts of the case.

Masimo argued that Dominion's expert relied on two settlement agreements (the Agreements) that were not economically comparable to the hypothetical negotiation. The Court found that the expert failed to consider the economic differences between the Agreements and the hypothetical negotiation, and found the damages opinions to be unreliable. The Court explained that the expert failed to:

- account for the difference in value between the '764 Patent, which was sold as a portfolio out of bankruptcy at a "fairly low price" after the previous owner was unable to develop a commercial product, and SET, which "had an undisputable impact on the healthcare industry,"
- explain the economic differences between the Agreements' patent portfolio license and the hypothetical negotiation, which only covered one claim of a patent, and
- consider that the Agreements were litigation-context settlement agreements, and occurred after "an intense court battle and on the eve of a permanent injunction."

Masimo also challenged the expert's failure to apportion the royalty base and royalty rate, which violated the EMVR. Masimo argued that the Rainbow SET products were multi-component products and included various non-infringing features, and Dominion did not dispute the use of EMVR. The Court agreed with Masimo as it stated that the expert's opinion "falls short of showing that the accused Rainbow parameters were the 'sole driver of customer demand' or substantially created the value of the accused products." The Court also found that the expert failed to consider the influence that non-infringing features had on customers' decisions to purchase the accused products. Among other reasons, the Court found the expert's opinions to be unreliable, and excluded opinions regarding apportionment.

Lastly, Masimo contested the royalty rate selected by Dominion's expert. Masimo argued that the chosen royalty rate was based on the Agreements and a *Georgia-Pacific* factor analysis. The Court found that the expert failed to provide a starting point for the royalty rate and simply "plucked the 4% royalty rate out of nowhere" that was "not sufficiently tied to the facts of this case." The Court concluded that the expert's royalty rate determination was unreliable.

The Court also denied Masimo's challenges concerning technical comparability of settlement agreements and did not consider any new opinions that were provided by Dominion's expert in a declaration—that was filed in support of Dominion's opposition to Masimo's Daubert motion—on the grounds that it was untimely and violated the scheduling order.

Court decision on August 1, 2018

*Case No. 05:14-cv-03002 filed in Northern District of California*

## **Syneron Medical Ltd. v. Invasix, Inc., et al.**

### **“Do-over” opportunity, but at a cost**

In January 2016, Syneron Medical Ltd. (Syneron) filed a patent infringement suit against Invasix, Inc., et al. (Invasix). Syneron alleged that Invasix infringed five patents (the Asserted Patents) related to devices and methods for skin treatment through the sale, import, and use of skin treatment devices called the Fractora. After expert discovery, Invasix filed a motion to exclude the testimony of Syneron’s damages expert claiming that the reasonable royalty opinions were unreliable for several reasons.

One of the several challenges concerned the hypothetical negotiation framework. Syneron’s damages expert assumed a hypothetical negotiation between Syneron as licensor and Invasix as licensee at a point in time when two of the Asserted Patents were actually owned by a different party (i.e. not Syneron), and before the two other patents asserted in the case were filed. Invasix asserted that the expert should have considered this different party as the licensor, and excluded the non-filed patents from that negotiation. Syneron argued that the *Book of Wisdom* allowed the expert to know that Syneron would eventually own all of the Asserted Patents. The Court concluded that the expert failed to consider the proper licensor party and improperly included two of the patents in the hypothetical negotiation. The Court highlighted that the *Book of Wisdom* allowed the use of certain post-infringement evidence such as post infringement usage or sales, but “it cannot be used to overturn the fundamental precept that requires an *ex ante* hypothetical negotiation between the patentee and infringer at a time before the infringement began.” The Court noted that while the expert’s assumed licensor (Syneron) was a direct competitor with Invasix, the actual patent owner—and proper licensor—at the time of the hypothetical negotiation was a development stage company that was not competing with Invasix and was more likely to focus on cooperation rather than competition.

Invasix also took issue with three settlement agreements and a license and development agreement to support *Georgia-Pacific* Factor 12, which relates to the portion of profit that is typically allowed for the use of the invention. Invasix challenged the technological comparability of the patents in the agreements relative to the Asserted Patents. While the expert admitted to not investigating the technological comparability, Syneron emphasized that the expert was not relying on the agreements “as comparable, but, rather, as a check” that the chosen royalty rate was acceptable. The Court found that the expert must establish that the relied upon agreements were admissible, regardless of whether these agreements were being proffered as comparable licenses or a check on the royalty rate.

The Court also noted that if Syneron elected to amend or supplement the expert’s opinion to address these and other findings that Syneron would have to reimburse Invasix for the costs associated with responding to what the Court essentially viewed as Syneron’s “do-over” opportunity.

Court decision on September 28, 2018  
Case No. 08:16-cv-00143 filed in Central District of California

## ***Papst Licensing GmbH & Co., KG v. Samsung Electronics Co., Ltd, et al.***

### **Hypothetical negotiation date based on first sale of accused products**

Papst Licensing GmbH & Co., KG (Papst) filed an amended complaint against Samsung Electronics Co., Ltd, et al. (Samsung) in August 2018, where Samsung allegedly infringed five US patents (Papst patents) regarding the methods and systems for data transfer. Papst identified numerous Samsung devices such as camera phones and tablets as infringing the Papst patents.

For one hypothetical negotiation date alternative, Samsung's damages expert relied on the first sale dates of certain products (SGH D820 and SGH T809) that were not asserted in Papst's infringement contentions, and placed the hypothetical negotiation date in November 2005 based on first sale of these products. Papst asserted that the correct hypothetical negotiation date was in late 2006 or early 2007 based on the first sale of Samsung products actually accused of infringing, and that the SGH D820 and SGH T809 products did not represent the infringement requiring compensation in this case. The shifting of the hypothetical negotiation date back to November 2005 would have changed the licensor in the hypothetical negotiation from Papst to a third party, and Papst claimed that the reliance on the SGH D820 and SGH T809 products was presumably "for the transparent purpose of dropping the lump sum royalty Papst would be owed."

The Court observed that "the parties did not dispute that the SGH D820 and SGH T809 products have never been asserted in Papst's infringement contentions throughout this litigation" and therefore struck references to the earlier alternate hypothetical negotiation date from Samsung's damages expert's report.

Court decision on October 25, 2018

*Case No. 06:18-cv-00388 filed in Eastern District of Texas*

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