

No. 2020-1413

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**UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

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MLC INTELLECTUAL PROPERTY, LLC,

*Plaintiff-Appellant,*

v.

MICRON TECHNOLOGY, INC.,

*Defendant-Appellee.*

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On Appeal from the United States District Court for the Northern District of  
California in Case No. 3:14-cv-03657-SI, Senior Judge Susan Y. Illston

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**BRIEF FOR *AMICI CURIAE* INTEL CORPORATION, APPLE INC., DELL  
INC., AND HP INC. IN SUPPORT OF APPELLEE MICRON  
TECHNOLOGY, INC.**

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### CERTIFICATE OF INTEREST

Counsel for *amici curiae* Intel Corporation, Apple Inc., Dell Inc., and HP Inc. certifies the following:

1. The full name of every party or *amicus* represented by me is:

Intel Corporation, Apple Inc., Dell Inc., and HP Inc.

2. The names of the real party in interest represented by me is:

Not applicable.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or *amici curiae* represented by me are:

Denali Intermediate Inc., which is wholly owned by Dell Technologies Inc., a publicly traded company. No other publicly held corporation owns 10% or more of the stock of Dell Inc.

4. The names of all law firms and the partners or associates that appeared for the party or *amici* now represented by me in the trial court or agency or are expected to appear in this court (and who have not or will not enter an appearance in this case) are:

None.

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal:

*MLC Intellectual Property, LLC v. Micron Tech., Inc.*, No. 3:14-cv-03657 (N.D. Cal.); *MLC Intellectual Property, LLC v. Micron Tech., Inc.*, No. 3:19-cv-03345 (CAND); Ex parte reexamination Application No. 90/014,245 (U.S.P.T.O.).

Dated: June 2, 2020

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### INTEREST OF *AMICI CURIAE*<sup>1</sup>

*Amici* are leading United States innovative companies. Intel Corporation (“Intel”) is a global leader in the design and manufacturing of semiconductor products, including hardware and software products for networking, telecommunications, cloud computing, artificial intelligence, autonomous driving, and other applications. Apple Inc. (“Apple”) has revolutionized computing and mobile communication through its category-defining iPhone, iPad, and Mac products. Dell Inc. (“Dell”) designs solutions for the way people work—from award-winning thin computers, tablets, and laptops to powerful workstations, rugged devices, servers, enterprise storage systems, and computer and network security products. HP Inc. (“HP”) is a leading global provider of personal computing and other access devices, imaging and printing products, and related technologies, solutions, and services.

*Amici* together devote billions of dollars annually to research and development and hold thousands of patents. As significant patent holders and frequent defendants in patent litigation, *amici* share a robust interest in ensuring that

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<sup>1</sup> No counsel for any party authored this brief in whole or in part, and no person or entity other than *amici* and their counsel made a monetary contribution intended to fund the preparation or submission of this brief. Appellee Micron has consented to this brief’s filing; Appellant MLC Intellectual Property, LLC (“MLC”) was unable to provide its position before reviewing the brief. Pursuant to Fed. R. App. P. 29(a)(2), this brief is accompanied by a motion for leave to file.

patentees are compensated only for the actual value of their inventions, and that only reliable expert damages testimony—which has been fairly disclosed—is presented during patent infringement trials.

### SUMMARY OF ARGUMENT

Patent cases increasingly involve complex technology and products with hundreds, thousands, or even millions of features and components. In 1965, Intel’s co-founder Gordon Moore predicted that the number of transistors in an integrated circuit would double approximately every two years. Moore, *Cramming More Components onto Integrated Circuits*, 38 Electronics 8 (Apr. 19, 1965), available at <https://newsroom.intel.com/wp-content/uploads/sites/11/2018/05/moores-law-electronics.pdf>. That seminal observation is known as “Moore’s Law,” and *amici* and other companies have since been developing technology that allows them to include numerous previously-independent components and functionalities in a single saleable unit. Cunningham, *The PC Inside Your Phone: A guide to the system-on-a-chip*, ARS Technica (Apr. 10, 2013), available at <https://arstechnica.com/gadgets/2013/04/the-pc-inside-your-phone-a-guide-to-the-system-on-a-chip/> (“As chip manufacturing processes have improved, it’s now possible to cram more and more of these previously separate components”—such as 3D graphics, USB and Ethernet ports, and audio—“into a single chip.”). Cases concerning such multi-

component, multi-featured technology highlight the importance of two requirements in patent damages law: apportionment and disclosure.

Patentees must in all cases limit their damages theories to the alleged invention's incremental benefit, without claiming the value added by unpatented features. District courts have a gatekeeping responsibility to exclude damages theories that do not comply with this apportionment requirement. The district court carried out that responsibility here. MLC presented a damages model flawed in at least two respects: (1) its royalty rate did not account for apportionment; and (2) the royalty base improperly included the entire value of the smallest saleable patent practicing unit ("SSPPU"), even though the SSPPU included non-infringing features.

The district court was also correct to exclude damages evidence that was not timely disclosed during the litigation. Timely disclosure allows defendants the opportunity to seek and obtain adequate discovery, to develop damages defenses in response to increasingly complex damages models, and to avoid trial by surprise. District courts act within their discretion when they enforce disclosure requirements under Federal Rule of Civil Procedure 37, including through the exclusion of untimely disclosed theories or evidence. Having properly exercised its discretion, however, the district court here doubted whether it could dismiss the case once the patentee was left with no viable damages theory. This Court should confirm that,



when a patentee seeks only monetary relief but has proffered no admissible damages evidence, the district court can—and should—dismiss the case.

## **ARGUMENT**

### **I. THE COURT SHOULD AFFIRM THE DISTRICT COURT’S CORRECT EXERCISE OF ITS CRITICAL GATEKEEPING FUNCTION**

Federal Rule of Evidence 702 requires district courts to ensure that all expert evidence is “based on reliable principles and ... sufficiently tied to the facts of the case.” *Summit 6, LLC v. Samsung Elecs. Co.*, 802 F.3d 1283, 1298 (Fed. Cir. 2015). District courts accordingly act as gatekeepers that “ensure that all expert testimony is rooted in firm scientific or technical ground.” *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, 711 F.3d 1348, 1373 (Fed. Cir. 2013) (citing *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 589-590 (1993)). Patent infringement cases often present many *Daubert*-related challenges because expert testimony plays a vital role in multiple aspects of patent litigation, including damages. *See* Smith, *The Increasing Use of Challenges to Expert Evidence Under Daubert and Rule 702 in Patent Litigation*, 22 J. Intell. Prop. L. 345, 352 (2015).

Nevertheless, parties often ask trial courts to abdicate their gatekeeping responsibilities by arguing that reliability is a matter of “weight” rather than admissibility. When a court obliges, that is reversible error. *See Nease v. Ford Motor Co.*, 848 F.3d 219, 230 (4th Cir.) (“[T]he [district] court abandoned its gatekeeping function” by “simply dismiss[ing]” arguments about reliability as

“going to the weight, not admissibility, of testimony.”), *cert. denied*, 137 S. Ct. 2250 (2017). As *Daubert* itself explains, trial correctives such as cross-examination and opposing expert testimony are relevant only once expert testimony meets the baseline reliability mandated by Rule 702: Although “[v]igorous cross-examination, presentation of contrary evidence, and careful instruction” are useful correctives for “shaky but admissible evidence,” these sorts of “conventional devices ... are the appropriate safeguards [only] where the basis of scientific testimony meets the standards of Rule 702.” *Daubert*, 509 U.S. at 596. In other words, while the jury is permitted to weigh competing **reliable** expert testimony, it should not hear evidence that is unsound at its core. When trial courts are overly timid in assessing the reliability of expert opinions, the jury wrongly hears expert testimony that is fundamentally flawed. *See Nease*, 848 F.3d at 230-231. However, when—as here—a district court fulfills its obligation to evaluate and exclude unreliable expert testimony, its decision should be affirmed.

In the patent damages context, the district court’s gatekeeping function is critical to ensuring that patentees do not demand or receive awards exceeding the value of the patented invention. Over 130 years ago, the Supreme Court set forth the basic rule ensuring that, when the product found to infringe includes features beyond the claimed invention, damages compensate for the use of the patent only: “[T]he patentee ... must in every case give evidence tending to **separate or**

*apportion* the defendant’s profits and the patentee’s damages between the patented feature and the unpatented features.” *Garretson v. Clark*, 111 U.S. 120, 121 (1884).<sup>2</sup> “[S]uch evidence must be reliable and tangible, and not conjectural or speculative.” *Id.*

*Garretson*’s principles are codified in the patent damages statute’s requirement that a successful patentee be awarded “damages adequate to compensate *for the infringement*[.]” 35 U.S.C. § 284. As relevant here, that compensation may take the form of “a reasonable royalty *for the use made of the invention by the infringer*[.]” *Id.* Congress thus adopted the common-sense idea that reasonable royalty damages are meant to compensate patentees only for the unlicensed use of their patented inventions, not to provide a windfall based on the value of distinct, unpatented features and components that the inventor had no hand in creating. “Any evidence unrelated to the claimed invention does not support compensation for infringement but punishes beyond the reach of the statute.” *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010).

In fulfilling its gatekeeper role, a district “court[] must be proactive to ensure that the testimony presented—using whatever methodology—is sufficiently reliable to support a damages award.” *Commonwealth Sci. & Indus. Research Organisation*

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<sup>2</sup> Emphases are added unless otherwise noted.

*v. Cisco Sys., Inc.*, 809 F.3d 1295, 1301 (Fed. Cir. 2015) (“*CSIRO*”). In this case, the district court correctly navigated several issues of patent damages law—and apportionment doctrines in particular—that arise frequently in technology cases involving complex products. For example, when there are “many” “important parts” of a device, it is “a long haul to conclude that” even the “single most important part” “drive[s] demand” for the device as a whole. *AVM Techs., LLC v. Intel Corp.*, 2013 WL 126233, at \*3 (D. Del. Jan. 4, 2013). The gatekeeping duty is thus critical when damages demands are based on complex, multi-featured devices, such as integrated-circuit chips and microprocessors, which have millions of components with numerous distinct functions. *See How Intel Makes Chips: Transistors to Transformations*, available at <https://www.intel.com/content/www/us/en/history/museum-transistors-to-transformations-brochure.html> (last accessed May 1, 2020) (“A chip can contain millions or billions of transistors” and “multiple cores.”); Turley, *White Paper: Introduction to Intel® Architecture*, Intel Corporation (2014) at 9, available at <https://www.intel.com/content/dam/www/public/us/en/documents/white-papers/ia-introduction-basics-paper.pdf> (An Intel processor “includes its own on-chip DRAM controller, PCI Express interface, optional display controller, USB controllers, real-time clock, timers, interfaces to system-management functions.”). It is equally critical when damages demands are based on finished computer units that may include dozens of such chips and numerous other

components. *See* Tweney, *What’s Inside Your Laptop?* (March 13, 2007), *available at* <https://dylan.tweney.com/2007/03/13/whats-inside-your-laptop/> (“It would be impossible to trace in a magazine article the origin of every single component in your notebook, because it contains hundreds of parts, including microchips, the hard drive, the battery pack, the LCD, circuit boards, resistors, capacitors, wires, and even the pieces of metal and plastic that make up the casing.”).

Here, the district court properly limited expert damages testimony to the claimed invention—and not non-infringing features of the SSPPU, such as copy-back technology and error-correction software. Appx30. Fundamentally, the district court “proactive[ly] ... ensur[ed] that the testimony [to be] presented ... [wa]s sufficiently reliable to support a damages award.” *CSIRO*, 809 F.3d at 1301.

**A. The District Court Correctly Excluded MLC’s Proposed Royalty Rate As Unapportioned.**

Patentees must prove apportionment in “every case.” *Garretson*, 111 U.S. at 121. This requirement extends to cases where the patentee invokes prior licenses to establish the royalty rate the defendant would have paid had the parties negotiated a license when the infringement began. The patentee’s damages model at issue here relied upon supposedly comparable licenses but, among other flaws, failed to adhere to the apportionment requirement. The district court properly excluded it.

It is incorrect to *assume* that an expert’s reliance on comparable licenses automatically generates royalty rates properly apportioned to the claimed invention.

Instead, this Court has “cautioned” that “reasonable royalty calculations [must] exercise vigilance ... and must account for differences in the technologies and economic circumstances of the contracting parties[.]” *E.g., VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1330 (Fed. Cir. 2014) (internal quotation marks and citations omitted); *Wordtech Sys., Inc v. Integrated Networks Sols., Inc.*, 609 F.3d 1308, 1320 (Fed. Cir. 2010) (“We stressed that comparisons of past patent licenses to the infringement must account for ‘the technological and economic differences’ between them.”). When an expert fails to account for these differences—and instead merely assumes without evidence that apportionment is embedded in the prior agreement and applicable to the accused products—the resulting damages model is rendered unreliable by two unsupported assumptions.

*First*, a royalty rate in a real-world prior license does not necessarily apportion the value of the patented technology at issue in the agreement. Prior licenses often involve considerations beyond the value of the licensed patents, such as cross-licensing terms or foreign intellectual property rights.<sup>3</sup> *See Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1227 (Fed. Cir. 2014). Further, there are many business reasons why rational licensees may agree to pay a higher royalty rate than the

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<sup>3</sup> Indeed, license agreements may involve *no* consideration of the value of individual patents. For example, companies may agree to broad cross-licenses to avoid the transaction costs associated with detailed valuations of particular patents.

patented technology warrants, including to avoid or resolve litigation, to improve business relations with the licensor, to induce a competitor to take a license to the licensee's own patents, and to ease other unrelated negotiations. *Cf. ResQNet.com*, 594 F.3d at 869-871 (rejecting expert testimony that attempted “to drive the royalty rate up to unjustified double-digit levels” by relying upon “rebranding ... licenses”). Because of these realities, it is improper for patentees simply to assume that the royalty rate of a prior agreement reflects the value of the licensed technology and nothing more. *See Summit 6*, 802 F.3d at 1296 (“[A] reasonable or scientifically valid methodology is nonetheless unreliable where the data used is not sufficiently tied to the facts of the case.”); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1329 (Fed. Cir. 2009) (A “damages award cannot stand solely on evidence which amounts to little more than a recitation of royalty numbers” and jurors cannot rely on “superficial testimony” with “no analysis.”).

*Second*, it is wrong to assume that the rate found in one agreement can be uncritically applied to the hypothetical negotiation in a subsequent, unrelated lawsuit. The parties to a hypothetical negotiation are seeking to license a particular patent to a particular party for a particular product. Prior license agreements, however, “are almost never perfectly analogous to the infringement action,” *Ericsson*, 773 F.3d at 1227, because prior agreements generally involve different parties, additional or different patents, other rights beyond patents, and—critically—

different products. *See Lucent*, 580 F.3d at 1328 (concluding that prior agreement was “vastly different [than] any agreement” that would have been struck at the time of infringement because it appeared to govern the “licensing of [an] entire patent portfolio”). An expert cannot merely assume that royalty rates involving a *prior licensee’s* products are properly apportioned to the specific claimed invention’s contribution to the *defendant’s* accused products in a later patent litigation. For example, a patent on a more accurate timekeeping mechanism might be more valuable where the licensed product is a basic wristwatch than where the licensed product is a “smart” watch with hundreds or thousands of additional features beyond telling time. Any inference about the value of a particular patent to a particular product must not be bare speculation. Rather, it must be supported by a detailed analysis of the similarities and differences between the allegedly comparable agreement and the facts of the litigation. *See Wordtech*, 609 F.3d at 1320 (rejecting reliance on previous licenses that “provide[d] no basis for comparison with [the] infringing sales” because “without additional data, the licenses offered the jury ‘little more than a recitation of royalty numbers’”).

MLC’s failure to support *either* of the above assumptions with evidence and analysis tied to the facts of the litigation rendered its royalty rate unreliable and properly excluded. *First*, MLC’s damages expert, Dr. Milani, had no basis to assume that the prior Hynix and Toshiba license agreements he relied upon contained a



royalty rate that apportioned the value of those patents to the licensed products. Appx29. Dr. Milani's assumption was further undermined by the fact that the agreements did not contain royalty rates at all—they involved lump-sum payments—and Dr. Milani's methodology for determining a rate was flawed. Appx7-9; Appx21-22 (concluding that Dr. Milani “divine[d] a royalty rate for these agreements by stitching together selected pieces of extrinsic evidence”). As a result, MLC's expert's proffered damages royalty rate had little relationship to the supposedly comparable agreements. *See Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 30 (Fed. Cir. 2012) (“[L]ump sum payments ... should not support running royalty rates without testimony explaining how they apply to the facts of the case.”). Under these circumstances, it was unreliable for Dr. Milani to assume his “divine[d] ... royalty rate” reflected apportionment to the contribution of the patented invention to the prior licensee's products.

*Second*, the district court was correct that there was “no evidence” to support Dr. Milani's assumption that the royalty rate he divined “already account[ed] for apportionment of non-patented features in *Micron's* accused products.” Appx29. Indeed, the prior Hynix license that Dr. Milani relied upon as a starting point for the royalty rate covered 40 patents in addition to the single asserted patent. Appx18. Dr. Milani offered no support for his assessment that the single patent-in-suit represented “‘at least 50%’ of the value” of the 41 patents at issue in the prior

agreement. Appx3; Appx4 n.5. Instead, the record suggests that the Hynix agreement—like most licensing agreements in the real world—was silent as to the reasons for the amount of the payment. Moreover, even if the Hynix agreement reflected the value of the claimed invention in *Hynix’s products*, Dr. Milani failed to explain how using his divined rate to calculate damages satisfied the requirement that MLC “apportion the ultimate royalty award to the incremental value of the patented feature” in the *accused Micron products*. *Ericsson*, 773 F.3d at 1228.

Finally, as the trial court recognized, the testimony of MLC’s expert fell well short of the standards this Court has articulated. In *Elbit Systems of America, LLC v. Hughes Network Systems, LLC*, 927 F.3d 1292, 1299-1301 (Fed. Cir. 2019), and *CSIRO*, 809 F.3d at 1303, for example, this Court concluded that the damages expert testimony at least provided the jury with a basis “to find that the components at issue [in the litigation], for purposes of apportionment to the value of a larger product or service, were comparable to the components at issue [in the allegedly comparable agreement].” *Elbit*, 927 F.3d at 1301. MLC’s proposed expert testimony, by contrast, would have provided the jury with *no* reason (beyond Dr. Milani’s *ipse dixit*) to find that the products licensed in the Hynix agreement were comparable to the accused Micron devices. It was properly excluded.

**B. The District Court Correctly Held That Apportionment Of A Royalty Base Beyond The Smallest Saleable Patent Practicing Unit Can Be Necessary To Exclude Unpatented Features.**

When a patent covers limited aspects of a multi-component or multi-featured product, the patentee must ensure that the royalty base accounts only for the incremental value of the patented features. Here, the SSPPU included unpatented features, but MLC’s expert failed to apportion the royalty base beyond the SSPPU as was needed to ensure that MLC did not recover for functionality unclaimed by the patent-in-suit. In light of this failure—and given MLC’s failure to select a properly apportioned royalty rate, as discussed above—the district court properly excluded the testimony.

The royalty base for multi-component or multi-featured products must be apportioned to avoid misleading the factfinder at the defendant’s expense. “[T]he entire market value rule [“EMVR”] is a *narrow exception* to this general rule.” *CSIRO*, 809 F.3d at 1302 (quoting *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012)). The EMVR requires a patentee to “prove that the patented invention drives demand for the accused end product” before “rely[ing] on the end product’s entire market value as the royalty base.” *Id.* But “where a multi-component product is at issue and the patented feature is not the item which imbues the combination of the other features with value, care must be taken to avoid

misleading the jury by placing undue emphasis on the value of the entire product.” *Ericsson*, 773 F.3d at 1226-1227.

This “governing legal rule” requiring apportionment of the royalty base is accompanied by “an important evidentiary principle.” *Ericsson*, 773 F.3d at 1226. This Court has “barred use of too high a royalty base—even if mathematically offset by a low enough royalty rate—because such a base carries a considerable risk of misleading a jury into overcompensating, by skew[ing] the damages horizon for the jury[.]” *Rembrandt Social Media, LP v. Facebook, Inc.*, 561 F. App’x 909, 912 (Fed. Cir. 2014) (nonprecedential).<sup>4</sup>

Accordingly, unless the patentee has proven that the EMVR applies, which is increasingly rare as products continue to become more complex, “courts must insist on a more realistic starting point for the royalty calculations by juries—often, the smallest salable unit and, at times, even less.” *Ericsson*, 773 F.3d at 1227. It is “wrong” to assume that using the SSPPU as the royalty base is always sufficient. *VirnetX*, 767 F.3d at 1326-1328. “Where the smallest salable unit is, in fact, a multi-component product containing several non-infringing features with no relation to the

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<sup>4</sup> See also *LaserDynamics*, 694 F.3d at 67-68 (“Importantly, the requirement to prove that the patented feature drives demand for the entire product may not be avoided by the use of a very small royalty rate.”); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318-1320 (Fed. Cir. 2011) (“The Supreme Court and this court’s precedents do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate.”).

patented feature ..., the patentee must *do more* to estimate what portion of the value of that product is attributable to the patented technology.” *Id.*; *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*, 904 F.3d 965, 977 (Fed. Cir. 2018) (“Even when a damages theory relies on the smallest salable unit ... , the patentee must estimate what portion of that smallest salable unit is attributable to the patented technology when the smallest salable unit itself contains several non-infringing features.”), *cert. denied*, 139 S. Ct. 1265 (2019); *Finjan, Inc. v. Blue Coat Sys., Inc.*, 879 F.3d 1299, 1309-1311 (Fed. Cir. 2018) (“[I]f the smallest salable unit—or smallest identifiable technical component—contains non-infringing features, additional apportionment is still required.”). District courts play a critical gatekeeping role in ensuring that the royalty base is properly apportioned beyond the SSPPU.<sup>5</sup>

Requiring apportionment beyond the SSPPU is consistent with—not contrary to—well-established law that damages must be limited to the incremental value added by a patented invention. A royalty base must be tied to a patented feature that

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<sup>5</sup> See, e.g., *Eidos Display, LLC v. Chi Mei Innolux Corp.*, 2017 WL 1322555, at \*4-5 (E.D. Tex. Apr. 6, 2017) (excluding expert opinion because there was “no evidence” that the patentee’s expert “separate[d] the value of the patented features from the unpatented features of” the agreed-upon SSPPU); *Intelligent Verification Sys., LLC v. Microsoft Corp.*, 2015 WL 1518099, at \*7-8 (E.D. Va. Mar. 31, 2015) (similar), *aff’d*, 628 F. App’x 767 (Fed. Cir. 2016); *Dynetix Design Sols., Inc. v. Synopsys, Inc.*, 2013 WL 4538210, at \*3 (N.D. Cal. Aug. 22, 2013) (similar).

“creates the basis for customer demand or substantially creates the value of the component parts.” *Versata Software, Inc. v. SAP Am., Inc.*, 717 F.3d 1255, 1268 (Fed. Cir. 2013). Establishing “a royalty base based on the ‘smallest, identifiable technical component’ does not insulate” a patentee “from the ‘essential requirement’ that the ‘ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.’” *Finjan*, 879 F.3d at 1311.

*Amici*’s own experience illustrates the importance of limiting a royalty base to only those components or features that relate to the claimed invention. Intel designs and manufactures microprocessors and chipsets containing billions of transistors, millions of circuits, and thousands of discrete features. *See How Intel Makes Chips, supra*. These highly complex integrated circuits now contain, within a single component, numerous technologies that previously existed as separate components, such as graphics functionality, memory, and connectivity features like WiFi. Turley, *White Paper: Introduction to Intel® Architecture, supra*, at 9. Intel’s products are then incorporated into multi-component products such as Dell’s servers, computers, storage devices, and networking equipment, or into smartphones and tablets. These products involve hundreds of additional components and thousands of additional features. *See Tweney, supra*. Apportionment of the royalty base beyond the SSPPU is especially important when a claimed invention is incorporated into such a multi-component product. *See, e.g., Lucent*, 580 F.3d at 1332-1333

(“The only reasonable conclusion ... is that the infringing use of Outlook’s date-picker feature is a minor aspect of a much larger software program and that the portion of the profit that can be credited to the infringing use of the date-picker tool is exceedingly small”); *Rembrandt Soc. Media, LP v. Facebook, Inc.*, 22 F. Supp. 3d 585, 595 (E.D. Va. 2013) (permitting expert to use the entire value of non-infringing features rather than relying on the features that actually cause the purported infringement “would be a mistake of the same kind as allowing Rembrandt’s expert to use the entire value of Facebook”).

In this case, the technology at issue was a specific way of programming pre-existing multi-level memory cells. However, neither MLC’s comparative license damages theory nor its SSPPU damages theory apportioned the royalty base to the incremental value of the patented invention. MLC’s comparative license approach used the entire market value of the accused products as a royalty base and attempted to rely upon the royalty rate for apportionment. But as set forth above—and as the district court properly concluded—Dr. Milani “d[id] not present *any analysis* that would support the conclusion that” the “royalty rate derived from the Hynix license can be applied to the entire market value of Micron’s accused products because the royalty rate somehow already accounts for apportionment.”<sup>6</sup> Appx30. For the

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<sup>6</sup> The district court correctly recognized that Dr. Milani’s assertion that the flash memory market is a “commodity” market did not redeem MLC’s failure to conduct a proper apportionment analysis. Appx28. That the memory market may be a

SSPPU approach, “MLC d[id] not dispute Micron’s evidence that the bare die [the agreed-upon SSPPU] has non-infringing *features*, such as error-correction software and implementation of copy-back technology.” Appx30; Appx25 n.1. Yet Dr. Milani failed to apportion beyond the SSPPU to account for these non-infringing features. Appx26; Appx30. The district court therefore properly excluded the testimony for failure to apportion the royalty base to the portion attributable to the claimed invention.

Notably, MLC’s expert’s improper testimony regarding the royalty *base* would be properly excluded regardless of whether he had appropriately apportioned the royalty *rate*—though it is all the more important where the rate is likewise unapportioned, as it was here. *Rembrandt Soc. Media, LP*, 561 F. App’x at 912 (patentee cannot justify using an unapportioned royalty base simply by asserting a “low enough royalty rate”). Similarly, correct apportionment of the base does not excuse an unapportioned royalty rate. *See Exmark Mfg. Co. v. Briggs & Stratton Power Prods. Grp., LLC*, 879 F.3d 1332, 1351 (Fed. Cir. 2018) (“Regardless of how low the royalty rate, the expert must still apportion damages and sufficiently tie the royalty rate to the facts of the case.”); *Finjan*, 879 F.3d at 1312 (An expert’s

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commodity market does not answer the apportionment question. The relevant inquiry is the value of the patented feature in the context of the Micron product, whose internal function and operation may significantly differ from that of the licensed Hynix product, even if the end products are commodities.



“conclusory statement” that a royalty rate should apply “is insufficient” when it is unsupported by the evidence because “a trier of fact must have some factual basis for a determination of a reasonable royalty.” (internal quotation marks and citations omitted)). If the base has been apportioned, but the expert uses a rate from a comparable license without considering the incremental value of the patent, it is insufficient.

**C. Affirming The District Court’s Orders Will Support Sound Patent Law Policy.**

Innovators who create complex, multi-component products are particularly vulnerable to the threat of excessive royalties based on the value of unpatented features or even complete products—potentially dwarfing the revenues derived from those products. *See Love, Patentee Overcompensation and the Entire Market Value Rule*, 60 Stan. L. Rev. 263, 280-281 (2007). When apportionment is not properly applied, the patent system “systematically overcompensat[es] patentees who own patents covering only one component of a larger, complex device.” *Id.* at 272; *see also* Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 Wm. & Mary L. Rev. 655, 664 (2009). Damages awards that compensate the patentee for more than the invention’s incremental value undermine the patent system’s role as “a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-151 (1989). This “carefully crafted

bargain” is upset when patentees receive windfall damages out of proportion to the contribution their patented invention provides to an accused product.

Companies like *amici* have firsthand experience dealing with this problem. *Amici* often face patent infringement lawsuits where the patentee accuses a single feature in a microprocessor, chipset, laptop, or storage device that has thousands of features. Patentees in these suits attempt to capitalize on the billions of dollars of revenue generated from *amici*’s complex, multi-component products by cherry picking a royalty rate from a prior license. Patentees then apply the unapportioned royalty rate—which arises out of distinct factual circumstances—to *amici*’s revenue. Resulting damages demands are predictably untethered to the incremental value of the patent and bear little relationship to actual business negotiations, even though a reasonable royalty is supposed to track what actual reasonable negotiators would agree to in real life.

For example, Intel was sued for \$2 billion for alleged infringement by its microprocessors, where the asserted patent concerned just a single circuit. *See Greene, Intel Claims Victory in \$2B Circuit Patent Jury Trial*, Law360 (May 10, 2017), *available at* <https://www.law360.com/articles/922745>. Similarly, Intel faced a likely multi-billion dollar claim in a suit where the asserted patents related only to “algorithms and implementing mechanisms that allow for cache coherency”—one narrow feature among thousands in Intel’s complex products. *See Memory Integrity*,

*LLC v. Intel Corp.*, 144 F. Supp. 3d 1185, 1187 (D. Or. 2015); *see also, e.g., Simpson, Intel Settles Patent Row That Future Link Valued At \$10B*, Law360 (Aug. 18, 2017), *available at* <https://www.law360.com/articles/955712> (noting that Intel’s damages theory placed the hypothetical value of damages at \$10 million, whereas the patentee valued it one thousand times higher). To put that in context, Intel and Apple negotiated a price of \$1 billion—well below these damages demands in patent litigation—for sale of a business segment including over 2000 employees, operations in several physical locations, and numerous patents. *See Apple Inc., Apple to Acquire the Majority of Intel’s Smartphone Modem Business* (July 25, 2019), *available at* <https://www.apple.com/newsroom/2019/07/apple-to-acquire-the-majority-of-intels-smartphone-modem-business/>.

The other *amici* have likewise faced lawsuits targeting narrow functionality found in a single multi-featured component of a multi-faceted computing or storage device. *See, e.g., Archer, Intel, Dell, HP Hit with Claim over Chip Protection Patent*, Law360 (Sept. 16, 2016), *available at* <https://www.law360.com/articles/840874> (Dell accused of infringement based on power management technology in Intel chips found in Dell computers); *Dynamic Data Techs. v. Dell Inc., LLC*, No. 1:18-cv-10454-AKH, D.I. 22, ¶ 140 (S.D.N.Y. Feb. 4, 2019) (Dell accused of infringement based on video coding capability found in graphics processors contained in Dell computers); *Wisconsin Alumni Research Found. v. Apple Inc.*, 905

F.3d 1341, 1344-1345 (Fed. Cir. 2018) (reversing judgment against Apple totaling \$506 million based on “a specific prediction technique for an out-of-order processor”).

Moreover, as technology advances, SSPPUs continuously incorporate additional features that previously would have been independent components. For instance, Intel previously integrated functions on a single die. McGrath, *Intel Steps Toward Heterogeneous Integration*, EE Times (Dec. 12, 2018), available at <https://www.eetimes.com/intel-steps-toward-heterogeneous-integration/>. Then Intel developed 2D integration, which enabled it to combine separate processes in a flat chip. *Id.* Intel has more recently developed 3D integration, in which “a chip is designed as a layer cake” in contrast to “a chip with a more-traditional pancake-like design.” *Up Close With Lakefield – Intel’s Chip With Award-Winning Foveros 3D Tech*, Intel Newsroom (Feb. 11, 2020), available at <https://newsroom.intel.com/news/up-close-lakefield-intels-chip-award-winning-foveros-3d-tech/#gs.50rvqf>.

As *amici* and other innovators continue to include more features and functions in a single unit, apportionment beyond the SSPPU becomes even more important, both to component manufacturers like Intel and to finished product manufacturers like Apple, Dell, and HP. Absent rigorous adherence to courts’ gatekeeping obligations, attempts like the one here to extract larger verdicts for non-infringing features of complex, multi-featured devices will proliferate.

The district court in this case ably fulfilled its responsibilities and in no way abused its discretion. Its orders should be affirmed.

## **II. THE DISTRICT COURT CORRECTLY EXERCISED ITS DISCRETION TO EXCLUDE UNTIMELY DISCLOSED DAMAGES EVIDENCE AND EXPERT OPINION**

The orders on appeal also present issues relating to the scope of a trial judge's discretion to enforce the rules designed to safeguard fair play in litigation. The Federal Rules aim to ensure fundamental fairness through a discovery process that facilitates early disclosure and avoids surprise. Early disclosure is particularly critical in patent cases, which often involve complicated technical and damages issues communicated to lay juries through experts. Accordingly, when experts rely on documents that are not properly disclosed, those documents should be excluded. When expert theories are not properly disclosed, those should be excluded as well. And when a patentee ultimately proffers no admissible evidence upon which a factfinder could rely to award an appropriate reasonable royalty (and no other remedies are available), the district court should not hesitate to dismiss the case.

### **A. The District Court Properly Excluded Undisclosed Damages Evidence.**

“American discovery prohibits trial by surprise.” *Pro batter Sports, LLC v. Sports Tutor, Inc.*, 2016 WL 1178051, at \*1 (D. Conn. Mar. 23, 2016). Early disclosure of damages theories serves values key to the efficient functioning of the judicial system. “Disclosing initial damages contentions at a relatively early point”

enables “parties and the court to assess the value of the case, discuss the scope of potential discovery, make a preliminary evaluation of ... early settlement, and potentially, identify damages issues that should be the subject of early partial summary judgment motions[.]” The Sedona Conference, *The Sedona Conference Commentary on Patent Damages & Remedies A Project of the Sedona Conference Working Group on Patent Damages & Remedies (WG9)*, 15 Sedona Conf. J. 53, 100 (2014); *see also* “The State of Patent Litigation,” Address of Chief Judge Randall R. Rader of the United States Court of Appeals for the Federal Circuit, E.D. Tex. Judicial Conf., Sept. 27, 2011 (“[P]arties ... benefit from early damages discussions and disclosures because it can ... promote early and effective mediation.”). Patentees’ attempts to defer disclosure of damages theories until expert discovery prevent these efficiencies.

The Federal Rules do not permit a patentee to withhold the factual evidence it will rely upon for damages merely because damages issues often involve expert testimony. Rather, the patentee, as the entity seeking damages, must provide “a meaningful articulation of the bases for [its] contention that it is entitled to such damages.” *GlaxoSmithKline LLC v. Teva Pharms. USA, Inc.*, No. 1:14-cv-878-LPS-CJB, D.I. 101, at 1-2 (D. Del. Jan. 28, 2016); *see also J&M Indus., Inc. v. Raven Indus., Inc.*, 2018 WL 1427952, at \*3 (D. Kan. Mar. 22, 2018) (“Plaintiff doesn’t get to decide when to respond to discovery requests at his leisure. Plaintiff is suing

Defendant for damages. As such, Plaintiff must have some general understanding of the nature and extent of its damages.” (internal quotation marks and citations omitted)). Nor is a patentee permitted to shoehorn a new damages theory into evidence under the guise that it is “fact,” rather than expert, testimony. *See Acceleration Bay LLC v. Activision Blizzard Inc.*, 2018 WL 5045186, at \*1, \*3-\*4 (D. Del. Oct. 17, 2018) (rejecting patentee’s attempt to introduce reasonable royalty theory through fact witnesses and documents after opinion of reasonable royalty expert was excluded). Damages theories that are untimely disclosed are properly excluded. *Mee Indus. v. Dow Chem. Co.*, 608 F.3d 1202, 1222 (11th Cir. 2010).

Early disclosure of damages theories is particularly important in patent cases, which often require courts to evaluate exceedingly complex quantitative analyses. Modern patent law “elevates empirical methods, resulting in battles of the experts and *Daubert* challenges, over more direct forms of evidence,” which in turn requires courts to “evaluate complex quantitative analysis that might have only a tenuous relationship to the particular case.” *See Graham, Final Report of the Berkeley Center for Law & Technology Patent Damages Workshop 15 August 2016*, 25 Tex. Intell. Prop. L.J. 115, 133 (2017). Recognizing the importance and complexity of damages

theories, district courts (including the court in this case) have adopted local rules requiring their early disclosure in patent cases.<sup>7</sup>

Unfortunately, these complexities also make patent litigation especially susceptible to discovery gamesmanship. The end result is surprise and prejudice. *Pro batter Sports*, 2016 WL 1178051, at \*1 (disclosure of damages theory on the eve of trial was “sandbag[ging]” that prejudiced defendant). Defendants may learn a patentee’s damages theory, evidence, and number only when expert reports are served—thus after fact discovery has closed and defendants can no longer develop evidence to rebut the patentee’s damages model. Such late disclosure severely prejudices defendants by inhibiting their ability to develop responsive arguments to complex damages theories based on, for example, regression analyses and simulations. The only remedy is to seek exclusion of the evidence.

Here, the district court properly excluded evidence withheld until far too late in the litigation process—a sanction fully appropriate under the Federal Rules. As the district court explained, MLC failed meaningfully to disclose a reasonable royalty theory and failed to identify evidence on which its damages expert intended

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<sup>7</sup> *E.g.*, N.D. Cal. Local Patent Rule 3-8 (requiring party asserting infringement to serve “damages contentions” disclosing “the category(-ies) of damages” sought “as well as [the] theories of recovery, factual support for those theories, and computations of damages within each category”); *id.* Rule 3-9 (requiring “responsive damages contentions” from party denying infringement).



to rely. Appx12-13; Appx22-24. The district court’s decision to exclude this evidence accords with governing precedent. *E.g., Ingenco Holdings, LLC v. Ace Am. Ins. Co.*, 921 F.3d 803, 821-822 (9th Cir. 2019) (“[T]he district court did not abuse its discretion in sanctioning Ingenco for failure to disclose statutory damages information to Ace, even though those sanctions resulted in the dismissal of Ingenco’s statutory claims.”); *ePlus, Inc. v. Lawson Software, Inc.*, 700 F.3d 509, 515 (Fed. Cir. 2012) (affirming decision under Rule 37 to bar patentee from presenting damages evidence because it failed “to disclose an alternate royalty rate that could otherwise support its claim for monetary damages” beyond its expert’s report, which the court excluded under *Daubert*).

**B. The Court Should Clarify That District Courts May Properly Dismiss Cases When Patentees Proffer No Admissible Damages Evidence.**

When a patentee fails to offer any admissible theory or evidence to support a damages award, the patentee should be precluded from pursuing damages at trial. Further, if the patentee does not seek injunctive relief, *there is no need for a trial at all*. See *Finjan*, 879 F.3d at 1312 (“Ordinarily, the district court must award damages in an amount no less than a reasonable royalty when infringement is found,” but the patentee may receive “no compensation” for infringement where the patentee has “failed to present a damages case that can support the jury’s verdict” and “waived the right to damages based on alternate theories.” (internal quotation marks

omitted)). District courts require clear guidance on this issue, and this case presents an ideal vehicle for this Court to supply it.

The district court properly excluded MLC's damages case; MLC admitted that it had no other damages evidence to present at trial; and the district court appropriately exercised its discretion to deny MLC's bid to introduce new damages theories on the eve of trial. Appx35-36. Moreover, MLC—a non-practicing entity—could not pursue injunctive relief, as the patent had expired. Nor did MLC ask for nominal damages. The district court, however, stopped short of entering summary judgment of no remedy, expressing doubt as to whether this Court's precedent permitted that approach. Appx38-39. This Court should take the opportunity to clarify the point: When a patentee lacks admissible damages evidence to present at trial and no other remedy is available, trial courts may enter judgment of dismissal.

Litigation strategy involves risk, and unfair and evasive tactics have consequences. Patentees that advance dubious damages models unmoored from the reliability and fitness requirements of Rule 702 and this Court's damages case law do so at their own peril. So too for patentees that withhold evidence during fact discovery and shirk their Rule 26 obligations to make a full and timely disclosure of damages theories. If the evidence and/or methodology underlying a damages

expert's opinion are excluded, and the patentee lacks admissible evidence to prove a remedy, the trial court should dismiss the case with prejudice.

The alternatives are either wasteful or highly prejudicial. For example, a court that held a liability trial in these circumstances and promptly entered a directed verdict of no damages if infringement is found would have engaged in a wasteful exercise; if the parties and the court know beforehand that the trial record will not contain evidence to support a damages award, a trial is unnecessary. Any finding of damages in such a trial would be, by definition, the product of impermissible guesswork and surmise and could not withstand post-trial motion practice or appellate review. *See, e.g., Lucent*, 580 F.3d at 1335 (vacating damages award based on “speculation or guesswork”). Conducting such trials would be an extraordinary and unnecessary waste of judicial and party resources.

Worse still, trial courts facing this dilemma may occasionally grant patentees leave to introduce previously undisclosed damages theories and evidence. That would be an abuse of discretion, incompatible with Rule 37, and unfairly prejudicial to the defendant. *See ePlus*, 700 F.3d at 523 (recognizing that “changing the damage calculation methodology on the eve of trial ... would expose ... an unjustified risk of prejudice”); *MicroStrategy Inc. v. Business Objects, S.A.*, 429 F.3d 1344, 1356-1357 (Fed. Cir. 2005) (affirming district court's exclusion of “non-expert damages theories for failure to supplement discovery interrogatories,” where patentee sought

to advance new theories “on the eve of trial”). When a patentee takes the risk of asserting unreliable damages evidence and as a result is left without a remedy, the case is properly dismissed.

### CONCLUSION

The district court’s orders should be affirmed, and this Court should make clear that the district court may enter judgment for Micron on remand.

Respectfully submitted,

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### **CERTIFICATE OF SERVICE**

I hereby certify that, on this 2nd day of June, 2020, I filed the foregoing Brief for *Amici Curiae* with the Clerk of the United States Court of Appeals for the Federal Circuit via the CM/ECF system, which will send notice of such filing to all registered CM/ECF users.

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### **CERTIFICATE OF COMPLIANCE**

Pursuant to Fed. R. App. P. 32(g), the undersigned hereby certifies that this brief complies with the type-volume limitation of Federal Circuit Rule 32(a).

1. Exclusive of the exempted portions of the brief, as provided in Fed. R. App. P. 32(f) and Fed. Cir. R. 32(b), the brief contains 6,999 words.

2. The brief has been prepared in proportionally spaced typeface using Microsoft Word 2016 in 14 point Times New Roman font. As permitted by Fed. R. App. P. 32(g), the undersigned has relied upon the word count feature of this word processing system in preparing this certificate.

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