No. 2020-1413

IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

MLC INTELLECTUAL PROPERTY, LLC,

Plaintiff-Appellant

v.

MICRON TECHNOLOGY, INC.,

Defendant-Appellee

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

PLAINTIFF-APPELLANT'S REPLY BRIEF

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July 31, 2020

CERTIFICATE OF INTEREST

Counsel for Plaintiff-Appellant MLC Intellectual Property, LLC, certifies the following:

1. The full name of every party or amicus represented by the undersigned is:

   MLC Intellectual Property, LLC.

2. The names of the real parties in interest represented by the undersigned is:

   MLC Intellectual Property, LLC.

   Robert Hinckley and Jerry Banks are members of MLC Intellectual Property, LLC.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by the undersigned is:

   N/A

4. The name of the law firm and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court (including those who have not or will not enter an appearance in this case) are:

   Polsinelli LLP
   Fabio E. Marino, Russell S. Jones, Jr., Barrington E. Dyer.,
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   Frietas & Weinberg LLP (formerly, Frietas Angell & Weinberg)
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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 (CAND); *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: July 31, 2020

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I. INTRODUCTION

Micron's Responsive Brief,[1] and the District Court's ("the Court") decisions below, make it sound like MLC's damages expert, Michael Milani, endorsed a ridiculous damages number. But in reality Milani opined that, as a willing licensee, Micron would have paid a lump-sum royalty between $19 million and $22 million,[2] an amount derived from an initial 0.25% royalty demand by BTG. This squares well with a fact that even Micron cannot dispute: Toshiba and Hynix, two of Micron's primary competitors, in fact did license the patent at the relevant time; they actually paid $21 million and $25 million, respectively; their lump-sum payments were likewise based on a 0.25% royalty; and the Hynix license goes so far as to explicitly state that, if any future licensee pays less than 0.25%, Hynix must be given a discount.

MLC is thus at a loss to explain how Milani's Report so alienated a good and experienced Court that his entire testimony, and thus MLC's entire case, was

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[1] Hereinafter, "RBr."

[2] Milani's Report also included royalty base calculations for Micron's U.S.-only sales under (1) the comparable-license, and (2) the apportionment (or bare-die) approaches. Appx953-954; Appx980; Appx1048. Applying the 0.375% rate to those U.S.-only bases yields a lump-sum between $19 million and $22 million. Also, both damages expert provided royalty base calculations that included foreign sales given the uncertainty in the law regarding foreign damages under *WesternGeco, LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018). Appx889-890; Appx3990; Appx1568.

excluded. But situations like this are why appellate practice exists. For whatever reasons, the Court misread Milani's Report as offering an opinion he never offered (that the Hynix license had an effective royalty rate of 0.25%); held that MLC did not identify key documents (the Hynix and Toshiba licenses) that even Micron now concedes were timely disclosed; and demanded an apportionment analysis in a situation where (because comparable licenses were used) apportionment is neither required nor sensible. Those rulings, and the exclusion they led to, represent an abuse of discretion. MLC respectfully asks that they be reversed.[3]

II. THE COURT ERRED IN EXCLUDING MILANI'S OPINION REGARDING THE ROYALTY RATE

A. The Court Erroneously Relied on the Parol Evidence Rule to Exclude Milani's Royalty Rate Opinion

Milani offered a perfectly reasonable analysis of royalty rates. He observed that the prior patent owner, BTG, had licensed this intellectual property to Hynix for use in a Flash memory product that was interchangeable with the Micron

[3] MLC incorporates by reference its Opposition to Motions for Leave to File Briefs *Amicus Curia* (Docket 59). As set forth in the Opposition to the Motions for Leave, and referenced below, the amici's arguments improperly reiterate Micron's arguments and the Court's findings in the attempt to present additional evidence, or alternatively raise an issue not raised by the parties. Docket 59 at 5; *see also* 3B C.J.S. Amicus Curiae § 17; *Swan v. Peterson*, 6 F.3d 1373, 1383 (9th Cir. 1993) ("we do not consider on appeal an issue raised only by an amicus.") This piling-on technique should foreclose any weight being afforded to the amici's arguments.

product. BBr.21, 29-30;[4] Appx1131-1132; Appx867-872; Appx916-918. Milani noted that, while the Hynix license was for a lump-sum, it included a "most favored customer" ("MFC") clause under which Hynix would earn a substantial discount if any other licensee was granted a license at a rate below 0.25%. BBr.21-22; Appx905-906,909; Appx921-923. And he then came to the view that BTG would have opened any negotiation with Micron by offering a rate of at least 0.25%. That valuation, he explained, is implied by the MFC clause for two related reasons. First, the very existence of the MFC clause created an incentive for BTG to demand at least 0.25%, thereby avoiding any obligation to refund money to Hynix. BBr.3.

Second, an MFC clause is reasonably interpreted as signaling the market price. After all, if the trigger for an MFC clause is set far below market price, it would never be triggered, so there would be little reason to include it. By contrast, if set far above, the clause would almost always be triggered, immediately undoing the explicit terms of the contract. Milani thus adopted an intuitive and certainly defensible interpretation; and then he confirmed his view by (among other things) looking at evidence from the actual negotiations that took place in 2007, including evidence that showed BTG making this exact demand of Micron at the time, and evidence that showed BTG explaining to Samsung that the Hynix license was

[4] Hereinafter "BBr."

based on a 0.25% rate. BBr.3-4.

The Court nevertheless excluded Milani's rate opinion, complaining that he impermissibly relied on "inadmissible parol evidence" and characterizing his interpretation as "contrary to the plain language of the [licenses]." Appx20; Appx24; BBr.17-20. This was an abuse of the Court's discretion.

First, the Court's approach makes a *Georgia-Pacific* analysis nearly impossible. An expert cannot reliably model a hypothetical negotiation based on comparable licenses without looking at information explaining the formation of those licenses. BBr.17-20 (citing Federal Circuit cases approving—and in some cases requiring—consideration of negotiation evidence).

Second, even if the Court were right to exclude all evidence except the actual Hynix license, Milani's testimony should still have been permitted. After all, he would still have read the Hynix license, still have seen the MFC clause, and still have understood its intuitive implications. Exclusion here was thus completely inappropriate. BBr.25-26; Appx1144; Appx1147.

B. Micron Continues to Attack a Strawman Argument

As explained in MLC's Opening brief, Micron's lead argument—that Milani misinterpreted the Hynix license to say that the licensing parties agreed to a 0.25% royalty rate—is a strawman, built upon an implausible interpretation of Milani's word "reflect." BBr.25. Specifically, in his Report, Milani wrote that the Hynix license "reflects" a 0.25% royalty. Appx905-906; Appx909; Appx921. His point, which he explained in both his Report and at deposition, was that the MFC clause contains—"reflects"—a 0.25% royalty. He never stated that Hynix actually paid 0.25% because, as Milani also stated, Hynix paid a lump-sum. *Id.*; Appx1144. He merely pointed out the obvious: that the MFC trigger is a reasonable estimate for the market price; and, regardless, BTG had a strong incentive to not offer a rate below that trigger. Appx1144.

Not surprisingly, Micron has its own interpretation of the MFC clause, and a jury should someday hear it. *Micro Chemical, Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1392 (Fed. Cir. 2003). But here, Micron convinced the Court to exclude Milani's testimony on the basis of something Milani did not in fact say: that the Hynix license *imposed a 0.25% royalty on Hynix*. RBr.2; Appx2. That rationale is clearly erroneous, and the resulting exclusion amounts to abuse of discretion.

C. Micron's Other Objections Go to Weight, Not Admissibility

Milani supported his testimony by looking at other evidence beyond the text of the Hynix license. Among that other evidence: Milani considered the fact that, in 2007, BTG told Samsung that the Hynix lump-sum payment had been derived by taking a 0.25% royalty and applying it to BTG's forecast as to Hynix's future sales. Appx906 (citing Appx1394-1399). Micron argues that Milani should not have relied on projected sales (available to the parties at the time of the license), but instead should have focused on Hynix's actual sales. RBr.39. This is a red herring for two reasons.

First, reliance on projected sales is a recognized and reliable approach, most obviously because forecasts are often the only thing available at the time of a negotiation. Appx1150-1151; *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1385 (Fed. Cir. 2001); *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1315 (Fed. Cir. 2014). Second, even if the Court disagreed with Milani's interpretation of the Samsung evidence, plausible factual disputes are supposed to be decided by juries, not judges. Appx20-21; *Micro Chemical, Inc.*, 317 F.3d at 1392. Besides, at most, the Court should have only excluded the document—not Milani's entire opinion.

D. Milani's Hypothetical Negotiation Analysis Was Proper

Micron argues on appeal that Milani was wrong to consider the Hynix MFC clause because, in Micron's view, the hypothetical negotiation between MLC and Micron would have happened before the Hynix license was even signed. Appx43-44. This argument fails on several levels.

First, from a procedural perspective, the argument is waived because Micron never made this point below. Appx818-830; Appx849-858; Appx3665-3689; Appx3690-3705; Appx19-20; *Sage Prod. Inc. v. Devon Indus. Inc.*, 126 F.3d 1420, 1426 (Fed. Cir. 1997).

Second, at best, this would be an argument about disputed facts, which means that it cannot be the basis for exclusion of Milani's Report. *i4i Ltd. P'Ship v. Microsoft Corp.*, 598 F.3d 831, 854 (Fed. Cir. 2010) ("quarrel with the facts [] used go to the weight, not admissibility of his opinion.") As the record makes clear, the Hynix license was signed in April 2007, and Micron released its Flash products at some unknown point in 2007. Appx1698-1709; Appx1680-1681; Appx875; Appx885 n.136. Thus, it would be entirely reasonable for Milani to assume that the hypothetical negotiation took place around when the MFC clause was in place (BBr.9, 27), as Micron's own expert confirmed (Appx1564 n.110); and, if Micron disagrees, Micron can make its points at trial. Exclusion, however, is not remotely justified.

Third, even if the Hynix license was signed after the date of the hypothetical negotiation, the agreement would still be admissible and relevant. Why? Because the Hynix license teaches something about the value of the patented invention at roughly the same time, applied to an interchangeable infringing product, as evaluated in a negotiation between BTG and one of Micron's peers. That teaching is clearly relevant to the question of how BTG and Micron would have evaluated the patent-in-suit, regardless of whether it was generated a few months earlier or a few months later. *Sinclair Refining Co. v. Jenkins Petroleum Process Co.*, 289 U.S. 689, 698 (1933); *VirnetX v. Cisco Sys.*, 767 F.3d 1308, 1331 (Fed. Cir. 2014);

CSIRO v. Cisco, 809 F.3d 1295, 1300, 1303 (Fed. Cir. 2015) (all holding that it is appropriate for an expert to consider licenses and related negotiation documents that post-date the date of first infringement in cases where the gap is only a few months).

E. Consistent with Federal Circuit Jurisprudence, Milani Generated a Lump-Sum Opinion Using the Methodology the Patentee Would Have Used

Milani generated a lump-sum royalty opinion by reviewing lump-sum comparable licenses and related negotiation documents to determine (a) how those parties calculated the relevant lump sums and (b) how a lump sum would have been calculated for Micron. BBr.9-14. As explained in MLC's Opening brief, that approach was eminently reasonable. BBr.21-23, 25-27.

Micron seems primarily to object to one step in Milani's analysis: Milani's view that, while Hynix and Toshiba were able to negotiate an "early licensee" discount, Micron would not have been given a comparable reduction. RBr.43-44. Even before considering the details, it is apparent once more that any dispute here was a dispute properly addressed through cross-examination, not exclusion; but the details also favor Milani's view.

The record shows that, while BTG initially proposed that lump-sum payments be based on a 0.25% rate that would then be applied to the licensee's expected sales over a many year period, BTG ultimately agreed to reduce the lump-sum for Hynix and Toshiba by ignoring the final four years of their sales forecasts. Milani characterized this as an "early licensee campaign" discount designed to reward cooperative parties. BBr.32-33 (citing Appx905-907; Appx921-923; Appx1148-1150).

Micron is clearly not a cooperative party. Hynix and Toshiba each licensed the patent nearly fifteen years ago and each paid over $20 million in lump-sum royalties. Appx1698-1709; Appx1710-1724. Micron declined a license back then, and still today refuses to pay. BBr.8 (citing Appx884-886; Appx2641). Milani's view, then, is at a minimum a reasonable view that he was entitled to adopt. As with so many issues, Micron can argue that Milani is wrong, but disagreement does not justify exclusion.

Similarly, there was no "glaring contradiction" in Milani's methodology because Milani ***did not*** "triple" the rate from 0.25% to 0.75% so that it could be applied to U.S. sales only, but then apply the 0.75% rate to worldwide sales—as Micron claims. RBr.44; Appx921-923 (BTG's licenses were "based on an effective royalty rate of 0.25% applied to worldwide sales, which represented a discount from a 0.75% effective royalty rate applied to U.S. sales"); Appx913. Indeed, Micron conflates two separate steps in Milani's analysis: the step of adjusting the royalty rate to account for licensing a single U.S. patent instead of a worldwide patent portfolio, and the step of adjusting the royalty base to determine the amount of sales that would be licensed under the single U.S. patent. In the first step, Milani converted the 0.25% rate BTG applied to worldwide sales under its worldwide portfolio to the 0.75% rate BTG testified in an unrelated proceeding it would apply to U.S. sales under its U.S. patent portfolio. Milani then reduced the resulting 0.75% rate to 0.375% to reflect the licensing of a single, albeit the most valuable, U.S. patent, rather than the entire U.S. patent portfolio. Appx913; Appx925-926. The second step, which Micron completely ignores in its discussion, was for Milani to isolate U.S. sales by the sole Micron entity in this case from worldwide sales made by all Micron entities worldwide. Appx889-Appx890; Appx953-954. While it is true that Milani's Report includes calculations applying the 0.375% rate to various potential royalty bases, the only opinion Milani could and would have offered at trial is the one based solely on U.S. sales by the Micron entity being sued in this case. Micron thus falsely accuses Milani of inconsistency.

F. Micron's Challenges Are Not Grounds for Exclusion

Finally, even if the Court's errors as detailed above do not individually rise to the level of an abuse of discretion, the resulting exclusion of Milani's entire royalty rate opinion clearly does. Milani's opinion is reasonable throughout and firmly grounded in the record. Moreover, his view is not based on some dreamed-up economic theory, but instead is squarely based on the language of contemporaneous comparable licenses, negotiated by Micron's head-on peers, and applied to nearly identical infringing products.[5] If the Court thought a sentence or citation in Milani's Report was inappropriate, the Court could have ordered those words struck. But to exclude the entire opinion was tantamount to dismissing MLC's case, an unjustified and unjustifiable response. And because this occurred on a motion *in limine*, it is further basis for reversal. *Meyer Intellectual Prop. Ltd. v. Bodum, Inc.* 690 F.3d 1354, 1378 (Fed. Cir. 2012); Appx835; Appx2752-2753.

III. MLC TIMELY DISCLOSED FACT AND EXPERT DISCOVERY REGARDING ITS DAMAGES CASE

The Court excluded Milani's opinion on the basis that MLC had an obligation to disclose certain "facts" during fact discovery: the royalty rate that Milani would conclude is reasonable; the licenses that Milani would conclude are comparable; and the negotiation evidence that Milani would conclude support his opinion. Appx22 ("MLC had never disclosed *what it believed was an appropriate royalty rate*") (MLC "never disclosed that *it believed the Hynix and Toshiba licenses to 'reflect' a 0.25% royalty rate*"); Appx24 (Milani may not rely on the "extrinsic evidence that he relies upon for his opinion that the licenses reflect royalty rates because MLC failed to disclose that evidence as a basis for a royalty rate calculation in discovery.") These findings are in error; the "facts" in question

[5] Distinguishable from Micron-cited cases—*e.g.*, *Wordtech Sys., Inc. v. Integrated Network Solutions, Inc.*, 609 F.3d 1308, 1319-20 (Fed. Cir. 2010).

were either specifically disclosed to Micron during fact discovery, not in MLC's possession, or not facts at all as they constituted expert opinions. And the Court's failure to find willfulness, fault or bad faith is clear error.

A. MLC's Discovery Responses Complied With Rule 26

1. MLC's Initial Disclosures Were Timely and Sufficient

MLC complied with its Rule 26 initial disclosure requirements by disclosing to Micron its damages theory, methodology and relevant documents, including prior licenses and documents relevant to BTG's licensing negotiations. BBr.39; Appx1765-1770; Appx1303-1312; Appx1771-1780. Because the specific royalty rate and supporting documents were information in its expert's and/or third-party's possession, MLC so stated in its disclosures. Appx1309. Notably, the Court did not find that MLC's initial disclosures were deficient. Appx9; *contra* RBr.48-49; Engine Br. 8.[6]

The *Brandywine* case upon which Micron relies is materially distinct. *Brandywine Commc'ns Techs., LLC v. Cisco Sys., Inc.*, No. 3:12-cv-01669-WHA, 2012 WL 5504036 (N.D. Cal. Nov. 13, 2012). Unlike in *Brandywine*, Micron never moved to compel, and MLC was never ordered to include detailed damages contentions in its Rule 26 disclosures. Moreover, even on the worse facts present

[6] Brief of Engine Advocacy and the R Street Institute as Amici Curiae in Support of Appellee (Docket 67).

in the *Brandywine* decision, that court deemed exclusion "too drastic of a remedy." *Id*. at *1, 3. Rather than supporting Micron's position, *Brandywine* instead bolsters MLC's argument that exclusion here was an abuse of discretion.

2. MLC's Interrogatory Responses Complied With Rule 26

a. Damages Interrogatories Do Not Require Disclosure of Knowledge in Expert's or Third Party's Possession

The proper assessment of an interrogatory response depends on who is in possession of the requested information: the party, a third party, or an expert. Where, as here, the "answer to any of the Defendants' interrogatories can only be provided by resort to Plaintiffs' experts…. Defendants can only ascertain this information through expert discovery as provided for in Federal Rule of Civil Procedure 26(b)(4)(A) and may not do so through the vehicle of contention interrogatories." *Roberts v. Heim*, 130 F.R.D. 424, 427 (N.D. Cal. 1989).

Milani's damages analysis was derived from information about BTG's negotiation with Hynix, BTG's negotiation with Toshiba, BTG's negotiation with Samsung, and BTG's negotiation with Micron. Appx905-909. MLC therefore did not have possession of the key documents—they were all under the control of the then-owner of the patent, BTG, and those documents were then produced by BTG to both MLC and Micron during fact discovery. Appx1263; Appx2793. Further, Milani's royalty rate calculations, and which documents specifically support it, were also not in MLC's possession, but Milani's. Fed. R. Civ. P. 26, Advisory

Committee Notes, 1993 Amendment ("a party would not be expected to provide a calculation of damages which, as in many patent infringement actions, depends on information in the possession of another party or person.") Accordingly, MLC disclosed the factual information of which it had knowledge, and otherwise set forth the appropriate objections to Micron's broad contention interrogatories. BBr.38-39; Appx22 n.18 (MLC's disclosures "had generally identified 'any prior negotiations between the parties'"); *Roberts*, 130 F.R.D. at 427 ("if Plaintiffs possess factual information independent of that to be furnished by their experts, it should be provided in Plaintiffs' responses to Defendants' contention interrogatories").[7] Micron never moved to compel, implicitly agreeing that MLC's responses were appropriate. BBr.39-40.

Micron argues that disclosure of the royalty rate and supporting documents in response to interrogatories is a "well-established practice," but, tellingly, Micron does not cite any supporting cases. RBr.50-51, 53. Instead, Micron and Amici only cite cases addressing invalidity and infringement contentions, attempting to draw an analogy between new Patent Local Rule 3-8 (governing damages contentions) and old Patent Local Rules 3-2 and 3-3 (governing infringement and

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[7] Distinguishable from Micron-cited cases. *E.g.*, *Corning Optical Commc'ns Wireless Ltd. v. Solid, Inc.*, 306 F.R.D. 276, 278-79 (N.D. Cal. 2015) (contested discovery response (Docket No. 179-3) stated that the plaintiff "intends to seek damages under at least lost profits and reasonable royalty calculations"); Appx796-798.

invalidity contentions). RBr.51; Engine Br. 5; Intel Br. 27.[8] However, because at the time this case was filed "the Patent Local Rules did not require the exchange of damages contentions," the new rule has no bearing on the instant case. *Looksmart Grp., Inc. v. Microsoft Corp.*, 386 F. Supp. 3d 1222, 1227 n.2 (N.D. Cal. 2019).

b. MLC's Interrogatory Responses Sufficiently Disclosed the Evidence Milani Relied Upon

The Court erroneously adopted Micron's argument that, because six documents upon which Milani relied were not specifically identified in response to two of Micron's numerous and repetitive damages interrogatories, those documents should be excluded. Appx12-13; Appx23; RBr.57-58.

First, Micron does not dispute that the Hynix and Toshiba licenses were identified in MLC's responses. BBr.38-39 n.8, 44; RBr.14. Second, Micron intentionally focuses on only two of its damages interrogatories, knowing that MLC's responses to the other four damages interrogatories identify three of the six documents at issue. BBr.38-39. Specifically, the Fisher deposition testimony was identified in response to Interrogatory No. 18 (Appx2626), and the BTG-Samsung e-mails and BTG-Acacia negotiations documents were identified in response to

[8] Brief for Amici Curiae Intel Corporation, Apple Inc., Dell Inc., and HP Inc. in Support of Appellee Micron Technology, Inc. (Docket 65).

Interrogatory No. 7.[9] Thus, the Court's order that "Milani may not rely on the Fisher deposition testimony and other extrinsic evidence… because MLC failed to disclose that evidence" is in error. Appx3.

Thus, the issue properly before this Court is whether Milani's entire royalty rate opinion was properly excluded solely because he relied on three documents that were produced in discovery, but not specifically identified in MLC's responses: the 2007 letter from BTG to Samsung, the November 2007 "briefing paper," and the "licensing offer from BTG to STMicroelectronics." The answer is clearly not. First, experts are allowed to consider relevant evidence produced in discovery even if not specifically identified in discovery responses (or are otherwise inadmissible.) Fed. R. Evid. 703; Fed. R. Civ. P. 26(a)(2). Second, Milani was entitled (if not expected) to consider these three documents because Micron specifically identified them in their own discovery responses to "refute Plaintiff's claim for a reasonable royalty." Appx1241.[10] Lastly, because none of Milani's opinions were based solely on these three documents, their exclusion does not warrant excluding Milani entirely.

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[9] Micron filed partial excerpts of MLC's Responses to Interrogatory No. 7 on the public record (Dkt. 514-2; Dkt. 449-4; Dkt. 445-6)— considering the entirety of those responses (Fed. R. Evid. 106), they show that the Acacia and Samsung documents were specifically identified in the responses served in October 2018.

[10] *Id.* (Micron response to interrogatory 16 identifying BTG_5660 (2007 Briefing Paper), BTG_06398 (2007 Samsung letter), and MLC00054615 (STMicro letter)).

Micron also argues that the identification of these documents would not require premature disclosure of expert opinion because the documents are not privileged. RBr.56. This misses the mark. Milani's analysis was privileged, and pointing to these documents prematurely would have exposed that privileged analysis. Rule 26, Advisory Committee Note, 1993 Amendments. Moreover, contrary to Micron's suggestion, MLC did not waive this privilege objection: MLC asserted it both in discovery responses and in the briefing below. Appx793.

3. MLC's 30(b)(6) Witness Competently Testified to MLC's Knowledge, and MLC's Privilege Objections Were Timely

Micron argued, and the Court accepted, that MLC's 30(b)(6) witness should have disclosed the royalty rate and identified the specific supporting documents. Yet neither explains how MLC's corporate witness would have had this information in the first place.[11] MLC was not a party to BTG's licensing negotiations, and eventually had to sue BTG for breach of contract because of BTG's failure to keep MLC apprised of the negotiations' progress. Appx8; Appx1263; Appx1292. Even in this litigation, MLC's corporate representative could not review certain documents material to Milani's opinions due to the confidential designation that third-parties, and even Micron, applied to them.

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[11] *See also*, Intel Br. 25-27; Engine Br. 8-9; *Rates Tech., Inc. v. Mediatrix Telecom, Inc.*, 688 F.3d 742, 747 (Fed. Cir. 2012) ("RTI and Mr. Hicks *did* have the information necessary to respond to Mediatrix's interrogatories.")

Appx1415-1417; Appx1204-1206. As such, the record does not support the imputing of BTG's knowledge to MLC; almost no information flowed from BTG to MLC.

Second, the Court held that MLC's 30(b)(6) witness somehow acted improperly when he would not answer questions about whether any royalty rate could be derived from the Hynix and Toshiba licenses, or whether MLC would rely on "facts with respect to" those agreements at trial. Appx15-16; RBr.46-47. But this information was not "fact" but expert analysis not properly subject to a 30(b)(6) deposition, and privileged to the extent that the expert had conveyed this information to MLC's counsel. BBr.36-37. MLC therefore asserted this objection in response to Micron's 30(b)(6) deposition notice and at the deposition, in response to specific deposition questions, in the briefing to the Court, and at oral argument. Appx1249; Appx15-16; BBr.36-37; Appx837-838; Appx2792; *Nelson v. Adams USA, Inc.*, 529 U.S. 460, 469-70 (2000); *Commissariat A L'Energie Atomique v. Chi Mei Optoelectronics Corp.*, 395 F.3d 1315, 1323 (Fed. Cir. 2005).

Realizing the weakness of its position, Micron asserts that MLC should have designated its damages expert as its 30(b)(6) witness, arguing that it is "commonly done" without citing to a single supporting case. RBr.50. Simply stated, there is no merit to Micron's position.

B. MLC Timely Disclosed Experts Opinion Regarding the Royalty Rate and Supporting Documents During Expert Discovery

Milani's Report did not contain "new facts or theories," but rather Milani in his Report "permissibly specified the application of a disclosed theory." *Golden Bridge Tech. Inc. v. Apple, Inc.*, No. 12-cv-04882-PSG, 2014 WL 1928977, at *3 (N.D. Cal. May 14, 2014); RBr.53. Because Milani's Report was timely served,[12] and the disclosure of the royalty rate and supporting documents did not constitute a new damages theory nor "markedly transform" MLC's theory, Milani's opinion should not be excluded. *Contra Looksmart Grp., Inc.*, 386 F. Supp. 3d at 1229; *Phigenix, Inc. v. Genentech, Inc.*, 783 F. App'x 1014 (Fed. Cir. 2019); Engine Br. at 12-14; Intel Br. 26.

C. Micron Was Not Prevented from Obtaining Discovery

The Court faulted MLC for prejudicing Micron, but there was no prejudice; Micron had ample opportunity to request any additional fact discovery it might have been entitled to, and to pursue any further expert discovery. Specifically, Micron complained it was prevented from taking discovery of BTG, Hynix, Toshiba and Mr. Fisher—but the record shows Micron knew these parties were

[12] Contrary to Micron-cited cases—expert report was untimely or not produced at all. *Yeti by Molly, Ltd. v. Deckers Outdoor Corp.*, 259 F.3d 1101, 1105 (9th Cir. 2001); *Alldread v. City of Grenada*, 988 F.2d 1425, 1435-36 (5th Cir. 1993).

relevant and received fulsome productions related to these parties.[13] Appx18; Appx2823; Appx1383. Moreover, MLC's discovery responses specifically placed Micron on notice that these parties were relevant to MLC's damages theory. Appx2806-2807; Appx2626 (referencing Mr. Fisher and his deposition); Appx1185 and Appx 1187 (citing Hynix license (MLC00007148-58) and Toshiba license (BTG_09023-BTG_09036)). And as set forth above, Micron undoubtedly knew of the three allegedly non-disclosed documents as Micron itself relied on them in their discovery responses. *See, supra* n.10, 13. Thus, the actual record does not support the Court's finding of prejudice and harm, which is "essential" to the imposition of dismissal sanctions. Rule 37(c); 146 F.R.D. at 691; *Wanderer v. Johnston*, 910 F.2d 652, 656 (9th Cir. 1990).

Moreover, after receiving Milani's Report, Micron had "ample opportunity" to obtain any allegedly undisclosed factual information during the expert discovery period. *Roberts*, 130 F.R.D. at 427; Appx863 at n.1. So at most, Micron can argue delay from the close of fact discovery until Milani's Report was served (*i.e.*, 1.5 months)—but "delay alone, without a focus on its effects, will not justify dismissal

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[13] Acknowledging communications "Mr. Fisher of BTG" sent to Micron in 2006-2007 and that "BTG and Micron entered into a Non-Disclosure Agreement around August 2006." Micron even identified the Fisher deposition testimony in its interrogatory response, contending that the transcripts "refute Plaintiff's claim for a reasonable royalty." Appx1241 (identifying the Fisher deposition transcripts (BTG_02062; BTG_02097). Milani is entitled to consider Micron's proffered evidence and reach a contrary opinion.

or fault." *Wanderer*, 910 F.2d at 656; *Madrigal v. Allstate Indem. Co.*, CV 14-4242-SS 2015 WL 12746232, at *10 (C.D. Cal. Oct. 29, 2015) (a party must show "that it was in fact prevented from obtaining" the disputed discovery); Appx785. This is particularly true since upon receipt of the Report, Micron had possession of all the key documents, knew how Milani interpreted them, but failed to seek any additional discovery during the remainder of expert discovery[14]—Micron could not even identify the specific discovery it needed.[15] *Martel v. Cty. of Los Angeles*, 56 F.3d 993, 996-97 (9th Cir. 1995) (no showing of "actual and substantial prejudice where party did not "indicate what, if any, facts would have been gained from additional discovery" and why "these facts would have affected the result.") Indeed, neither Micron nor the Court addressed Micron's ability, and failure, to pursue the allegedly missing information during expert discovery. To exclude Milani's Report on those facts is an unfair, disproportionate, and punitive response that rises to the level of an abuse of discretion.

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[14] Expert discovery closed April 15, 2019—3 months after Milani's Report. Appx663; BBr.8.

[15] This then is distinct from Micron-cited cases. *Woods v. DeAngelo Marine Exhaust, Inc.*, 692 F.3d 1272, 1282-83 (Fed. Cir. 2012) (defendants did not disclose the actual prior art and did not disclose the "testimony that these drawings would elicit.")

D. The Court Failed to Make a Necessary Finding of Willfulness, Fault or Bad Faith

Under Ninth Circuit law, before the Court could exclude Milani's Report and essentially dismiss MLC's case, the Court was obligated to make a determination regarding whether MLC's perceived noncompliance with its discovery obligations involved willfulness, fault or bad faith. *R&R Sails v. Insurance Co. of Pa*., 673 F.3d 1240, 1247 (9th Cir. 2012). Because the Court made no such determination, its exclusion constitutes an abuse of discretion.

1. The Court's Exclusion of Milani Amounted to a Dismissal

Micron's argument that the Court's ruling did not amount to dismissal ignores reality. RBr.61. The Court eliminated MLC's damages expert and its damages evidence, effectively granting a JMOL. Appx2841-2842; *Toyrrific, LLC v. Karapetian*, 606 F. App'x. 365, 365 (9th Cir. 2015) (finding error on similar facts).

2. MLC Did Not Waive This Argument

Contrary to Micron's contentions, MLC did not waive the issue of willfulness, fault or bad faith, and indeed raised it in both its Opening brief and the briefing below. BBr.43-44; Appx798.[16] But, even if MLC had not raised this

[16] Micron's responsive argument that "MLC could have raised [this issue] prior to appeal, but did not," (RBr.59) puts directly at issue MLC's Opposition to Summary Judgment, in which MLC did raise this issue to the Court. *See* also Dkt. 692 at 25.

issue, because "the district court ha[d] an obligation to make a determination … the failure to do so can be raised on appeal." *Commissariat A L'Energie Atomique*, 395 F.3d at 1323.

3. The Factual Record Does Not Support a Finding of Willfulness, Fault or Bad Faith

Micron argues that the Court's statement that "there is simply no explanation to excuse MLC's failure to disclose" constituted the necessary finding (RBr.57), but (a) MLC in fact offered several explanations (including that the information was privileged), and (b) this Court should not allow Micron to read such a significant accusation into words that in no way dictate that conclusion. Findings of unethical behavior should be explicit. *Cf. Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 872-73 (Fed. Cir. 1988) (finding of intent to deceive was factually erroneous in light of evidence indicative of good faith).

Moreover, the factual record is clear: MLC was neither willful nor acting in bad faith. Appx798 (arguing that MLC acted "in good faith" in supplementing its discovery responses). MLC responded to every contention interrogatory, followed every Court order, and even supplemented its disclosures in response to Micron's complaints, and Micron never moved to compel. BBr.38-40; Appx790-792; *contra Nat'l Hockey League v. Metro. Hockey Club, Inc.*, 427 U.S. 639, 640-43 (1976) (illustrating the "callous disregard" to discovery obligations and court orders that amounts to bad faith). At most, the Court thought that certain discovery objections were boilerplate; but this falls far short of a finding that objections were "patently frivolous and interposed unjustifiably for delaying purposes." Appx23; *Fjelstad v. Am. Honda Motor Co.*, 762 F.2d 1334, 1339–40 (9th Cir. 1985).

The instant case is distinct from *Ingenco Holdings, LLC v. Ace Am. Ins. Co.*, 921 F.3d 803, 821-22 (9th Cir. 2019). RBr.61-62. There, the plaintiffs "never supplemented" their Rule 26 disclosures (MLC supplemented three times);[17] did not provide any computation of damages until the day before the discovery cutoff (MLC did months prior to the close of discovery);[18] and "never produced any supporting evidentiary material" (all supporting documents were produced during fact discovery). BBr.8; *Ingenco Holdings, LLC v. Ace Am. Ins. Co.*, No. C13-543-RAJ, 2016 WL 4703758, at *2 (W.D. Wa. Sept. 7, 2016). Because the Court did not make the required finding of bad faith, its exclusion sanction should be reversed. *Tablizo v. City of Las Vegas*, 720 F. App'x 875, 877 (9th Cir. 2018).

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[17] Appx1765-1770; Appx1303-1312; Appx1771-1780.

[18] MLC provided as complete a computation as possible in light of Micron's withholding of its sales data until ***after*** the close of fact discovery. BBr.39; *id.* at n.9 (citing the Court's Orders to Micron to produce its sales data); Appx23 (the Court acknowledged "there were problems with Micron's production of sales"); Appx1309.

IV. EXCLUSION OF MILANI'S ROYALTY BASE OPINION WAS REVERSIBLE ERROR

A. Milani's Royalty Rate Already Accounted for Non-Infringing Features of the Accused Devices

The Court faulted Milani for not apportioning value to standard features of a memory chip, but, because the Hynix and Toshiba products ***also*** had such standard features, apportionment was already "baked into" the royalty rate and hence did not need to be apportioned in the royalty base, too. Appx719-720; Appx1135.

Put differently, Milani's proposed royalty rate was based on his analysis of comparable licenses. Those licenses covered products that were in every relevant respect identical to the products at issue in this case. Indeed, Milani described all of the products as "commodity" products, by which he meant they were interchangeable products like batteries, gasoline or milk. The royalty rate Milani identified, then, necessarily accounted for any non-infringing features because those features were (a) also included in the products covered by the comparable licenses and thus (b) factored into the royalty rate derived from the comparative licenses.

This Court has previously made this exact point. Specifically, this Court has explained that, in a *Georgia-Pacific* analysis built on comparable licenses, so long as the license-based evidence is sufficiently comparable to the hypothetical license, further apportionment is not required.[19] *See*, *e.g.*, *CSIRO*, 809 F.3d at 1301-02; *Ericsson*, 773 F.3d at 1226; *VirnetX*, 767 F.3d at 1331; *Astrazeneca AB v. Apotex Corp.*, 782 F.3d 1324, 1338 (Fed. Cir. 2015); *Elbit Sys. Land and C41 v. Hughes Network Sys.*, 927 F.3d 1292, 1301-1302 (Fed. Cir. 2019) (distinguishing Micron-cited cases *Finjan, Inc. v. Blue Coat Sys., Inc.*, 879 F.3d 1299 (Fed. Cir. 2018) and *Garretson v. Clark*, 111 U.S. 120 (1884)). Here, Milani opined that the Hynix and Toshiba licenses, and BTG's contemporaneous license negotiations, were sufficiently comparable both technologically and economically. BBr.2-5, 9-10, 21-23, 28. And he properly supported his opinion by pointing out that all of these companies competed in a commodity market for Flash memory products. BBr.21, 28-30. He then proceeded with his *Georgia-Pacific* analysis, adhering to this Court's comparable-license methodology, and in so doing, properly relied on the ***royalty rate*** to effectuate a fair allocation of value as between patented and unpatented aspects. BBr.2-5, 10-12.

B. The Court's Factual Criticisms of Milani's Comparability Analysis Are Erroneous and an Abuse of Discretion

The Court faulted Milani for providing insufficient support for the proposition that Flash memory is a commodity, but Milani cited multiple sources

[19] Contrary to Micron's claim, MLC did not waive the argument that apportionment is not required when using the comparable-license methodology. RBr.22-23; BBr.4-5, 47 n.12; Appx713-722.

for this proposition, and even Micron's experts concluded that Flash memory is a commodity.

First, contrary to Micron's claim, MLC did address the Court's "detailed findings," specifically by pointing out they improperly sought to resolve disputed issues of fact, a role this Court has consistently reserved for the jury. RBr.23; 28-29; BBr.21-33.

Second, by opining that the Hynix and Micron NAND Flash memory products are commodities, Milani not only did the necessary comparison, but also concluded that any differences between the products would not affect price. BBr.21, 29-30. And, contrary to the Court's summary of the record, Milani relied on a variety of evidence and considerations to support this conclusion. BBr.27-30; Appx1054-1074.

Importantly, Micron does not challenge the reliability of Milani's evidence (as Micron's expert relies on the same type of evidence), nor does Micron defend the Court's incorrect statement that Milani relied on only one news article to support his opinion. BBr.27-30; RBr.24, 41-42. Micron does not even dispute the fact that all of Micron's experts ***agree*** with Milani that NAND Flash memory products are fungible, commodity products. *See id.*; Appx2397 (stating that solid state memory products, like NAND flash, are considered "fungible" by the industry); Appx1498-1511 (describing Hynix and Toshiba products and Micron products as an "apples to apples" comparison).

Third, Micron argues that Milani's commodity analysis is faulty because there was "no evidence" in the record of what proportion of licensed Hynix products were Flash versus non-Flash memory products. RBr.42. But this ignores the fact that the Hynix license ***only covers Flash memory products.*** Appx1081; Appx2197. There was no need to calculate a proportion; 100% of the royalty-bearing products were Flash. Moreover, Milani's Report also included numerous tables showing the nature and volume of Micron, Hynix, and Toshiba Flash product sales—all of which supported his opinion. Appx1054-1074.

Fourth, Micron's conclusion that "competitors mainly compet[ed] on price" actually concedes Milani's ultimate conclusion: there is ***no*** meaningful difference between the Flash memory products being offered by Micron, Toshiba and Hynix. RBr.24, n.8.[20]

Finally, BTG offered Micron and other third-parties the ***same*** deal it offered Hynix and Toshiba, supporting the conclusion that the licensor in the hypothetical negotiation (BTG) considered the Flash memory products made by Micron, Samsung, Toshiba, and Hynix to be the same. BBr.7-8; Appx884-886; Appx921-

[20] Further, neither Milani nor MLC conceded that the patented multi-level cell technology was ***not*** a sole driver and basis of demand for multi-level cell flash memory chip. RBr.27 n.9; Appx719-722; Appx1135. This Court has explained that the entire market value rule is not invoked when proceeding under a comparable-license approach. *See CSIRO*, 809 F.3d at 1302-03.

923; Appx2641.

In short, Milani's royalty base analysis is methodologically sound and based on ample evidence. To now argue that the Hynix and Toshiba licenses are not comparable, Micron completely disregards the evidence in the record and contradicts the opinions of its own experts. HTIA Br. at 11 n.5.[21] And to adopt that criticism, the Court had to not only make those same mistakes but also impermissibly rule on issues of disputed fact that should have gone to the jury. BBr.27-30.

C. Micron Misreads this Court's Precedent Regarding Non-Infringing "Components"

In addition to his comparable-license analysis, Milani also offered an apportionment analysis. If this Court agrees with MLC's position on the use of comparable licenses, it does not need to reach this additional apportionment issue in order to reverse the Court's exclusion orders.

This Court's precedent requires a separation between infringing and non-infringing components. BBr.45-50. Infringing components can be included in the base, but non-infringing components cannot be. Milani knew this and he apportioned the royalty base to exclude the value attributable to non-infringing components. BBr.12-14; Appx864-899; Appx952-1034. That left the bare-die as

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[21] Brief for Amici Curiae High Tech Inventors Alliance and Computer & Communications Industry Association Supporting Appellee (Docket 66).

the only remaining infringing, patent-practicing component having no non-infringing use.

Micron does not dispute that Milani did an apportionment analysis and that MLC argued below that the bare-die has no non-infringing uses. RBr.10, 24. The Court also acknowledged that MLC asserted that the die is a single component with no non-infringing uses. Appx28. But the Court went on to impose an unprecedented requirement that the infringing component must ***in addition*** have no "non-infringing features." Appx30. The Court provided no explanation and identified no authority supporting this novel conclusion. Moreover, this conclusion is inconsistent with years of Federal Circuit decisions holding that a single infringing component with no non-infringing uses is the proper base for damages analysis, and that any further adjustments to reflect non-infringing features can be achieved through careful analysis of the royalty rate.

Micron has no meaningful response to this argument. The cases Micron cites are all cases involving multi-component systems where some components infringe but others do not. MLC agrees with Micron that, in those examples, further apportionment is appropriate. RBr.25-26; BBr.45-50. But here, there is only a single component in the unit being accused. Indeed, Micron does not meaningfully address, let alone distinguish, the most relevant precedent (*Exmark*), a case discussed at length in MLC's Opening brief. RBr.29.

V. CONCLUSION

MLC stands today with its damages expert and damages evidence fully excluded. This Court should reverse. Milani's proposed royalty rate was reasonably derived from the record evidence, including the MFC clause explicitly included in the Hynix license. That opinion was excluded only because the Court wrongly interpreted Milani's word "reflect" to mean something it did not mean. MLC's disclosures, meanwhile, were all appropriately timed, and, even if not, surely were not transgressions that warranted a functional dismissal of its case. Lastly, Milani's proposed royalty base was likewise entirely appropriate, both because it aligned perfectly to the base used in the comparable licenses, and because apportionment is not necessary when the accused base is a single component.

Admittedly, this appeal raises a large number of issues. But something went wrong below, and the Court's exclusion orders were, for whatever reason, not only numerous, but also unjustified. MLC respectfully asks that this Court review the record, judge Milani on his actual words, MLC on its actual disclosures, and reverse.

Dated: July 31, 2020

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on July 31, 2020, I electronically filed the foregoing **PLAINTIFF-APPELLANT's REPLY BRIEF** using the Court's CM/ECF filing system. Counsel for Defendant-Appellee were electronically served by and through the Court's CM/ECF filing system per Fed. R. App. P. 25 and Fed. Cir. R. 25.

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CERTIFICATE OF COMPLIANCE

I certify under Fed. R. App. P. 32(a) that the text of this brief is proportionately spaced, has a typeface of 14 points, and that I have checked the word count of the word-processing system used to prepare this brief, excluding those portions of the brief properly excluded under Fed. R. App. P. 32(a)(7)(B)(iii) and Fed. Cir. R. 332(b). According to its calculation, this brief contains 6,965 words. Based on that calculation, this brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B)(i).

Dated: July 31, 2020

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