

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Alexandria Division



SUFFOLK TECHNOLOGIES LLC,)
Plaintiff,)
)
v.)
)
AOL INC. AND GOOGLE INC.,)
Defendants.)

Case No. 1:12cv625

ORDER

The matter is before the Court on defendant Google Inc.’s (“Google”) motion to exclude the testimony of Roy Weinstein (doc. 267). Google argues that the testimony of Roy Weinstein is inadmissible under Rule 702, Fed. R. Evid., and *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 591 (1993). In essence, Google argues that Dr. Weinstein’s damages opinion is insufficiently tied to the facts of this case. Suffolk Technologies LLC (“Suffolk”) opposes this motion, arguing that Dr. Weinstein’s damages opinion is properly tied to the facts of this case, is based on sound methodology, and thus is admissible under Rule 702, Fed.R.Evid., and *Daubert*.

The matter has been fully briefed and argued, and is now ripe for decision.

In a patent infringement suit, 35 U.S.C. § 284 provides that upon finding infringement of a valid patent, damages shall “in no event [be] less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.” The Federal Circuit has explained that, in “litigation, a reasonable royalty is often determined on the basis of a hypothetical negotiation, occurring between the parties at the time that infringement began.” *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1312 (Fed. Cir. 2011) (citing *Wang Labs. Inc. v. Toshiba Corp.*, 993 F.2d 858, 869–70 (Fed. Cir. 1993)).

It is settled law that the “patentee bears the burden of proving damages.” *Uniloc USA*, 632 F.3d at 1315 (Fed. Cir. 2011). And properly “to . . . carry this burden, the patentee must ‘sufficiently [tie the expert testimony on damages] to the facts of the case.’” *Id.* (quoting *Daubert*, 509 U.S. at 591) (alteration in original). If the “patentee fails to tie the theory to the facts of the case, the testimony must be excluded.” *Id.* Thus, the Federal Circuit has made clear that a “major determinant of whether an expert should be excluded under *Daubert* is whether he has justified the application of a general theory to the facts of the case.” *Id.* at 1316. And any evidence “unrelated to the claimed invention does not support compensation for infringement but punishes beyond the reach of the statute.” *Id.* (quoting *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010)). Consistent with these principles, the Federal Circuit rejected a 25% rule of thumb “as an arbitrary, general rule, unrelated to the facts of the case,” and accordingly, held that the use of such a “rule fails to pass muster under *Daubert*[.]” *Id.* at 1318.

In *Uniloc*, the damages expert based his damages opinion on the “so-called 25 percent rule of thumb, hypothesizing that 25% of the value of the product would go to the patent owner and the other 75% would remain with [the infringer.]” *Id.* at 1311. The expert then considered the *Georgia–Pacific*¹ factors, “with the idea being to adjust this 25% up or down depending on how [the *Georgia–Pacific* factors] favor[] either party.” *Id.* (alterations in original). The expert then opined that the factors in favor of each party “generally balanced out and did not change the royalty rate.” *Id.* The Federal Circuit rejected the application of this 25% rule of thumb, because “there must be a basis in fact to associate the royalty rates . . . to the particular hypothetical negotiation at issue in the case.” *Id.* at 1317. The Federal Circuit explained that the

¹ *Georgia–Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116 (S.D.N.Y. 1970).

25 percent rule of thumb as an abstract and largely theoretical construct fails to satisfy this fundamental requirement. The rule does not say anything about a particular hypothetical negotiation or reasonable royalty involving any particular technology, industry, or party. Relying on the 25 percent rule of thumb in a reasonable royalty calculation is far more unreliable and irrelevant than reliance on parties' unrelated licenses, which we rejected in *ResQNet* and *Lucent Technologies*.

Id. The subsequent application of the *Georgia-Pacific* factors was “of no moment,” as “[b]eginning from a fundamentally flawed premise and adjusting it based on legitimate considerations specific to the facts of the case nevertheless results in a fundamentally flawed conclusion.” *Id.* Accordingly, the Federal Circuit explained that the “use of such a rule fails to pass muster under *Daubert*[.]” *Id.* at 1318.

Here, Suffolk’s damages expert, Roy Weinstein, has arguably applied the *Georgia-Pacific* factors to the revenue stream associated with the putative infringing product and then conducted a hypothetical negotiation. Yet, the hypothetical negotiation conducted by Weinstein, based on the Nash Bargaining Solution (“NBS”), does not appear to be tied to the facts of this case. Instead, Weinstein appears to summarily conclude summarily that the result of this hypothetical negotiation would be a “50/50 split of the incremental profits attributable to the patent-in-suit.” Expert Report of Roy Weinstein Regarding Defendant Google, Inc., ¶ 160 (“Weinstein Report”). Weinstein’s damages opinion is, in essence, (i) the application of *Georgia-Pacific* factors, followed by (ii) the application of a 50/50 split, derived from the NBS.

Put simply, Weinstein’s damages opinion is not meaningfully distinguishable from the damages opinion rejected in *Uniloc*. There, the expert first applied a theoretical rule of thumb and then applied the *Georgia-Pacific* factors; here, Weinstein first applied the *Georgia-Pacific*

factors and then applied a theoretical rule of thumb, albeit one clothed as the NBS.² The order in which the *Georgia-Pacific* factors are applied does not change the fundamental and fatal flow of both calculations, namely that the hypothetical rule of thumb was not tied to the facts of the case. See *Oracle Am., Inc. v. Google Inc.*, 798 F.Supp.2d 1111, 1119 (N.D. Cal. 2011) (“The Nash bargaining solution would invite a miscarriage of justice by clothing a fifty-percent assumption in an impenetrable facade of mathematics.”). Accordingly, the Weinstein’s damages opinion must be excluded pursuant to Rule 702, Fed.R.Evid., and *Daubert*.

Suffolk opposes this motion to exclude, arguing, in essence, that Weinstein’s use of the NBS was tied to the facts of this case, and therefore, distinguishable from the 25% rule of thumb in issue in *Uniloc*. Yet, it is unclear how the NBS was tied to the facts of this particular case. In his damages report, Weinstein explains,

Since apportionments for Google’s contributions, non-infringing functionality, and a hypothetical non-infringing alternative have already been backed out of the calculation, the parties would have been willing to accept a 50/50 split of the incremental profits attributable to the patent-in-suit.

Weinstein Report, ¶ 160. Weinstein does not explain why *these* parties would have accepted a 50/50 split. Thus, the “50/50 split” is plainly not tied to the facts of this case and is essentially no different from the 25% rule of thumb rejected in *Uniloc*.

In summary, Weinstein’s use of the NBS to opine that the hypothetical negotiation of the parties would result in a “50/50 split of the incremental profits attributable to the patent-in-suit”

² Weinstein’s description of the NBS is telling. Dr. Weinstein explains that “the NBS does not always produce a 50/50 split of incremental profits associated with an agreement. Differences in bargaining power can tip the scale in favor of one part of the other, as could other factors identified in the *Georgia-Pacific* case[.]” Weinstein Report, ¶ 66. The NBS, as described by Dr. Weinstein, appears strikingly similar to the 25% rule of thumb in *Uniloc*, which was a 25/75 split that was adjusted on the basis of the *Georgia-Pacific* factors.

is not adequately tied to the facts of the case. This is indistinguishable from the 25% rule of thumb in issue in *Uniloc*, and accordingly, Dr. Weinstein's expert report must be excluded.

For these reasons, and for good cause,³

It is hereby **ORDERED** that Google's motion to exclude the testimony of Roy Weinstein (doc. 267) is **GRANTED**, and accordingly, the testimony of Roy Weinstein is **EXCLUDED**. If necessary, a separate order will address Google's pending motion *in limine* concerning Roy Weinstein.

The Clerk is directed to send a copy of this Order to all counsel of record.

Alexandria, VA
April 12, 2013



T. S. Ellis, III
United States District Judge

³ These reasons may be more fully set forth in a forthcoming memorandum opinion.