

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES – GENERAL

Case No. SACV 09-0951 DOC (ANx)

Date: February 24, 2012

Title: SPELLBOUND DEVELOPMENT GROUP INC. V. PACIFIC HANDY CUTTER INC.
ET AL.

PRESENT:

THE HONORABLE DAVID O. CARTER, JUDGE

Julie Barrera
Courtroom Clerk

N/A
Court Reporter

ATTORNEYS PRESENT FOR PLAINTIFF: ATTORNEYS PRESENT FOR DEFENDANT:

None Present

None Present

**PROCEEDINGS: (IN CHAMBERS): ORDER DISCHARGING OSC AND RULING
ON MOTIONS IN LIMINE**

Before the Court are 9 Motions in Limine (Dkt. 325, 327, 335, 339, 340, 342, 343, 344, 346) filed by Defendants Pacific Handy Cutter, Inc., Front Line Sales, Inc., and Stanley Black & Decker, Inc. (collectively “Defendants”) and 15 Motions in Limine (Dkt. 323, 328, 330, 332, 336, 337, 338, 341, 345, 347, 348, 350, 352, 353, 376) filed by Plaintiff Spellbound Development Group, Inc (“Plaintiff”).

Also before the Court is an Order to Show Cause why Defendants’ Motions in Limine # 2 and # 3 can not be filed normally, that is, not under seal. (Dkt. 406). The Court makes the following rulings.

I. Whether to Redact or File Under Seal Defendants’ Motions in Limines # 2 and # 3

This Court DISCHARGES Plaintiff’s ORDER TO SHOW CAUSE and concludes that:

1. Defendants’ Limine # 2 shall be FILED UNDER SEAL. Because Defendants’ argument is bolstered by the following information, this information should remain in the motion and the motion shall be filed under sealed:
 - a. At page 19:18-20, Defendants identify infringing sales as a percentage of Plaintiff’s total sales, which would apparently allow an enterprising sleuth to discover Plaintiff’s total sales.
 - b. At pages 19:26-27 through 20:1-8, Defendants describe the volume of Plaintiff’s manufacturing in a certain geographic area.

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- c. At pages 21:26-27 through 22:1-8, Defendants give specific amounts by which Plaintiff reduced their knife prices.
2. Defendants' Limine # 3 shall be FILED REDACTED, NOT UNDER SEAL. The specific sales and pricing information provided in this motion do not appear to be necessary to Defendants' motion given that the motion is based on Plaintiff's failure to comply with discovery dates, not on the accuracy of this specific information.

II. Defendant's 9 Limines (Dkt. 325, 327, 335, 339, 340, 342, 343, 344, 346)

1. Defendants' Limine # 1 (Dkt. 335): Granted as UNOPPOSED (non-opposition filed in Dkt. 369).
2. Defendants' Limine # 2 (Dkt. 325): DENY. Defendants seek to exclude testimony relating to reports filed before October 18, 2011, by Plaintiff's expert Robert Trout, as well as the reports themselves. Defendants argue that this evidence should be excluded under FRE 702 because the expert applied unreliable methods to calculate Plaintiff's reasonable royalties, lost profits, and price erosion.
 - a. The Court GRANTS (and thus EXCLUDES) the following opinions:
 - i. The expert's calculation of a reasonable royalty to the extent that it relies on the "25 percent rule of thumb." The Federal Circuit recently held that evidence based on this rule is "inadmissible under *Daubert* and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue." *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1315 (Fed. Cir. 2011).
 - ii. The expert's calculation of price erosion based on a finding that Plaintiff was "forced" to lower its prices due to Defendants' infringement. This finding of causation is not adequately supported by the record, which appears to include only: (1) Merten's statement that Plaintiff was forced to lower its prices; and (2) anecdotal evidence that, at one time, Plaintiff did lower its prices, without any control for factors other than Defendants' infringement that might cause the price reduction.
 - iii. The expert's calculation of price erosion based on a finding that there were no acceptable non-infringing substitutes. The expert does not appear to discuss the basis for this conclusion.
 - b. However, the Court DENIES (and thus ADMITS) the remaining testimony and reports for the following reasons:

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- i. Defendants' argument that the expert improperly relied on the facts gathered by others and a report written by his assistant, Mr. Hanson, fails because experts need not be percipient witnesses and may rely on assistants to formulate their opinions.
 - ii. Defendants' argument that the expert improperly calculated lost profits based solely on the declaration of Peter Mertens, who is not a disclosed witness, fails because it is a mischaracterization of the record and an expert's opinion is not restricted to only those facts provided by available witnesses. As Plaintiff observes, the expert also relied on other information, such as Plaintiff's financial statements from January 2007 through June 2010 and the accused product's sales.
 - iii. Defendants' argument that the expert improperly calculated lost profits based on financial statements he did not verify fails because Defendants have not shown that these financial statements were so unreliable that other experts would not have accepted them. Short of such an obvious defect in the data, an expert is not required to verify all the information on which he or she relies.
 - iv. Defendants' argument that the expert improperly calculated reasonable royalties based on an arbitrary start date for such royalties to accrue fails because the start date is not arbitrary. It is true that the expert's September 1, 2009, start date is not one of the traditional candidates for start dates, that is, the date when: (1) the patents-in-suit are issued (here, in 2004, 2008, and 2010); or (2) the accused products begin being sold (here, well before the start date). However, this start date is not arbitrary because it is approximately the date when the Plaintiffs filed their lawsuit and thus may be based on legal theories that determine when Plaintiffs' royalties accrue.
 3. Defendants' Limine # 3 (Dkt. 327): Defendants seek to exclude testimony and reports filed after October 18, 2011, by Plaintiff's expert Robert Trout. Defendants seek this exclusion under FRCP 26(a)(2)(B) and 37(b) and (c) as a sanction for providing a new report more than 2 months after the discovery cut off date.
 - a. The Court DENIES (and thus ADMITS) the testimony and reports to the extent that they provide new analysis that replaces the 25 percent rule recently held to be unreliable by the Federal Circuit in *Uniloc*. Updating a

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- report to be consistent with evolving law appears consistent with an expert's duty to his client. However, the Court expresses concern that Plaintiff's expert updated his report a full 10.5 months after the *Uniloc* decision.
- b. The Court GRANTS (and thus EXCLUDES) the opinions regarding price erosion because Plaintiff's opposition does not dispute Defendants' argument that: (1) the same methodological flaws the Court discussed above regarding Defendants' Limine 2 still exist; and (2) this ostensibly supplemental report increases Plaintiff's damages by adding calculations based on previously-known but undisclosed sales data.
4. Defendants' Limine # 4 (Dkt. 339): DENY. Defendants' argument to exclude testimony and reports by Plaintiff's expert Michael McCarthy under FRE 702 for applying improper methods when construing the patent claims is actually an attempt to relitigate this Court's adverse summary judgment order.
- a. The following arguments fail because they mischaracterize the content of the expert's report:
- v. Defendants' first argument that the expert improperly ignored the specification. This argument also fails because the expert's deposition clarifies the one sentence on which Defendant relies.
 - vi. Defendants' second argument that the expert improperly construed the '029 patent terms by examining the accused device.
 - vii. Defendants' third argument that the expert improperly construed the '029 patent terms by not considering it in "context" of the whole patent. This argument also fails because, as this Court held in its summary judgment Order, Defendants' rules for claim construction improperly read in the limitations of the specification.
 - viii. Defendants' fourth argument that the expert improperly construed the '640 patent terms by examining the accused device.
 - ix. Defendants' fifth argument that the expert improperly provided only cursory conclusions about the doctrine of equivalents.
- b. In addition, the Court DENIES as MOOT Defendants' other arguments regarding the '928 patent because this Court granted Defendant summary judgment on that patent.
5. Defendants' Limine # 5 (Dkt. 340): DENY IN PART & GRANT IN PART.
- a. Defendants' argument to exclude any reference to "American Capital" (Defendants' parent company) as irrelevant (FRE 401) or unfairly

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prejudicial (FRE 403) fails, and thus the following information should be ADMITTED:

- x. American Capital commissioned the “Accalaro Report” to value Defendant PHC’s products at issue here. This report is relevant to Plaintiff’s damages and the reasonable royalties for infringement.
 - xi. Information about American Capital’s purchase of Defendant PHC. This information is relevant to PHC’s counterclaim that Plaintiff’s lawsuit caused PHC’s lost profits.
 - b. BUT GRANT (and thus EXCLUDE) information about American Capital’s assets or size because Plaintiff has not shown any alter ego relationship between PHC and American Capital.
6. Defendant’s Limine # 6 (Dkt. 342): DENY BUT reconsider at a point in trial when the parties clarify the content of the evidence.
- a. ADMIT reference to Defendants’ other lawsuit against its prior owners (e.g. evidence of the cause of Defendants’ lost distribution deal with Walmart). Defendants’ argument to exclude the evidence as irrelevant (FRE 401) fails because it is relevant to damages for Defendant PHC’s counterclaim. The evidence shows that it is more likely than not that some of PHC’s lost profits were caused by events other than Plaintiff’s infringement.
 - b. BUT caution Plaintiff to limit its evidence to the facts adduced in the prior litigation and to not introduce evidence merely to show Defendant’s litigiousness or the amount of loss in the prior litigation.
7. Defendant’s Limine # 7 (Dkt. 343): DENY IN PART and GRANT IN PART.
- a. DENY (and thus ADMIT) reference to Defendant’s voluntary safety recall. Defendants’ argument to exclude under FRE 401 and FRE 403 fails because the evidence is relevant to Defendant PHC’s counterclaim. The evidence shows that it is more likely than not that some of PHC’s lost profits were caused by its safety recall, not Plaintiff’s infringement.
 - b. BUT GRANT (and thus EXCLUDE) to the extent that Plaintiff seeks to introduce the underlying facts of the settlement.
8. Defendant’s Limine # 8 (Dkt. 344): DENY IN PART and GRANT IN PART.
- a. DENY (and thus ADMIT) testimony by Plaintiff’s former attorney Robert Fish regarding his investigation of and acquisition of the ‘640 patent, including his knowledge of whether the purchaser was Kim Votolato, Plaintiff’s part-owner, CFO, Secretary, board member, and the wife of

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Plaintiff's CEO. The witness's responses in his deposition were not so non-responsive as to merit exclusion of his testimony as a discovery sanction under FRCP 30(b)(6).

- b. DENY (and thus ADMIT) testimony by Plaintiff's former attorney Robert Fish regarding his investigation into who invented the Plaintiffs patents-in-suit, including his knowledge of whether there was a previously-undisclosed co-inventor. The witness's responses in his deposition were not so non-responsive as to merit exclusion of his testimony as a discovery sanction under FRCP 30(b)(6).
 - c. BUT GRANT (and thus EXCLUDE) testimony regarding the merit of the allegations in Plaintiff's complaint, because such testimony is a legal conclusion that is impermissible in a lay witness' testimony.
9. Defendant's Limine # 9 (Dkt. 346): GRANT (and thus EXCLUDE) testimony on technical aspects of the patents-in-suit by Votolato, who is Plaintiff's CEO/inventor of one of the patents, because this testimony is expert opinion and Plaintiff did not identify Votolato as an expert witness. Plaintiff's argument that Votolato is *capable* of answering these questions, as demonstrated by his deposition testimony, is irrelevant because Votolato's *ability* is not the issue—the issue is Plaintiff's failure to disclose Votolato as an expert witness.

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III. Plaintiff's 15 Motions in Limines (Dkt. 323, 328, 330, 332, 336, 337, 338, 341, 345, 347, 348, 350, 352, 353, 376)

1. Plaintiff's Limine # 1 (Dkt. 376): DENY IN PART & GRANT IN PART.
 - a. Plaintiff's argument to exclude any reference to various bad acts by Votolato, who is Plaintiff's CEO/inventor of one of the patents, as irrelevant (401), improper character evidence (404(a)(2)), or unfairly prejudicial (403) fails. Defendant's evidence is relevant because it shows that it is more likely than not that Defendant's unfair business practices counterclaim or unfair competition counterclaim and defense have merit. *See Lippitt v. Raymond James Fin. Servs.*, 340 F.3d 1033, 1043 (9th Cir. 2003) (noting that a California unfair business practices claim does not require that the practice be unlawful, but rather that "unfair" means a practice "whose harm to the victim outweighs its benefits" and "fraudulent" means that "members of the public are likely to be deceived"). This evidence is not character evidence because it is not introduced to show character, but rather to show the acts that Defendant alleges *are* unfair business practices or unfair competition. Thus, the following information should be ADMITTED:
 - i. Limine 1(a): Payment by Votolato to customers' employees in exchange for business.
 - ii. Limine 1(b): Altering of employment documents by Votolato to deny employees benefits.
 - iii. Limine 1(c): A false recall of product to avoid delivering to a bankrupt customer who was unable to pay.
 - b. BUT GRANT (and thus EXCLUDE) information in Limine 1(d) that Votolato refused to pay a supplier for defective goods that the supplier fixed at his own expense, because Defendant has not shown that such refusal is a basis for *any* cause of action (e.g. unfair business practices) brought by Defendants.
2. Plaintiff's Limine # 2 (Dkt. 323): DENY BUT provide relief to minimize prejudice to Plaintiff.
 - a. DENY (and thus ADMIT) testimony by Defendant PHC's patent attorney about the legal opinions he gave PHC regarding non-infringement or invalidity of the patents-in-suit. Plaintiff's argument that it suffered prejudiced from Defendant's improper withholding of these written

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- opinions fails because Defendant disclosed its attorney as a witness and yet Plaintiff chose not to depose the attorney.
- b. BUT ORDER Defendant PHC to disclose to Plaintiff the 5 opinions that it has previously withheld by 5:00 p.m. on January 19, 2011.
3. Plaintiff's Limine # 3 (Dkt. 332): GRANT (and thus EXCLUDE) a survey by McDonalds comparing a blue cutter and a yellow cutter.
- a. GRANT (and thus EXCLUDE) as a discovery sanction under FRCP 37(c) because Defendant did not *name* a specific person as a witness to lay foundation for the survey and instead just listed a "McDonalds 30(b)(6) witness," and thus Plaintiff could not depose anyone. Furthermore, without a witness to verify that the blue and yellow cutters were ones involving the patents-in-suit, this survey is irrelevant.
4. Plaintiff's Limine # 4 (Dkt. 328): DENY (and thus ADMIT)
- a. Plaintiff's argument that the December 10, 2008, statements by CEO Votolato to his employee Bishop are irrelevant (401) or unfairly prejudicial (403) fails because these statements show that it is more likely than not that Votolato told his employees to copy Defendant's accused product. This information is highly relevant to Defendant's unclean hands defense and unfair business practices counterclaim and defense. *See Lippitt v. Raymond James Fin. Servs.*, 340 F.3d 1033, 1043 (9th Cir. 2003) (noting that a California unfair business claim includes a practice "whose harm to the victim outweighs its benefits").
- b. The Court's holding here that the evidence is admissible is not inconsistent with the Court's prior denial of Defendants' summary judgment motion that also mentioned Votolato's statements. In its prior ruling, the Court merely held that these statements *alone* were not enough to prove *non-infringement*—the Court did not address Defendants' unfair business practices counterclaim. *See Order* (Dkt. 365) (citing *Solomon v. Kimberly-Clark Corp.*, 216 F.3d 1372, 1380 (Fed. Cir. 2000), which reversed summary judgment for defendant where district court held patent was invalid by relying on plaintiff-inventor's deposition testimony, but did address this testimony's relevance to an unfair business practices counterclaim).
5. Plaintiff's Limine # 5 (Dkt. 350): DENY (and thus ADMIT)
- a. Plaintiff's argument that its negotiations with the '640 patent's prior owner are irrelevant (401) or unfairly prejudicial (403) fails because this evidence

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shows that it is more likely than not that Defendants' clean hands defense and unfair business practices claims have merit. Specifically, the following evidence is highly relevant to Defendants' two legal theories: (1) Kim Votolato (Plaintiff's part-owner, CFO, Secretary, board member, and the wife of Plaintiff's CEO) made false statements to the prior owner that she was a housewife who had never bought a patent; and (2) Plaintiff bought the '640 patent only after Defendant told Plaintiff that this '640 patent invalidated Plaintiff's '928 patent.

6. Plaintiff's Limine # 6 (Dkt. 330): DENY (and thus ADMIT)
 - a. Plaintiff's argument that any testimony by Kim Votolato, who is Plaintiff's part-owner, CFO, Secretary, board member, and the wife of Plaintiff's CEO, is irrelevant (401) or duplicative of the CEO's testimony (403) fails because Plaintiff has not cited any case nor made any argument as to why Kim Votolato's many corporate roles would make her unqualified to testify about Plaintiff.
7. Plaintiff's Limine # 7 (Dkt. 338): TENTATIVELY DENY (and thus ADMIT) BUT provide a final decision only after Defendants present to the Court in an evening session during trial the specific evidence they seek to introduce.
 - a. Plaintiff's argument to exclude all "settlement discussions" between it and Defendants from January through May of 2010 (FRE 408) likely fails because evidence from settlement discussions may be admitted to prove a party's "bad faith" and plans to engage in "subsequent wrongful conduct." *GSI Group, Inc. v. Sukup Mfg. Co.*, No. 05-3011, 2008 WL 4615597 at *13 (C.D. Ill. 2008) (holding that exception to FRE 408 applied and thus admitting evidence of settlement discussions where plaintiff engaged in settlement discussion and later told defendant's customers that defendant was infringing plaintiff's patent because the settlement discussions could support a finding of plaintiff's bad faith).
8. Plaintiff's Limine # 8 (Dkt. 336): DENY (and thus ADMIT)
 - a. Plaintiff's argument that its "performance issues" (e.g. customer's request that Plaintiff redesign its knife to resemble Defendants' accused product) is irrelevant (401) or unfairly prejudicial (403) fails because this evidence shows that it is more likely than not that some of Plaintiff's damages were caused by Plaintiff's performance issues, not Defendants' infringement.

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- b. This ruling is the corollary of the Court’s denying Defendants’ Limine # 7 (admitting evidence of Defendants’ safety recall as relevant to its damages).
9. Plaintiff’s Limine # 9 (Dkt. 337): GRANT with one exception
- a. GRANT Plaintiff’s motion to exclude Defendants’ witnesses from the courtroom during testimony (FRE 615).
- b. EXCEPT allow expert witnesses and Defendants’ designated corporate representative to be present, as per exception in FRE 615(2).
10. Plaintiff’s Limine # 10 (Dkt. 353): DENY AS MOOT because Motion was withdrawn by Dkt. 371.
11. Plaintiff’s Limine # 11 (Dkt. 341): DENY (and thus ADMIT) testimony by Defendants’ expert Cobb regarding compensatory damages for “competitive injury.”
- a. DENY (and thus ADMIT) because, even if Plaintiff is correct that one of the expert’s reports calculates Defendants’ damages based on statutory fines that are no longer available under the amended statute (America Invents Act 35 U.S.C. § 292), exclusion of *all* the experts’ testimony as a FRCP 37(c)(1) discovery sanction for failure to update this report is not proper. The expert’s original report contains calculations for damages based on “competitive injury,” which is still a form of damages recoverable under the statute.
- b. BUT GRANT IN PART (and thus EXCLUDE) expert testimony of statutory fines that are no longer available under the amended statute.
12. Plaintiff’s Limine # 12 (Dkt. 352): DENY (and thus ADMIT)
- a. Plaintiff’s argument to exclude Defendants’ two counterclaims (Lanham Act false representation and California unfair competition) as preempted by federal patent law fails because: (1) this motion is actually an untimely summary judgment motion filed after the deadline imposed in this Court’s May 3, 2010, order; and (2) alternatively, Defendants’ factual basis for its counterclaims are not limited to just patent infringement facts, but also include Plaintiff’s disparaging statements to Defendants’ customers about its products.
13. Plaintiff’s Limine # 13 (Dkt. 348): DENY (and thus ADMIT)
- a. Plaintiff’s argument to exclude Defendants’ patent abuse counterclaims (or the antitrust allegations that are an element of that claim) as solely based on the present lawsuit fails because: (1) this motion is actually an untimely

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summary judgment motion filed after the deadline imposed in this Court's May 3, 2010, order; and (2) alternatively, Defendants' factual basis for its counterclaims are not limited to just this lawsuit, but also include Plaintiff's misrepresentations to the 640 patent's owner and to the PTO regarding who invented the 029 patent.

14. Plaintiff's Limine # 14 (Dkt. 347): GRANT BUT also read a neutral statement to limit prejudice to Defendant
- a. ADMIT a 17-minute video defining a patent and explaining frequent causes of patent litigation that was created by the Federal Judicial Center created 7 years before the alleged infringement in this suit.
 - b. BUT READ a statement stipulated to by the parties explaining to the jury that Defendants have other, non-patent-based counterclaims that the video does not address.
 - c. Defendants' argument that the video should be excluded as a discovery sanction for Plaintiff's failure to disclose this video in discovery or submit the FJC as an expert fails because Defendant cites no case where admission of the FJC's video is improper. Defendant does not challenge the FJC video as containing inaccurate information.
15. Plaintiff's Limine # 15 (Dkt. 345): DENY (and thus ADMIT)
- a. Plaintiff's argument that evidence of its "use of trademarks" (e.g. marking an ® on its knife that actually lacked a registered trademark) is irrelevant (401) or unfairly prejudicial (403) fails because this evidence is relevant to Defendants' counterclaims for patent abuse and unfair competition. This evidence shows that it is more likely than not that Plaintiff engaged in deceptive practices and that Plaintiff's marking of false patent numbers on the same knife was intentional and not accidental as Plaintiff claims.

Finally, after careful consideration, the Court concludes that each side shall be limited to 10 hours, not including opening statements and closing arguments.

The Clerk shall serve this minute order on all parties to the action.