

United States District Court
For the Northern District of California

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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

BROCADE COMMUNICATIONS SYSTEMS,)
INC., ET AL.,)
)
Plaintiffs,)
)
v.)
)
A10 NETWORKS, INC., ET AL.,)
)
Defendants.)

Case No.: C 10-3428 PSG
ORDER RE: SCOPE OF NEW TRIAL
(Re: Docket Nos. 986, 991)

Before the court are a motion brought by A10 Networks, Inc. (“A10”) to exclude patent damages evidence from Brocade Communications Systems, Inc., et al (“Brocade”) and to enter judgment on the damages and a motion brought by Brocade to strike A10’s request. Having considered the parties’ papers and arguments, the court DENIES both motions.

The court first addresses Brocade’s motion to strike. Brocade argues that A10 improperly seeks reconsideration of the court’s January 10, 2013 order and various *Daubert* determinations before the original trial. The court disagrees. Rather than a mere rehash of its earlier efforts, A10’s present motion seeks to exclude Brocade’s patent damages evidence because the evidence

1 impermissibly conflicts with the court's January 10 order.¹ This is a distinction with a difference.
2 The court therefore will consider the motion.

3 Turning to A10's request, A10 specifically moves to exclude from the upcoming retrial
4 evidence from Brocade's damages expert James Malackowski ("Malackowski"). Relying on the
5 court's January 10 order vacating the first jury's patent damages award and setting a new trial, A10
6 asserts that Malackowski's testimony is no longer admissible, if it ever was. In that order, the court
7 found that Brocade had not provided substantial evidence from which a reasonable jury could find
8 that the implementations of GSLB and HA on which Brocade owns the asserted patents drive
9 consumer demand for A10's infringing product.² Because Brocade had not made that showing, the
10 court determined that Brocade could not rely on the Entire Market Value Rule ("EMVR") and so
11 also could not rely on A10's entire revenue from its AX series product as the royalty base for its
12 reasonable royalty damages estimates.³ The court also found that Brocade failed to provide
13 sufficient evidence to show that the AX Series was the "smallest saleable unit" of the specific
14 implementations of the GSLB and HA features protected by Brocade's patents, and so Brocade's
15 reliance on the entire revenues from the AX Series had to be the result of an EMVR theory.⁴

16 Because of its findings in the reasonable royalty context, the court further determined that
17 Brocade could not rely on the EMVR in the lost profits context.⁵ Relying on *DePuy Spine, Inc. v.*
18 *Medtronic Sofamor Danek, Inc.*,⁶ the court nevertheless found that Brocade had presented
19 sufficient evidence to support the first two factors of a *Panduit* theory for lost profits, specifically
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23 ¹ See Docket Nos. 667, 845.

24 ² See Docket No. 845.

25 ³ See *id.*

26 ⁴ See *id.*

27 ⁵ See *id.*

28 ⁶ 567 F.3d 1314 (Fed. Cir. 2009); see also *Presidio Components Inc. v. Am. Technical Ceramics Corp.*, 702 F.3d 1351, 1360 (Fed. Cir. 2012).

1 demand for a directly competing product and an absence of non-infringing alternatives.⁷ The court
 2 did not discuss the other two *Panduit* factors because it determined that the jury's damages award
 3 entries needed to be vacated in any event because they were irreconcilable and problematic in light
 4 of the lack of substantial evidence for an EMVR theory of a reasonable royalty.⁸

5 Following the court's order, the parties entered into a stipulation regarding the scope of
 6 evidence to be presented at the new trial.⁹ The stipulation provides:

7 [T]he entire record of the July 16 Trial shall be deemed admissible; subject to, (a) all prior
 8 objections and rulings are hereby preserved, and (b) the parties reserve objections to any
 9 particular piece of evidence or testimony under FRE 401-403 as may pertain to which
 10 evidence is properly presented in light of the scope of the Retrial. New evidence, other than
 11 new testimony of the live expert witnesses . . . , shall not be permitted. No opinions beyond
 12 the scope of the Parties' prior expert reports, or beyond the testimony given by the experts
 during the July 16 trial, as they relate to the Retrial, are permitted to be offered during
 direct examinations.¹⁰

13 In the stipulation, A10 noted its objection to "any retrial of the [intentional interference with
 14 contractual relations] punitive damages claim along with the patent damages claim, and intends to
 15 present a motion to the Court on that subject," and both parties agreed that at the pretrial
 16 conference, "the Court may rule upon any pretrial motions and/or objections (including but not
 17 limited to the limiting impact, if any, of the JMOL order)."¹¹

18 A10 now asserts that because of that agreement and the court's January 10 order finding
 19 Brocade's evidence insufficient to support any EMVR theory, Brocade has no evidence from
 20 which to provide a viable theory of lost profits or reasonable royalty damages. A10 thus seeks
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 23 ⁷ See Docket No. 845

24 ⁸ See *id.*

25 ⁹ See Docket No. 906.

26 ¹⁰ *Id.*

27 ¹¹ *Id.* In an order dated April 29, 2013, the court agreed with A10 that a retrial of the punitive
 28 damages was not warranted. See Docket No. 935.

1 entry of judgment in the amount of zero dollars because, according to A10, Brocade cannot satisfy
2 its burden to show damages. In the alternative, A10 is willing to consent to entry of the lump sum
3 amount of royalty damages to which its expert testified in the original trial.

4 The court notes that A10 is equally obligated to the restrictions of the stipulation to which it
5 seeks to bind Brocade. And so A10 has waived any admissibility challenges to Brocade's patent
6 damages other than objections on Fed. R. Evid. 401, 402, or 403 grounds. The court therefore does
7 not consider any Fed. R. Evid. 702 challenges to the patent damages evidence.

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9 As for those challenges that A10 may pursue, the court finds that Brocade's patent damages
10 evidence is at the very least relevant to its damages theories. As described above, the court did not
11 find that Brocade failed to produce substantial evidence of any lost profits theory, only that it could
12 not rely on the EMVR in the lost profits context. A10 maintains that Brocade still must apportion
13 the profits. A10's argument is appealing, but it has not cited any Supreme Court or Federal Circuit
14 case requiring an apportionment when a patentee claims lost profits based on *Panduit*. Nor do any
15 of the cases it does cite arise in the context of a *Panduit*-based lost profits claim.¹² To the extent
16 that Brocade's patent damages evidence supports a non-EMVR lost profits theory, the unfair
17 prejudice does not substantially outweigh the probative value, as required for exclusion under Rule
18 403.
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20 ¹² A10 cites *Rite-Hite Corp. v. Kelly Co.*, 56 F.3d 1538, 1549 (Fed. Cir. 1995), in which the Federal
21 Circuit addressed the EMVR in the lost profits context and indirectly referenced apportionment in
22 its discussion of the need to show consumer demand to pursue an EMVR theory in lost profits. In
23 *Rite-Hite*, the court also discussed how *Panduit* satisfied the "but for" causation a patentee must
24 show to recover lost profits from an infringing product that directly competed with the patentee's
product. *See id.* at 1546-47. The other case A10 cites, *Uniloc USA, Inc. v. Microsoft Corp.*, 632
F.3d 1292, 1318 (Fed. Cir. 2011), addressed apportionment in the EMVR context, but did not
discuss either lost profits generally or *Panduit* specifically.

25 *Panduit* is an alternative theory of establishing lost profits, *see Presidio Components Inc.*, 702 F.3d
26 at 1360, *DePuy Spine*, 567 F.3d at 1331, and A10 has not provided case law that supports its
27 argument that under that theory, apportionment is necessary. The Federal Circuit very recently
28 opined that the *Panduit* factors "place no qualitative requirement on the level of demand necessary
to show lost profits," *see Versata Software, Inc. v. SAP America, Inc.*, --- F.3d --- (Fed. Cir. 2013),
thus suggesting that apportionment – at least as consumer demand stands as a way of showing
apportionment – is unnecessary under *Panduit*.

1 As for the reasonable royalty theory, the court admits it is confused why Brocade agreed to
2 limit itself to the evidence and record of the first trial when the court already determined that it
3 could not satisfy either the smallest-saleable-unit doctrine or the EMVR with the evidence it
4 presented there. Brocade suggests that Malackowski can use the same evidence and opinions and
5 somehow come into compliance with both limits on damages recovery because, *Uniloc USA, Inc.*
6 *v. Microsoft Corp.*¹³ and *LaserDynamics, Inc. v. Quanta Computer, Inc.*¹⁴ notwithstanding,
7 Malackowski's theory passes muster under *Lucent Technologies, Inc. v. Gateway, Inc.*¹⁵ In *Lucent*,
8 the Federal Circuit stated that "the base used in a running royalty calculation can always be the
9 value of the entire commercial embodiment, as long as the magnitude of the rate is within an
10 acceptable range (as determined by the evidence)."¹⁶ In *Uniloc* and *LaserDynamics*, separate
11 three-judge panels seemingly disavowed this language, with the *LaserDynamics* court observing
12 that "it is generally required that royalties be based not on the entire product, but instead on the
13 'smallest salable patent-practicing unit'" and so "the requirement to prove that the patented feature
14 drives demand for the entire product may not be avoided by the use of a very small royalty rate."¹⁷
15 Acting en banc or otherwise, the Federal Circuit has not, however, overruled *Lucent's* holding
16 regarding the use of a small royalty rate with an entire apparatus's revenues.
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19 According to Brocade, its theory does not run afoul of *Uniloc* or *LaserDynamics* because it
20 is not relying on the EMVR but rather on a presentation that the AX Series is the smallest saleable
21 unit and so it may still rely permissibly on the entire revenue from its sales as the royalty base. The
22 court has its doubts, given its previous holding that in the first trial Brocade did not established that
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24 ¹³ 632 F.3d 1292 (Fed. Cir. 2011).

25 ¹⁴ 694 F.3d 51 (Fed. Cir. 2012).

26 ¹⁵ 580 F.3d 1301 (Fed. Cir. 2009).

27 ¹⁶ *Id.* at 1338-39.

28 ¹⁷ 694 F.3d at 67; *see also Uniloc*, 632 F.3d at 1320.

1 the AX Series is the smallest saleable unit and also because, even if it is, another, second, EMVR
2 or apportionment analysis may be necessary.¹⁸

3 But given the Federal Circuit's variety of opinions, the court cannot say at this point that
4 Malackowski's testimony presents such unfair prejudice that it substantially outweighs any
5 probative value to Brocade's case for damages. The court therefore will not exclude all evidence
6 of patent damages given the statutory requirement of an award of reasonable royalty damages upon
7 a finding of infringement¹⁹ and given that Brocade has suggested it can use the same evidence and
8 avoid conflicting with the court's January 10 order. But the court cautions Brocade to heed the
9 Federal Circuit's warning in *Uniloc* regarding the introduction of a product's entire revenue
10 without a corresponding showing that the EMVR is appropriate. The court has its doubts, but is
11 willing to give Brocade an opportunity to present a theory that can survive the Federal Circuit's
12 directives and this court's order.

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14 Having determined that the retrial will go forward as scheduled, the court turns to other
15 disputes the parties raised in their pretrial papers. First, Brocade and A10 dispute whether the
16 parties must read their transcript designations from the first trial into the record or whether they
17 simply can supply the jury with a binder of transcripts. The court agrees with A10 that providing
18 the jury with binders of transcripts is problematic. But the court does not agree that the only other
19 option is to read the transcripts into the record. The court thus changes the terms of the parties'
20 stipulation to allow them either to read the transcripts into the record or to present live witnesses
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25 ¹⁸ See *AVM Tech., LLC v. Intel Corp.*, Case No. 10-610-RGA, 2013 WL 126233, at *3 (D. Del.
26 Jan. 4, 2013) ("The use of a saleable unit that is greater than the patented feature is going to
introduce *Uniloc* error when the patented feature is a 'date picker' whether the saleable unit is a
computer loaded with 'Outlook' or simply 'Outlook.'").

27 ¹⁹ See 35 U.S.C. § 284 ("Upon finding for the claimant the court shall award the claimant damages
28 adequate to compensate for the infringement, but in no event 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.").

1 who may testify within the scope of their testimony from the first trial. Accordingly, the parties
2 shall have two extra hours to present their respective cases for a total of eight hours per side.

3 As to Brocade's blanket Fed. R. Evid. 703 challenge to A10's desire to publish
4 inadmissible evidence on the grounds that its expert relied on the materials, the court will
5 determine the propriety of the publications on an exhibit-by-exhibit basis. The parties agreed at the
6 pretrial conference to meet and confer regarding objections to exhibits and transcript designations.
7 As the court ordered then and repeats now, the parties shall submit no later than Thursday, May 16,
8 2013, their narrowed list of exhibit and transcript designation objections. They shall also submit
9 with those objections electronic and hard copy versions of the exhibits and transcript designations
10 for the court to review. Per the parties' stipulation, the court will consider only Fed. R. Evid. 401,
11 402, or 403 objections to the admissibility of the evidence and will consider Fed. R. Evid. 703
12 challenges only as to material not previously published to the jury in the first trial.
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14 Along with the exhibits and transcript designations, the parties also shall provide to the
15 court by Thursday, May 17, 2013 an update regarding the dispute over the neutral statement to be
16 read during jury selection and presumably as part of the jury instructions. If a dispute remains, the
17 parties shall submit their proposed statements along with a one-page, single-spaced brief detailing
18 their arguments and objections.
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20 **IT IS SO ORDERED.**

21 Dated: May 15, 2013

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23 PAUL S. GREWAL
24 United States Magistrate Judge
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