

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF FLORIDA  
MIAMI DIVISION**

**CASE NO. 13-CIV-23309-ALTONAGA/O’Sullivan**

**ATLAS IP, LLC,**  
a Florida limited liability company,

Plaintiff,

vs.

**MEDTRONIC, INC.,**  
A Minnesota corporation, *et al.*,

Defendants.

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**ORDER**

**THIS CAUSE** came before the Court at a hearing (“Hearing”) [ECF No. 230] held on September 26, 2014 , regarding Defendants, Medtronic, Inc.; Medtronic USA, Inc.; and Medtronic Minimed, Inc.’s (collectively, “Medtronic[’s]”) Motion . . . to Exclude the Opinions of Donald Merino . . . (“Motion”) [ECF No. 145], filed under seal on August 5, 2014. Plaintiff, Atlas IP, LLC (“Atlas”), filed its Opposition . . . (“Response”) [ECF No. 164] under seal on August 22, 2014; and Medtronic filed its Reply . . . (“Reply”) [ECF No. 187] under seal on September 2, 2014. The Court has carefully reviewed the parties’ written submissions, oral arguments, and applicable law.

This case is a patent infringement action brought by Atlas. At issue are Medtronic’s *Daubert*<sup>1</sup> challenges to Atlas’s expert, Donald Merino (“Merino”), regarding his report offering an estimate of damages owed to Atlas. Medtronic seeks to exclude Merino’s opinions, contained in part in his Corrected Expert Report . . . (“Merino Report”) (Mot., Ex. A-1 [ECF No. 145-2]).

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<sup>1</sup> *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993).

## I. LEGAL STANDARD

Federal Rule of Evidence 702, which governs expert testimony, states as follows:

A witness who is qualified as an expert by knowledge, skill, experience, training, or education may testify in the form of an opinion or otherwise if:

- (a) the expert's scientific, technical, or other specialized knowledge will help the trier of fact to understand the evidence or to determine a fact in issue;
- (b) the testimony is based on sufficient facts or data;
- (c) the testimony is the product of reliable principles and methods; and
- (d) the expert has reliably applied the principles and methods to the facts of the case.

FED. R. EVID. 702. Rule 702 requires district courts to ensure “that an expert’s testimony both rests on a reliable foundation and is relevant to the task at hand.” *Daubert*, 509 U.S. at 597. This “gatekeeping” function must be performed with regard to the admissibility of both expert scientific evidence and expert technical evidence. *United States v. Frazier*, 387 F.3d 1244, 1260 (11th Cir. 2004) (citing *Daubert*, 509 U.S. at 589 n.7, 597; *Kumho Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 147 (1999)). “This function inherently requires the trial court to conduct an exacting analysis of the foundations of expert opinions to ensure they meet the standards for admissibility under Rule 702.” *Id.* (emphasis, alterations, citation, and internal quotation marks omitted).

In determining the admissibility of expert testimony, the Eleventh Circuit requires district courts to conduct a three-part inquiry about whether:

- (1) the expert is qualified to testify competently regarding the matters he intends to address;
- (2) the methodology by which the expert reaches his conclusions is sufficiently reliable as determined by the sort of inquiry mandated in *Daubert*;
- and (3) the testimony assists the trier of fact, through the applications of scientific, technical, or specialized expertise, to understand the evidence or to determine a

fact in issue.

*Hendrix ex rel. G.P. v. Evenflo Co., Inc.*, 609 F.3d 1183, 1194 (11th Cir. 2010) (citation omitted). The burden is on the proponent of the expert testimony to show, by a preponderance of the evidence, that the testimony satisfies each prong. *See id.* (citation omitted). In this case, only the second prong — reliability — is in dispute. (*See generally* Mot.).

In *Daubert*, the Supreme Court suggested a non-exhaustive list of several factors to consider in determining if a specific methodology is reliable under Rule 702: whether the methodology can and has been tested; whether the methodology has been subjected to peer review and publication; the known or potential rate of error and the existence and maintenance of standards controlling operation of the methodology; and whether the methodology has gained general acceptance in the scientific community. *Daubert*, 509 U.S. at 593–94 (declining to set forth a “definitive checklist or test”); *accord Kumho*, 526 U.S. at 141. In *Kumho*, the Supreme Court emphasized “the trial judge must have considerable leeway in deciding in a particular case how to go about determining whether particular expert testimony is reliable.” *Kumho*, 526 U.S. at 152. While the inquiry is “a flexible one,” the focus “must be solely on principles and methodology, not on the conclusions that they generate.” *Daubert*, 509 U.S. at 594–95 (footnote call number omitted). “But conclusions and methodology are not entirely distinct from one another. . . . [N]othing in either *Daubert* or the Federal Rules of Evidence requires a district court to admit opinion evidence that is connected to existing data only by the *ipse dixit* of the expert.” *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997) (alterations added). “Rather, the trial court is free to ‘conclude that there is simply too great an analytical gap between the data and the opinion proffered.’” *Hendrix*, 609 F.3d at 1194 (quoting *Joiner*, 522 U.S. at 146).

## II. ANALYSIS

Medtronic contends Merino's opinions should be excluded on a number of grounds. It says Merino places the incorrect party at the hypothetical negotiation (*see* Mot. 6–8); uses an inflated and unreliable royalty base by violating the entire market value rule (“EMVR”) and employing an improper apportionment (*see id.* 8–11); and uses an inflated royalty rate by utilizing non-comparable rates and speculating on the proper rate (*see id.* 11–20). Atlas disputes these characterizations, arguing Merino's analysis survives scrutiny under *Daubert* and should not be excluded. (*See generally* Resp.). The Court addresses the parties' arguments in turn.<sup>2</sup>

### A. Entire Market Value Rule

Medtronic contends Merino's royalty base is inflated and unreliable because it is derived from the entire market value of Medtronic end products, instead of from the smallest salable patent-practicing unit (“SSPPU”). (*See* Mot. 8–11). It says the patented technology at issue in the allegedly infringing products is not the “driver of consumer demand for the end product,” precluding the use of the entire market value for royalty calculations. (*Id.* 9 (citation omitted)). Atlas contends Merino did not use the EMVR because he apportioned the value of the patent invention as seventy percent of sales of the accused devices. (*See* Resp. 4). Further, Atlas argues the SSPPU “is the device that communicates by virtue of the MAC protocol disclosed in the ‘734 patent, apportioned as described above, not the chips where that MAC protocol is implemented.” (*Id.* 7).

A determination of “reasonable royalty damages” is based on “the minimum amount of

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<sup>2</sup> Given the conclusions of this Order, the Court does not reach Medtronic's arguments concerning whether Merino placed the wrong party at the hypothetical negotiation. (*See* Mot. 6–8).

infringement damages ‘adequate to compensate for the infringement.’” *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 66 (Fed. Cir. 2012) (quoting 35 U.S.C. § 284).

Where small elements of multi-component products are accused of infringement, calculating a royalty on the entire product carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product. Thus, it is generally required that royalties be based not on the entire product, but instead on the smallest salable patent-practicing unit.

*Id.* at 67 (citation and internal quotation marks omitted). The EMVR “is a narrow exception to this general rule. If it can be shown that the patented feature drives the demand for an entire multi-component product, a patentee may be awarded damages as a percentage of revenues or profits attributable to the entire product.” *Id.* (citation omitted). In “any case involving multi-component products, patentees may not calculate damages based on sales of the entire product, as opposed to the smallest salable patent-practicing unit, without showing that the demand for the entire product is attributable to the patented feature.” *Id.* at 67–68.

Relying on *Rembrandt Social Media, LP v. Facebook, Inc.*, No. 1:13-cv-158, 2013 WL 6327852 (E.D. Va. Dec. 3, 2013), Atlas argues Merino did not employ the EMVR in his analysis. (*See* Resp. 4). The court in *Rembrandt Social Media, LP* determined the plaintiff’s expert did not use the EMVR because he “began his calculation of the royalty base with Facebook’s entire revenue, but he then performed two separate apportionments. The EMVR applies when an expert performs no apportionment, instead using the entire value of a product as the royalty base.” 2013 WL 6327852, at \*5. But the court in *Rembrandt* excluded the expert’s testimony on other grounds, *see id.* at \*8; therefore, reliance on its EMVR reasoning fails to persuade, especially as counsel for Atlas conceded at the Hearing he was “not aware of any court that said [apportionment] is proper.” (Hr’g on Mot. to Exclude . . . 19:12–13 [ECF No. 231])

(alteration added)).

In *LaserDynamics, Inc.*, the court found the expert had used EMVR when he applied a two-percent royalty to total revenues from the defendant's laptop computer sales. *See* 694 F.3d at 68. The court determined the plaintiff had failed "to present evidence showing that the patented disc discrimination method drove demand for the laptop computers," and accordingly total laptop computer revenues were not properly employed in the analysis. *Id.* The court noted that although there had been an apportionment based on total sales, "the fact remains that the royalty was expressly calculated as a percentage of the entire market value of a laptop computer rather than a patent-practicing" component. *Id.*<sup>3</sup>

Like the plaintiff in *LaserDynamics, Inc.*, Atlas points to no instances in which Merino "conducted any market studies or consumer surveys to ascertain whether the demand for [the allegedly infringing devices] is driven by the patented technology. . . . [T]he patented method is best understood as a useful commodity-type feature that consumers expect will be present" in the devices. 694 F.3d at 69 (alterations added). In these instances, an expert properly bases an analysis on the SSPPU. *See id.* at 67–68; *see also Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 285 (N.D.N.Y. 2009) (determining SSPPU was a processor, not a "CPU brick," because of a lack of "credible and economic proof that damages on the unpatented portions of this technology was [sic] necessary to compensate for the infringement"). Here, while undoubtedly the end product derives value from the allegedly infringing technology, Medtronic buys a chip from third parties, and the chip includes the allegedly infringing technology. (*See*

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<sup>3</sup> With regard to the apportionment the expert undertook, the court noted, "Murtha concluded that the patented technology in the ODD is responsible for one-third of the value of a laptop computer containing such an ODD. Thus, he arrived at his 2% per laptop computer rate simply by taking one-third of the 6% rate for the ODD." *LaserDynamics, Inc.*, 694 F.3d at 61.

Mot. 10–11). Although the parties dispute whether this chip is the SSPPU, Atlas fails to explain why the value of the products' other features is properly considered in conjunction with the allegedly infringing technology. (*See, e.g.*, Reply 8 (noting allegedly infringing devices also deliver insulin and shock the heart, functionalities unrelated to the patent)).

The Court rejects Merino's attempt to circumvent the EMVR by applying an "apportionment" to the entire market value of the allegedly infringing devices. While this approach is admittedly not the "entire" market, the calculation is expressly based on the entire market value, and to countenance this approach would elevate form over substance. Merino's analysis is rejected based on his improper use of the EMVR.

### **B. Apportionment**

Medtronic further argues the apportionment Merino undertakes is flawed, as he uses an inflated base and fails to properly support his determination the patented technology constitutes seventy percent of the value of the allegedly infringing devices. (*See* Mot. 11–13). When determining what portion of profits are properly attributable to a patented feature, "the patentee . . . must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative." *LaserDynamics, Inc.*, 694 F.3d at 67 (quoting *Garretson v. Clark*, 111 U.S. 120, 121 (1884)) (alteration in original).

The Court has addressed Medtronic's argument concerning an inflated royalty base in Part II.A, *supra*. Even assuming Merino uses the correct base in his analysis, the apportionment he conducts does not withstand scrutiny. His report does not explain how he determines seventy

percent is an appropriate amount by which to apportion the profits attributable to the patented technology at issue. (*See* Mot. 12 (citing Merino Report 16)). In his report, Merino purports to analyze the value of connectivity and longer battery life provided by the patented technology, concluding, “In my opinion, [] other features [not affected by the patented technology] account for no more than 30% of the value proposition. In other words at least 70% of the profits from the infringing products are attributable to use of the patent invention . . . .” (Merino Report 16 (alterations added)).

This conclusory analysis does not provide the requisite “reliable and tangible, and not conjectural or speculative” evidence required. *LaserDynamics, Inc.*, 694 F.3d at 67 (citation and internal quotation marks omitted). Merino advances a theory based on a Medtronic.com webpage titled “Unique Features” (“Medtronic Website”) (Mot., Ex. A-9 [ECF No. 145-6]). The Medtronic Website lists four “building blocks for our unique features” of implantable cardiac devices, among them “therapy efficacy” and “remote patient care.” (Medtronic Website 2). Creatively interpreting what appears to be merely marketing material, Merino proposed at his deposition the allegedly infringing devices’ revenues were derived from these four “building blocks” in equal proportion, making each “building block” worth twenty-five percent of the end products’ revenues. (Mot. 13–14 (citations omitted)). Little need be said about this theory, which “appears to have been plucked out of thin air based on vague qualitative notions of the relative importance” of materials on the Medtronic Website. *LaserDynamics, Inc.*, 694 F.3d at 69. This methodological approach can only be termed “conjectural [and] speculative,” *id.* at 67 (alteration added; citation and internal quotation marks omitted), and given this fundamental deficiency, the Court does not further address the specific twists and turns Merino’s analysis

takes (*see, e.g.*, Mot. 14–15).<sup>4</sup>

The Court also emphatically rejects Atlas's contention because "Medtronic produced no documents or other evidence from which [] Merino could determine an alternate apportionment, [] Merino had no choice but to conduct that analysis himself based on the available evidence . . . ." (Resp. 8 (alterations added; citation omitted)). The cases make clear the burden lies with "the patentee . . . [to] give evidence tending to separate or apportion the defendant's profits" in its damages calculation. *LaserDynamics, Inc.*, 694 F.3d at 67 (alterations added; citation and internal quotation marks omitted).

Further, the fact that assessing damages in the hypothetical negotiation context "involves an element of approximation and uncertainty" (Resp. 9 (citation and internal quotation marks omitted)), does not excuse Merino's methodological failings. Merely because it is difficult to place a dollar figure on an after-the-fact, hypothetical negotiation does not give a purported expert license to arbitrarily use speculative figures in an analysis. Indeed, the task here is "determining the correct (or at least approximately correct) value of the patented invention, when it is but one part or feature among many, and ascertaining what the parties would have agreed to in the context of a patent license negotiation." *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1337 (Fed. Cir. 2009). Determining an approximately correct value of the patented technology at issue here would depend on analysis absent from the Merino Report; it certainly would not hinge upon haphazard extrapolation from a simplified graphic depicting "building

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<sup>4</sup> Medtronic claims Merino advanced this "entirely new theory" at his deposition (Mot. 13), while Atlas contends the Merino Report itself "explains his rationale for apportioning 70% of the revenues" (Resp. 8 n.2). The Merino Report, however, does not explain how or why a figure of seventy percent is derived from the "building blocks" identified on the Medtronic Website. (*See generally* Merino Report).

blocks” of the allegedly infringing devices. Accordingly, Merino fails to properly apportion the damages at issue, even assuming he uses the correct royalty base.

### **C. Royalty Rate**

Finally, Medtronic asserts Merino uses an inflated royalty rate of 12.5 percent, arrived at by using noncomparable rates and impermissible speculation. (*See* Mot. 15–20). “A reasonable royalty derives from a hypothetical negotiation between the patentee and the infringer when the infringement began.” *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 868 (Fed. Cir. 2010) (citation and internal quotation marks omitted). Under the framework enunciated by *Georgia-Pacific Corp. v. United States Plywood Corp.*, one of the factors relevant to the determination of a reasonable royalty is the “rates paid by the licensee for the use of other patents comparable to the patent in suit.” 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970). Thus, license agreements used in formulating a reasonable royalty model of damages must be comparable to the patent at issue. *See Utah Med. Prods., Inc. v. Graphic Controls Corp.*, 350 F.3d 1376, 1385 (Fed. Cir. 2003).

The Merino Report fails to indicate other license data is sufficiently comparable to justify Merino’s reliance on it for calculating a reasonable royalty rate. First, Merino employs royalty rates involving Medtronic products derived as the result of threatened litigation, not the result of a hypothetical arm’s-length negotiation. (*See* Merino Report 4–6). Such rates do not provide proper evidence of comparable royalty rates in the marketplace. *See Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078–79 (Fed. Cir. 1983) (where the court noted “since the offers were made after the infringement had begun and litigation was threatened or probable, their terms should not be considered evidence of an established royalty, since license fees negotiated in the face of a threat of high litigation costs may be strongly influenced by a desire to avoid full

litigation” (alterations, citation, and internal quotation marks omitted)). And it is self-evident jury-determined damages are not evidence of arm’s-length negotiations between parties.

The Merino Report does consider royalty rates from the “RoyaltyStat” database, which compiles license agreements available from U.S. and Canadian authorities. (Merino Report 6). While more comparable than the aforementioned Medtronic royalty rates, these royalty rates also fail to sufficiently support Merino’s conclusion on royalty rates. His search was directed to general sectors for the allegedly infringing devices, such as “Cardiovascular, Devices & Instruments, Software.” (*Id.*). While this search disclosed 491 agreements with rates ranging from 0.1 percent to 55 percent (*see id.*), Medtronic points out Merino did not “obtain any of the underlying agreements from which the royalty rates were pulled to determine what the subject patents are and whether they are comparable to the ’734 patent . . . .” (Mot. 18 (citations omitted); *see also* Resp. 11). Atlas contends Merino’s efforts to create an amalgam of many different royalties “provides a good sense of the range in which the royalty negotiation will be conducted.” (Resp. 10–11 (citations omitted)). But “[t]his generic industry data is not tethered to the relevant facts and circumstances of the present case. . . . Therefore, any damages testimony based on this industry data should be excluded.” *Multimedia Patent Trust v. Apple Inc.*, No. 10-CV-2618-H (KSC), 2012 WL 5873711, at \*9 (S.D. Cal. Nov. 20, 2012) (alterations added; internal citations omitted).<sup>5</sup>

Given these deficiencies, Merino’s royalty rate calculation clearly fails to meet the

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<sup>5</sup> Atlas improperly relies on *ActiveVideo Networks, Inc. v. Verizon Communications, Inc.*, 694 F.3d 1312 (Fed. Cir. 2012), for the proposition these criticisms go to weight, not admissibility. (*See* Resp. 11–12). The expert there relied on an *actual* license agreement for his conclusions, *see ActiveVideo Networks, Inc.*, 694 F.3d at 1332–33, whereas Merino cites to no actual agreement he analyzed for his (*see generally* Merino Report).

standard for expert testimony in this matter. The Court thus need not address Medtronic's remaining contentions Merino arrives at his final rate based on a "feeling" and the "check" on Medtronic's revenue is improper. (*See* Mot. 18–20).

**III. CONCLUSION**

For the foregoing reasons, it is

**ORDERED AND ADJUDGED** that the Motion [ECF No. 145] is **GRANTED**.

**DONE AND ORDERED** in Chambers at Miami, Florida, this 6th day of October, 2014.

  
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**CECILIA M. ALTONAGA**  
**UNITED STATES DISTRICT JUDGE**

cc: counsel of record