

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION**

ROY-G-BIV CORPORATION,

Plaintiff,

v.

ABB, LTD., ET AL.,

Defendants.

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Case No. 6:11-cv-622

ORDER

Before the Court is Defendants ABB Inc.; Meadwestvaco Texas, LP; and Meadwestvaco Corporation's *Daubert* Motion to Exclude the Opinions of Mr. James J. Nawrocki Relating to Damages (Docket No. 364). The Court heard arguments on the Motion at a July 24, 2014 hearing. Based on the briefing and arguments and for the reasons stated herein, the Motion is **GRANTED IN PART** and **DENIED IN PART**.

BACKGROUND

ROY-G-BIV Corporation filed this lawsuit on November 15, 2011, and accuses the Defendants of infringing U.S. Patent Nos. 6,513,058; 6,516,236; and 8,073,557. All three patents are directed to software systems that control industrial automation equipment. The accused products are ABB's System 800xA, Compact HMI 800 system, and related hardware components. On March 28, 2014, Mr. James J. Nawrocki issued an expert report relating to damages on behalf of ROY-G-BIV. Docket No. 364, Ex. B.

APPLICABLE LAW

Federal Rule of Evidence 702 governs the admissibility of expert testimony. Rule 702 provides that "scientific, technical, or other specialized knowledge" may be admissible where

such testimony “will help the trier of fact to understand the evidence or to determine a fact in issue” FED. R. EVID. 702. Such testimony is only admissible if “[1] the testimony is based on sufficient facts or data; [2] the testimony is the product of reliable principles and methods; and [3] the expert has reliably applied the principles and methods to the facts of the case.” *Id.*; *see also Daubert v. Merrell Dow Pharms.*, 509 U.S. 579, 592–93 (1993). In applying these standards, district courts are charged to act as “gatekeepers” in order to ensure that “any and all scientific evidence admitted is not only relevant, but reliable.” *Daubert*, 509 U.S. at 589. The primary concern of the “gatekeeper” function “is to make certain that an expert, whether basing testimony on professional studies or personal experience, employs in the courtroom the same level of intellectual rigor that characterizes the practice of an expert in the relevant field.” *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 152 (1999). To that end, any step an expert takes in formulating his opinion “that renders the analysis unreliable . . . renders the expert’s testimony inadmissible.” *Curtis v. M&S Petroleum, Inc.*, 174 F.3d 661, 670 (5th Cir. 1999).

However, the district courts are not “intended to serve as a replacement for the adversary system.” *United States v. 14.38 Acres of Land*, 80 F.3d 1074, 1078 (5th Cir. 1996); FED. R. EVID. 702 (advisory committee notes, 2000 amendments). “Vigorous cross–examination, presentation of contrary evidence, and careful instruction on the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence.” *Daubert*, 509 U.S. at 596. Accordingly, if a party offering expert testimony can prove by a preponderance of the evidence that the expert is qualified, the expert’s testimony is relevant, and the testimony is reliable, a court should not exclude it. *Id.* at 590–91.

ANALYSIS

Defendants argue that Mr. Nawrocki’s opinions should be stricken in their entirety because Mr. Nawrocki ignores the smallest saleable patent-practicing unit (“SSPPU”), builds his

analysis on facts not in evidence, and makes assumptions and determinations unsupported by analysis.

According to Defendants, Mr. Nawrocki should base his damages analysis on what Defendants argue is the SSPPU: the Compact HMI 800 system. Docket No. 364 at 3–7. Defendants contend that because Compact HMI 800 is accused of infringing all asserted claims, the full value of the patents must be encapsulated in the lower cost of Compact HMI 800 compared to System 800xA. *Id.* at 6. Accordingly, Defendants argue, any price premium customers are willing to pay for System 800xA must be attributable to non-infringing features of that more complex system. *Id.* Plaintiff ROY-G-BIV contends that Mr. Nawrocki’s analysis focuses on infringing unit sales, rather than infringing product revenue, and therefore does not implicate SSPPU doctrine. Docket No. 378 at 4–5. ROY-G-BIV further argues that Compact HMI 800 is a separate product, not a component of System 800xA, as is normally required when applying SSPPU doctrine. *Id.* at 6.

In his report, Mr. Nawrocki’s analysis does not implicate SSPPU doctrine. Courts invoking SSPPU doctrine always require apportionment based on the component most closely tied to the accused patent of a multi-component product. *E.g., LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67–68 (Fed. Cir. 2012). Here, Compact HMI 800 is not the accused component of System 800xA, but is a separate product. Further, Mr. Nawrocki does not rely on the total revenue ABB receives from sales of System 800xA, as would be required to implicate SSPPU. In fact, as Defendants explain in their Motion, Mr. Nawrocki actually bases his valuation on the price of ROY-G-BIV’s XMC software. Accordingly, Defendants’ Motion is **DENIED** as to their objections to Mr. Nawrocki’s report based on improper identification of the SSPPU.

Defendants also argue that Mr. Nawrocki errs by basing his analysis on the assumption that ROY-G-BIV's XMC software practices the patents-in-suit, an assumption not supported by facts in evidence. Docket No. 364 at 7–8. Defendants contend that the current record includes no evidence from a competent expert supporting the opinion that the XMC software embodies the asserted claims. *Id.* at 10. ROY-G-BIV responds that the record supports Mr. Nawrocki's assumption that the XMC software practices the asserted claims. Docket No. 378 at 8. ROY-G-BIV cites interrogatory responses that include claim charts mapping XMC to the asserted claims and deposition testimony by a co-inventor verifying those responses. *Id.* ROY-G-BIV also argues that its marking of XMC products with the asserted patents is evidence that the software practices the patents-in-suit. *Id.* at 10. At this stage, ROY-G-BIV has cited sufficient evidence to support Mr. Nawrocki's assumption that XMC practices the patents-in-suit. Whether XMC actually embodies the asserted claims is a fact question and the parties are free to place that question before the jury. However, the evidence is not so lacking as to render Mr. Nawrocki's opinion inadmissible. Accordingly, Defendants' Motion is **DENIED** as to their objections of Mr. Nawrocki's use of XMC software in his reasonable royalty analysis.

Defendants further challenge Mr. Nawrocki's apportionment and conclusion as arbitrary and unsupported by analysis. In calculating his royalty rate, Mr. Nawrocki begins with the sale price of the XMC software and deducts development costs. Docket No. 364, Ex B, Expert Report of James J. Nawrocki Relating to Damages, at 86. Mr. Nawrocki then apportions this profit between the patented elements and non-patented elements of the XMC software, determining that 70% of that profit is attributable to the patents-in-suit. *Id.* at 86–87. After further calculation, Mr. Nawrocki determines that the appropriate range for a reasonable royalty is \$2,700 to \$14,850. *Id.* at 93. Finally, Mr. Nawrocki concludes that, within this range, \$4,000 per System 800xA Controller Software unit is the most reasonable royalty rate. *Id.* at 95.

Defendants object to both the apportionment and the determination of the final royalty rate. Defendants argue that the 70% apportionment is supported by a single sentence in Mr. Nawrocki's report and therefore lacks sufficient analysis "to carefully tie proof of damages to the claimed invention's footprint in the marketplace." Docket No. 364 at 11–12 (quoting *LaserDynamics*, 694 F.3d at 67). Defendants further contend that the final \$4,000 royalty rate is supported only by a list of factors Mr. Nawrocki mentions without weighing their importance in any quantitative or qualitative sense. *Id.* at 13. ROY-G-BIV counters that Mr. Nawrocki's apportionment of 70% of XMC profit to the asserted patents was based on conversations with the named inventors of the patents-in-suit and XMC software developers. Docket No. 378 at 13. The final \$4,000 royalty rate, ROY-G-BIV asserts, is also supported by ample analysis in Mr. Nawrocki's report. *Id.* ROY-G-BIV argues that although Mr. Nawrocki's final selection is qualitative, it is not arbitrary, but rather is based on analysis of the appropriate *Georgia-Pacific* factors. *Id.*

Mr. Nawrocki's 70% apportionment appears to be arbitrary due to a lack of sufficient analytic support and is therefore inadmissible under Federal Rule of Evidence 702. ROY-G-BIV cites to only two paragraphs in Mr. Nawrocki's report to demonstrate his analysis supporting the 70% apportionment. *Id.* at 11–13. However, the cited paragraphs fail to show thorough analysis and merely state Mr. Nawrocki's conclusions. Docket No. 364, Ex. B at 86–87. The best explanation for the 70% apportionment is found in a footnote in a supplemental report by Mr. Nawrocki and explains in a single sentence that his conclusion is "[b]ased on discussions with ROY-G-BIV personnel . . . and [ROY-G-BIV's infringement expert]." Docket No. 378, Ex. 2, Supplemental Expert Report of James J. Nawrocki Relating to Damages, at 9 n.16. Lacking any objective or even substantial qualitative analysis to demonstrate *why* 70% is the proper apportionment, Mr. Nawrocki's 70% is reminiscent of the rejected 25% rule of thumb. *See*

Uniloc USA, Inc. v. Microsoft Corp., 632 F.3d 1292, 1318 (Fed. Cir. 2011); *see also LaserDynamics*, 694 F.3d at 69 (discrediting an apportionment that “appear[ed] to have been plucked out of thin air based on vague qualitative notions of the relative importance of the [patented] technology”). Mr. Nawrocki may have a sufficient basis for his apportionment, but his report and supplement fail to evidence it.

Further, while Mr. Nawrocki’s royalty range of \$2,700 to \$14,850 is determined quantitatively (though based on his inadequately supported 70% apportionment), the final determination that \$4,000 is the most appropriate royalty is similarly divorced from any rigorous analysis. Mr. Nawrocki’s report lists several factors that would have affected a hypothetical negotiation, but he again fails to explain *why* those considerations would have resulted in a final result of \$4,000 per software unit. Docket No. 364, Ex. B at 95. Based on the insufficient analytic support, the only possible conclusion is that the final \$4,000 determination is similarly arbitrary and therefore inadmissible. Accordingly, Defendants’ Motion is **GRANTED** as to their challenges to the 70% apportionment and final conclusion of a \$4,000 royalty rate.

CONCLUSION

For the reasons stated herein, Defendants’ Motion to Exclude the Opinions of Mr. James J. Nawrocki Relating to Damages is **DENIED** as to Defendants’ objections based on improper use of SSPPU and reliance on the XMC software, but **GRANTED** as to Defendants’ objections to the 70% apportionment and final royalty conclusion of \$4,000. If ROY-G-BIV intends to rely on Mr. Nawrocki’s reasonable royalty analysis at trial, Mr. Nawrocki must amend his report in light of this Order and provide it to Defendants by **August 8, 2014 at 5:00 p.m.** If the report is amended by that time, Defendants may depose Mr. Nawrocki by **August 13, 2014 at 5:00 p.m.** Defendants are further granted leave to serve a responsive supplemental expert report by **August 18, 2014 at 5:00 p.m.** ROY-G-BIV may depose Defendants’ expert regarding any such

supplement by **August 21, 2014 at 5:00 p.m.** Defendants may file a motion to exclude the revised opinions of Mr. Nawrocki by **August 14, 2014.** ROY-G-BIV may respond to such a motion by **August 18, 2014.**

So ORDERED and SIGNED this 1st day of August, 2014.

A handwritten signature in black ink, appearing to read 'Leonard Davis', written over a horizontal line.

LEONARD DAVIS
UNITED STATES DISTRICT JUDGE