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UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA

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HALO ELECTRONICS, INC.,

Plaintiff,

v.

PULSE ELECTRONICS, INC. and
PULSE ELECTRONICS
CORPORATION,

Defendants.

2:07-cv-00331-PMP-PAL

ORDER

Before the Court is Defendants Pulse Electronics, Inc. and Pulse Electronics Corporation’s (collectively “Pulse”) Motion in Limine to Preclude Certain of Plaintiff’s Expert Opinions (Doc. #338), filed June 22, 2012. Plaintiff Halo Electronics, Inc. (“Halo”) filed an Opposition (Doc. #366) on July 6, 2012. The Court held a hearing on this motion and other pretrial matters on October 1, 2012. For the reasons set forth below, the Court denies Pulse’s motion in its entirety.

I. SUMMARY OF THE ARGUMENTS

Pulse seeks to exclude certain opinions of Halo’s damages expert, John Hansen (“Hansen”), as irrelevant and unreliable expert testimony under Federal Rule of Evidence 702. First, Pulse contends its sales of the accused products outside of the United States

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1 (“U.S.”) are irrelevant. Pulse further argues Hansen’s royalty base analysis is unsupported
2 by proper evidence and should be excluded. Pulse also claims Hansen used a method the
3 Federal Circuit has rejected as unreliable to calculate the royalty rate. Pulse additionally
4 challenges Hansen’s reliance on a patent licensing agreement to which Pulse is not a party
5 in determining the royalty rate. Pulse further argues Hansen should be precluded from
6 asserting the damages period began in 2002. Finally, Pulse contends its total worldwide
7 sales figures for the accused products should be excluded as irrelevant.

8 Halo responds that Hansen’s opinions are based on relevant and reliable evidence
9 and methodology and should not be excluded. Halo first argues Pulse’s sales of the accused
10 products outside of the U.S. are relevant for Halo’s induced infringement claim.
11 Additionally, Halo submits Hansen properly relied on the only evidence available for his
12 royalty base analysis. Halo further contends Hansen applied a method the Federal Circuit
13 has condoned to determine a reasonable royalty rate. Halo also argues the license to which
14 Pulse is not a party is relevant to the royalty rate analysis. Halo further asserts that when
15 the damages period began is a question of fact for the jury to decide. Finally, Halo argues
16 Pulse’s total worldwide sales revenue on the accused products is relevant for both damages
17 and non-damages purposes.

18 **II. DISCUSSION**

19 Federal Rule of Evidence 702 permits testimony based on “scientific, technical,
20 or other specialized knowledge” by experts qualified by “knowledge, skill, experience,
21 training, or education” if the testimony is both relevant and reliable. See also Fed. R. Evid.
22 402. The trial court acts as a “gatekeeper” to exclude expert testimony that is not both
23 relevant and reliable. Kumho Tire Co. v. Carmichael, 526 U.S. 137, 147-48 (1999).

24 Testimony is relevant if it will “help the trier of fact to understand the evidence
25 or to determine a fact in issue.” Fed. R. Evid. 702; see also Daubert v. Merrell Dow
26 Pharm., Inc., 43 F.3d 1311, 1315 (9th Cir. 1995) (stating testimony is relevant if it

1 “logically advances a material aspect of the proposing party’s case”). To be helpful to the
2 jury, the testimony must be ““tied to the facts”” of the particular case. Daubert v. Merrell
3 Dow Pharm., Inc., 509 U.S. 579, 591 (1993) (quoting United States v. Downing, 753 F.2d
4 1224, 1242 (3d Cir. 1985)).

5 Expert testimony is reliable if it is “based upon sufficient facts or data,” “the
6 product of reliable principles and methods,” and the expert “reliably applied the principles
7 and methods to the facts of the case.” Fed. R. Evid. 702. Reliability, however, is not
8 determined based on the “correctness of the expert’s conclusions but the soundness of his
9 methodology.” Stilwell v. Smith & Nephew, Inc., 482 F.3d 1187, 1192 (9th Cir. 2007)
10 (quotation omitted). “Shaky but admissible evidence is to be attacked by cross
11 examination, contrary evidence, and attention to the burden of proof, not exclusion.”
12 Primiano v. Cook, 598 F.3d 558, 564 (9th Cir. 2010).

13 Whether to admit expert testimony, as well as deciding how to determine whether
14 the testimony is reliable, lies within the trial court’s discretion. Kumho Tire Co., 526 U.S.
15 at 152; United States v. Calderon-Segura, 512 F.3d 1104, 1109 (9th Cir. 2008). The party
16 offering the expert testimony bears the burden of establishing its admissibility. Lust by and
17 through Lust v. Merrell Dow Pharm., Inc., 89 F.3d 594, 598 (9th Cir. 1996).

18 **A. Hansen’s 30% Royalty Base Determination**

19 **1. Relevance**

20 Pulse first argues its sales of the accused products outside of the U.S. are
21 irrelevant because the Court previously found Pulse is not liable for direct infringement for
22 these sales. Accordingly, Pulse submits the royalty base should be limited to 13-14% of
23 Pulse’s worldwide sales of the accused products, which is the amount Pulse sells directly in
24 the U.S. Halo responds that the amount of Pulse’s accused products imported back into the
25 U.S. by third parties is relevant for Halo’s viable claim of induced infringement. Halo
26 therefore argues the royalty base should not be limited to Pulse’s U.S. sales.

1 The Court previously found a genuine issue of material fact regarding whether
2 Pulse is liable for induced infringement. (Order (Doc. #300) at 48-49.) Therefore, the
3 amount of non-U.S. sales of Pulse's accused products that were imported back into the U.S.
4 by third parties is relevant to Halo's induced infringement claim and the royalty base
5 analysis.

6 **2. Reliability**

7 Pulse asserts Hansen's 30% royalty base determination is based on insufficient
8 evidence and therefore unreliable. Pulse argues Hansen improperly, and only, relied on
9 statements by Halo's Vice President estimating the amount of Pulse's accused products that
10 came back into the U.S., general investment disclosures from third parties, and a licensing
11 agreement between Halo and a third party. Halo responds that Pulse and its customers did
12 not have the statistics to show the amount of accused products Pulse initially sold outside
13 the U.S. that eventually were imported back into the country. Therefore, Halo concludes
14 Hansen was required to use other evidence to estimate the amount. Halo also argues
15 Hansen reasonably considered the licensing agreement between Halo and its competitor
16 estimating the imports of the competitors' licensed products and the statements of Halo's
17 Vice President estimating the same for Pulse, as reasonable beliefs of the industry.

18 Hansen reasonably relied on the available evidence to approximate the amount of
19 Pulse's accused products that are sold directly to and imported into the U.S. Pulse and a
20 company to which Pulse's customers sold admitted that, in addition to the accused products
21 Pulse sold directly into the U.S., some of the accused products sold outside of the U.S. are
22 incorporated into end-products and then imported back into the U.S. (Decl. of Craig C.
23 Countryman (Docs. #372-75), Ex. 18 at 15-19, Ex. 20 at 352-53.) However, neither Pulse
24 nor the other company could provide information regarding how many of the end-products
25 containing Pulse's accused products are imported back into the U.S. (*Id.*, Ex. 18 at 15-19,
26 Ex. 20 at 349-50, 352.)

1 Based on the lack of direct statistics, Hansen relied on other evidence to
2 approximate how many of Pulse's accused products were indirectly imported into the U.S.
3 (Defs.' Daubert Mot./Mot. in Limine No. 1 to Preclude Certain of Pl.'s Expert Ops. (Doc.
4 #338), Ex. 2 ["Hansen Report"] at 4, 39.) Hansen first identified the type of end-products
5 the accused products are incorporated into, such as servers, desktops, notebook computers,
6 switches, and routers. (Hansen Report at 40.) Then, based on the worldwide sales figures
7 for these end-products, Hansen determined the percentage of sales into the U.S. of these
8 end-products. (Id.) Hansen further determined that Pulse sold the accused products to
9 customers outside of the U.S., and those customers sold to companies that sell these end-
10 products in the U.S. (Id.)

11 Next, Hansen looked at the percentage of U.S. sales for the companies to which
12 Pulse's customers sold, based on those companies' total worldwide sales figures. (Id.)
13 Hansen specifically considered customers to which Pulse sold a high percentage of the
14 accused products, and those customers sold to a company that made a majority of its sales
15 in the U.S. (Id.) Therefore, based on the percentage of end-products that are sold into the
16 U.S. and the percentage of U.S. sales of the companies to which Pulse's customers sold to,
17 Hansen found it was reasonable to assume that at least 30% of Pulse's accused products are
18 incorporated into products that ultimately are shipped into the U.S. (Id. at 41.) Neither the
19 estimation given by Halo's Vice President nor the licensing agreement between Halo and a
20 third party are incorporated into the royalty base analysis section of Hansen's report.
21 Rather, they are referenced in a footnote as evidence that supported a higher rate, rendering
22 the 30% base more reasonable in Hansen's opinion. (Hansen Report at 41 n.182.)

23 The statistical evidence Hansen uses to estimate his proposed royalty base is
24 more reliable than that in PACT XPP Techs, AG v. Xilinx, Inc., No. 07-cv-00563 (E.D.
25 Tex. Apr. 16, 2012). In PACT, the court rejected the expert's assumption that 3% of the
26 defendant's accused products were sold to the government because the defendant's

1 customers sold 3% of the customer's total products to the government. Id. at 6-7. The
2 court noted there was "no evidence supporting the assumption that the percentage of each
3 customer's sales to the government is representative of the percentage of that customer's
4 [products purchased from the defendant] that are sold to the government." Id. at 6. Here,
5 however, Hansen narrowed his inquiry to the end-products that could contain the accused
6 products, as well as companies that bought from Pulse's customers and sold those end-
7 products in the U.S. (Hansen Report at 40.) This resulted in an estimation tailored to the
8 potential amount of Pulse's accused products imported back into the U.S.

9 Hansen based his royalty base analysis on sufficient facts considering the
10 evidence available in this case. An estimation was necessary given the lack of specific data
11 showing how much of Pulse's sales of the accused products outside the U.S. were
12 eventually imported back into the U.S. See Lucent Techs., Inc. v. Gateway, Inc., 580 F.3d
13 1301, 1336 (Fed. Cir. 2009) (noting the reasonable royalty analysis "necessarily involves an
14 element of approximation and uncertainty.") (quotation omitted). The proper avenue for
15 Pulse to challenge the evidence Hansen relied on and the conclusions drawn from that
16 evidence is on cross examination or otherwise at trial, not the exclusion of Hansen's royalty
17 base opinion altogether. Therefore, Hansen's opinion regarding the 30% royalty base is
18 admissible.

19 **B. Hansen's 10-15% Royalty Rate Determination**

20 Pulse next argues Hansen improperly arrived at a 10-15% royalty rate by dividing
21 the profit margins of Halo and Pulse in half and using the resulting figures as the upper and
22 lower limits for the rate. Pulse contends this is a "supercharged" 50% version of the "25%
23 rule of thumb" rule rejected by the Federal Circuit in Uniloc USA, Inc. v. Microsoft Corp.,
24 632 F.3d 1292 (Fed. Cir. 2011). Halo counters that Hansen did not rely on a "rule of
25 thumb" concept, and properly relied on the 15 factors in Georgia-Pacific Corp. v. U.S.
26 Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970) to determine his proposed royalty rate.

1 The 25% rule of thumb rule posits that in a hypothetical negotiation between the
2 parties, 25% of the profit would go with the patent owner and the rest would stay with the
3 infringer. Uniloc, 632 F.3d at 1311. The expert in Uniloc started with this 25% figure, and
4 then considered the Georgia-Pacific factors to determine whether that rate should be
5 adjusted. Uniloc, 632 F.3d at 1311. The Federal Circuit found the 25% rule of thumb
6 assumption a “fundamentally flawed tool for determining a baseline royalty rate in a
7 hypothetical negotiation.” Id. at 1315. Therefore, the expert’s opinion was inadmissible
8 under Daubert and the Federal Rules of Evidence for “fail[ing] to tie a reasonable royalty
9 base to the facts of the case at issue.” Uniloc, 632 F.3d at 1315, 1318.

10 Halo has shown Hansen did not apply a “50% rule of thumb” assumption in his
11 royalty rate analysis. Hansen analyzed each of the 15 Georgia-Pacific factors to predict the
12 results of a hypothetical negotiation between the parties and to propose a reasonable royalty
13 rate. (Hansen Report at 8-36.) The Federal Circuit approves using the Georgia-Pacific
14 factors as a reliable way to frame the reasonable royalty inquiry. Uniloc, 632 F.3d at 1317.
15 Hansen tied the specific facts of this case to his proposed royalty rate by using this
16 approved methodology. Because Halo has demonstrated Hansen used the Georgia-Pacific
17 factors to determine his reasonable royalty rate range of 10-15%, rather than a version of
18 the unreliable 25% rule, the Court will not exclude Hansen’s royalty rate analysis.

19 **C. Hansen’s Reliance on a License Between Third Parties**

20 Pulse also argues Hansen improperly relied on a patent use license to which Pulse
21 was not a party under Georgia-Pacific factor 2 in the royalty rate analysis. Pulse argues it
22 obtained a controlling interest in the licensee company well after the license was negotiated
23 and entered into, therefore the license does not indicate what Pulse would have agreed to
24 had it negotiated the license. Halo responds that Hansen’s reliance on the license is relevant
25 under factor 2 because this factor addresses rates the licensee has paid on comparable
26 patents, not just agreements the licensee negotiated. Halo contends Pulse acquired a

1 controlling interest in the licensee company, made the licensee company's payments under
2 the license for a period of time, and then negotiated with the licensor company to settle for
3 missed payments and reach a new agreement. Halo further argues even if Hansen's reliance
4 on the license under factor 2 was improper, the license is relevant under factor 12 as an
5 example of a licensing agreement on comparable patents.

6 Hansen's reliance on the license for his analysis of factor 2 is factually supported.
7 Factor 2 looks at "[t]he rates paid by the licensee for the use of other patents comparable to
8 the patent in suit." Georgia-Pacific, 318 F. Supp. at 1120. Hansen considered the license
9 under factor 2 because the licensee company was Pulse's affiliate. (Hansen Report at 13.)
10 Hansen also noted Pulse paid royalties pursuant to the licensing agreement and renegotiated
11 the licensing arrangement. (Id. at 13, 14 n.55.) Thus, the license is relevant to factor 2 to
12 show the rates Pulse has paid to use comparable patents.

13 The license is also relevant under factor 12. Factor 12 considers "[t]he portion of
14 the profit or of the selling price that may be customary in the particular business or in
15 comparable businesses to allow for the use of the invention or analogous inventions."
16 Georgia-Pacific, 318 F. Supp. at 1120. Hansen noted the license under factor 12 as an
17 indicator of the royalty rates that may be appropriate here. (Hansen Report at 32.)
18 Additionally, in his summary and conclusion, Hansen considered factors 1, 2, and 12
19 together as addressing "licensing history and comparable license agreements, as well as
20 royalty rates within the industry," finding the license placed upward pressure on the royalty
21 rate. (Hansen Report at 33-34.) Pulse does not argue the license is inappropriate under
22 factor 12. Therefore, the license is relevant to the royalty rate analysis under factors 2 and
23 12 and is admissible.

24 **D. The Damages Period**

25 Pulse next argues Hansen should be prohibited from testifying that the damages
26 period began in 2002. Pulse argues that the Court previously held letters sent by Halo to

1 Pulse in 2002 informed Pulse only of the possibility it was infringing and implied that Halo
2 had yet to thoroughly investigate, citing the Court's summary judgment Order (Doc. #300)
3 at page 38 for support. According to Pulse, the 2002 letters therefore did not provide
4 legally adequate notice to begin the damages period under 38 U.S.C. § 287 as a matter of
5 law. Pulse thus concludes that Hansen should be required to opine the damages period
6 began in 2003. Halo responds that Pulse already moved for summary judgment for lack of
7 actual notice based on these 2002 letters, which the Court denied. Halo claims Pulse's
8 motion in limine is really an untimely motion for summary judgment based on inadequate
9 notice. Finally, Halo argues whether the 2002 letters gave Pulse adequate legal notice of
10 infringement is an issue of fact for the jury to decide.

11 Pulse previously moved for summary judgment on the theory of equitable
12 estoppel. (Defs.' Mot. Summ. J. on Equitable Estoppel & Partial Summ. J. on Laches &
13 Failure to Give Notice Under 38 U.S.C. § 287(a) (Doc. #249) at 8-11.) In that motion,
14 Pulse argued Halo should be estopped from bringing this infringement action because its
15 2002 letters followed by Halo's inaction misled Pulse into believing Halo would not be
16 enforcing its patents. (Id. at 8-9.) In its summary judgment Order, the Court ruled that
17 Halo raised genuine issues of material fact about whether Halo should be estopped. (Order
18 (Doc. #300) at 38.) In the context of the equitable estoppel analysis, the Court concluded a
19 "reasonable jury could find that the letters do not rise to the level of threatening vigorous
20 enforcement then delaying bringing an action." (Id.) The Court did not hold that Halo
21 failed to give adequate notice under § 287 as a matter of law. To the extent Pulse's motion
22 in limine is an attempt to move for summary judgment on the issue of the adequacy of
23 notice, it is untimely and the Court will not consider it. Therefore, the Court will not
24 preclude Hansen from opining the damages period began in 2002 at this time.

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1 **E. Reference to Pulse’s Total Worldwide Sales of the Accused Products**

2 Finally, Pulse contends that Hansen and Halo should be precluded from referring
3 to Pulse’s total worldwide sales of the accused products. Pulse argues even if Hansen’s
4 30% royalty base is admitted, only the sales figures for the accused products that ultimately
5 ended up in the U.S. are relevant. Halo argues the worldwide sales figures are relevant to
6 calculate damages for induced infringement, for 2 factors in the royalty rate analysis, and
7 for other non-damages issues.

8 Halo has shown Pulse’s total worldwide sales figures for the accused products are
9 relevant. To calculate Halo’s infringement damages, Hansen applied his royalty base to
10 Pulse’s total worldwide sales figures, and then he applied his reasonable royalty rate to the
11 resulting figure. (Hansen Report at 41-42.) Therefore, the worldwide sales figures are
12 relevant to the damages analysis. Pulse’s worldwide sales figures are likewise relevant to
13 the royalty rate analysis. Factor 6 considers whether the patented technology promotes the
14 sale of other products, for either the patentee or licensee. Georgia-Pacific, 318 F. Supp. at
15 1120. Therefore, the extent of Pulse’s worldwide sales of the accused products is relevant
16 to determining its effect on the sale of Pulse’s other products internationally. (Hansen
17 Report at 20-21.) Factor 8 considers, among other things, the commercial success of the
18 product, and the worldwide sales figures are relevant to that determination as well. (Hansen
19 Report at 22); Georgia-Pacific, 318 F. Supp. at 1120.

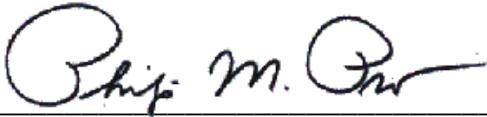
20 Finally, Pulse’s worldwide sales figures may be relevant to non-damages issues.
21 Specifically, Halo has shown the worldwide sales figures are probative of the patented
22 products’ commercial success, a factor relevant to analyzing the obviousness of the
23 patented products. See Mintz v. Dietz & Watson, Inc., 679 F.3d 1372, 1380 (Fed. Cir.
24 2012) (finding the patentee’s worldwide sales of the patented products relevant to the
25 commercial success analysis); Gambro Lundia AB v. Baxter Healthcare Corp., 110 F.3d
26 1573, 1579 (Fed. Cir. 1997) (finding the accused infringer’s sales relevant to the

1 commercial success analysis). Therefore, the Court will not exclude reference to Pulse's
2 worldwide sales figures for the accused products.

3 **III. CONCLUSION**

4 **IT IS THEREFORE ORDERED** that Defendants Pulse Electronics, Inc., and
5 Pulse Electronics Corporation's Daubert Motion/Motion in Limine No. 1 to Preclude
6 Certain of Plaintiff's Expert Opinions (Doc. #338) is hereby **DENIED**.

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8 DATED: October 25, 2012

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11 PHILIP M. PRO
12 United States District Judge
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