

**IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division**

BIEDERMANN TECHNOLOGIES
GMBH & CO. KG,

Plaintiff,

v.

Action No. 2:18cv585

K2M, INC., et al.,

Defendants.

OPINION AND ORDER

Pending before the Court are defendants' motion *in limine* to exclude settlement agreements on the subject of a reasonable royalty (ECF No. 528) and motion to exclude unreliable testimony by plaintiff's damages expert, Julie Davis (ECF No. 555). The Court heard argument on both motions at a hearing on October 14, 2021, and reserved ruling.¹ Luke Dauchot, Esq., Andrew Morrill, Esq., Sharre Lotfollahi, Esq., Edward Donovan, Esq., Nathan Mammen, Esq., and Stephen Noona, Esq., represented plaintiff Biedermann Technologies GmbH & Co. KG ("BT"). Charles Kennedy, Esq., Gregory Gewirtz, Esq., Russell Faegenburg, Esq., and Wendy McGraw, Esq., represented defendants K2M, Inc., and K2M Group Holdings, Inc. (collectively, "K2M"). The court reporter was Heidi Jeffries. For the reasons stated below, K2M's motion *in limine* to exclude settlement agreements is **GRANTED IN PART** and **DENIED IN PART** and the motion to exclude testimony by Julie Davis is **GRANTED IN PART** and **DENIED IN PART**.

¹ At the hearing, none of the parties sought to present testimony or additional evidence. ECF No. 674, at 2–3. The argument offered concerning the motion to exclude settlement licenses was limited. *Id.* at 44–47.

I. PROCEDURAL AND FACTUAL BACKGROUND

A. Procedural Background

On August 25, 2021, K2M filed the two pending motions and supporting memoranda. ECF Nos. 528, 546, 555, 564. On September 8, 2021, BT filed memoranda in opposition to both motions. ECF Nos. 602, 604. On September 14, 2021, K2M filed briefs in reply to BT's briefs. ECF Nos. 642, 644. On September 15, 2021, the two pending motions were referred to the undersigned.

The two motions are closely related. K2M's motion to exclude settlement agreements pertains to three licensing agreements relied upon by BT's damages expert, Julie Davis. ECF No. 546, at 4. Ms. Davis identified the three licenses, along with a fourth license, as "most instructive" to a hypothetical negotiation setting a reasonable royalty for any infringement of BT's patents. ECF No. 568-1, at 69, Expert Report and Disclosure of Julie Davis ("Davis Report").² As Ms. Davis's opinions rely, in significant part, upon the three contested licenses, questions about their admissibility go hand-in-hand with a gatekeeping assessment of the reliability and relevance of Ms. Davis's opinions.

B. Overview of Ms. Davis's Royalty Analysis

Ms. Davis is a licensed certified public accountant, who provides auditing and financial consulting services, among others, to companies involved in business and intellectual property disputes. Davis Report at 4. K2M raises no challenge to her expertise. She has been retained to analyze BT's damages should K2M be found to have infringed the patents-in-suit.³ *Id.* at 7.

² Citations to pages in Davis's Report are to the page numbering in ECF No. 568-1, which differs from the numbering in the report.

³ At the time Ms. Davis submitted her initial report on January 17, 2020, BT alleged that K2M infringed twelve BT patents. Davis Report at 2, 5-6. Presently, the stipulation included in the

Ms. Davis calculates BT's damages as the product of a reasonable royalty rate applied to a royalty base of the net sales of K2M's accused products. *Id.* at 24. To determine the royalty, Ms. Davis used the construct of a hypothetical negotiation between a willing licensor and willing licensee, assuming that patents-in-suit were valid and infringed. *Id.* at 7, 25. Ms. Davis estimates that the hypothetical negotiation would have occurred in or about February 2012. *Id.* at 25; *see* ECF No. 546, at 9 (noting K2M's agreement that the negotiation would have occurred in 2012). She opines that the negotiation would have led to a license for any of BT's asserted patents that then existed, or would come into existence, needed for K2M to sell the accused products. Davis Report at 25.

Ms. Davis identifies the parties to such a negotiation as: (1) BT and DePuy Spine, Inc. ("DePuy"), on the one hand, and K2M on the other, for the favored-angle patents,⁴ as DePuy

and (2) BT and K2M for the other patents-in-suit. *Id.* at 25–26.

Ms. Davis concludes that a reasonable royalty for the patents-in-suit ranges from [REDACTED] of K2M's net sales of the accused products (Everest, Yukon, and Cascadia). *Id.* at 24, 70. Ms. Davis opines that this royalty rate would apply for each of the asserted patents (without cumulation), regardless of how many are later found to be valid and infringed. *Id.* at 25, 69–70.

parties' proposed final pretrial order indicates that BT asserts K2M infringes eight patents. Proposed Joint Pretrial Order at 2 (asserting infringement of the '595, '485, '820, '093, '399, '784, '600, and '121 patents).

⁴ Ms. Davis identifies the favored-angle patents as the '820, '194, '093, and '353 patents. Davis Report at 6.

1. BT's Licensing Practices

In calculating this royalty, Ms. Davis analyzed various factors, including the *Georgia-Pacific* factors,⁵ she deemed pertinent to the hypothetical negotiation. *Id.* Several factors addressed by Ms. Davis are germane to K2M's critique of her license selection and analysis.

One such factor is her reliance upon BT's licensing practices, as recounted by Mr. Lutz Biedermann, BT's founder and president. *Id.* at 9, 69–70. BT owns a sizable patent portfolio pertaining to specialized orthopedic markets and most of that portfolio covers spinal technologies.⁶ *Id.* at 9–10. According to Mr. Biedermann, BT [REDACTED]

[REDACTED]. *Id.* at 30. In such cases, BT [REDACTED]
Id.

[REDACTED] *Id.* Mr. Biedermann also advises that [REDACTED]
[REDACTED]
Id. As testified to by Ms. Davis, BT [REDACTED] and structures licenses accordingly. ECF No. 568-2, at 3 (27:15–24). Ms. Davis opines that the hypothetical negotiation here would have been for a [REDACTED] not involving a [REDACTED]. Davis Report at 31.

Ms. Davis relied upon the information supplied by Mr. Biederman, as well as her analysis

⁵ In *Georgia-Pacific Corp. v. U. S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), the court identified 15 factors pertinent to the economic framework for selecting a reasonable royalty.

⁶ BT is the entity that owns the rights to the above-described intellectual property. Davis Report at 10. A related entity, Biedermann Motech GmbH & Co. KG ("BM"), develops, makes, and sells spinal products using such technology. *Id.*

of the licenses discussed below, and the opinions of Dr. Sachs, in selecting an [REDACTED] royalty rate.⁷ *Id.* at 69–70.

2. Actual Licenses Considered by Ms. Davis

Another aspect of K2M’s challenge to Ms. Davis’s analysis concerns the licenses used to support her royalty opinion. Ms. Davis identifies five licenses to BT patents as “benchmarks,” and found four of these to be “most instructive” to hypothetical negotiators. *Id.* at 31–46, 69. Three of the five licenses involve [REDACTED]⁸ *Id.* at 31–43. The other two licenses involve [REDACTED]. *Id.* at 43–46.

Ms. Davis acknowledges that BT is only entitled to compensation for the value of the patented technology in the accused products. *Id.* at 66–67. To account for this, Ms. Davis claims to have selected licenses in which “apportionment has already been taken into account during the negotiation of such agreements.” *Id.* Disputes over apportionment form another aspect of K2M’s challenge to Ms. Davis’s analysis.

a. The Three Alleged Settlement Licenses

K2M seeks to exclude evidence of three licenses utilized by Ms. Davis because they

⁷ Other foundations for Ms. Davis’s royalty rate opinion include: (1) K2M’s advertising about the benefits provided by certain of the patents-in-suit; (2) the relative importance of K2M’s accused products relative to K2M’s total sales; and (3) [REDACTED] an inference that the technology used in K2M’s products, including Everest and Yukon, played a role in Stryker’s decision to acquire K2M. Davis Report at 30–31, 48–53.

⁸ With respect to licenses to one or more of the patents-in-suit, Ms. Davis observed, among other things, that: the licensees sold spinal products, like K2M; the licensee/licensor relationships were that of inventor/promoter (similar to BT’s/K2M’s hypothetical relationship), subject to DePuy’s interest in the [REDACTED] patents; the licenses involving multiple patents [REDACTED] consistent with BT’s licensing practices; the royalties paid were structured as [REDACTED]; and the licensees agreed to [REDACTED], consistent with practices in the relevant market. Davis Report at 26, 42–43.

resulted from, or settled, ongoing litigation. ECF No. 546. As detailed below, two such licenses arose in 2008 from agreements to settle litigation pending against Alphatec Spine, Inc., and Allez Spine, LLC, over infringement of BT's '678 patent (not one of the patents-in-suit). ECF Nos. 552-1, 552-2.

The agreement with Alphatec Spine, Inc., provided for a lump sum payment for past infringing sales and a [REDACTED] royalty on future net sales. ECF No. 552-1, at 2, 9, 11. The agreement with Allez Spine, LLC, [REDACTED] [REDACTED]. ECF No. 552-2, at 2, 7-8.

The third agreement challenged by K2M licensed [REDACTED] [REDACTED] ECF No. 552-3, at 2-3. As detailed below, this license arose after administrative proceedings before the Patent and Trademark Office, and litigation challenging those results. Davis Report at 37-38. This "Stryker license" covered [REDACTED] [REDACTED]. ECF No. 552-3, at 2-5. Ms. Davis reports that the licensing parties valued the technology [REDACTED] [REDACTED] [REDACTED] Davis Report at 35-36, 38.

b. The Two Other Licenses Involving Some of the Patents-in-Suit

Ms. Davis also reviewed two licenses involving [REDACTED] *Id.* at 31-43. These licenses are: (1) a 2012 agreement extending [REDACTED] to DePuy to the [REDACTED] patents and [REDACTED] to other patents; and (2) a 2018 agreement

extending a license to NuVasive, Inc., to approximately [REDACTED] patents,⁹ including [REDACTED]
[REDACTED]. *Id.*

i. 2012 License Between BT/BM and DePuy

On January 1, 2012, BT and BM, on the one hand, and DePuy on the other, entered into a license (the “DePuy license”) that covers [REDACTED]. *Id.* at 31–33. This 2012 license followed a series of collaborative agreements between the parties dating back to 1993. *Id.* at 31. The DePuy license involved, among other things: (a) granting DePuy [REDACTED]-
[REDACTED]
[REDACTED]; (b) granting DePuy a [REDACTED] license to the “[REDACTED]
[REDACTED]”; and (c) payment by DePuy of a [REDACTED], followed
by [REDACTED]
[REDACTED], and a [REDACTED]
[REDACTED], all of which Ms. Davis translated into an effective royalty rate of [REDACTED]. *Id.* at 32–34.

Ms. Davis opined that aspects of the DePuy license, including the long-term collaborative relationship preceding it, [REDACTED], and its [REDACTED]
[REDACTED], rendered it less instructive to hypothetical negotiators. *Id.* at 42. She also noted, however, that DePuy [REDACTED]
[REDACTED] and the license evidenced the parties’ willingness
to [REDACTED]. *Id.* at 35.

⁹ The parties’ experts disagree about the number of patents licensed to NuVasive. Ms. Davis identifies the total as [REDACTED] U.S. patents. Davis Report at 41. K2M’s expert, Dr. Putnam, lists [REDACTED] U.S. patents licensed to NuVasive. ECF No. 616-2, at 48.

ii. 2018 License Between BT and NuVasive, Inc.

On September 22, 2018, BT entered into a license and services agreement with NuVasive, Inc. (the “NuVasive license”), that covers [REDACTED] *Id.* at 39–41. This license provided, among other things, for: (a) a [REDACTED]
[REDACTED]; (b) a [REDACTED]
[REDACTED]; (c) [REDACTED]
[REDACTED] (d) royalties structured as [REDACTED]
[REDACTED]; (e) payment of [REDACTED]
[REDACTED] (f) payment of [REDACTED]
[REDACTED]; and (g) payment of a [REDACTED]
[REDACTED]. *Id.* at 39–41. Ms. Davis observed that this license also
[REDACTED]
and evidenced the parties’ willingness to offer and take a license to [REDACTED]
[REDACTED]. *Id.* at 41–42.

3. Dr. Sachs’s Opinions on Technical Comparability

To assess the technology covered by the licenses and the patents-in-suit, Ms. Davis also relied upon the opinions of Dr. Barton Sachs, a surgeon and technical expert retained by BT. *Id.* at 8. Dr. Sachs reviewed each of the patents-in-suit and opined that that they generally provide material and high value benefits to pedicle screw systems and vertebral cages, reducing the complexity of spinal surgeries, enhancing surgeons’ ability to perform, and improving patient outcomes. *Id.* at 13–20. Dr. Sachs also opined that the patents-in-suit “claim important aspects of

the accused K2M products,” and Ms. Davis relies thereon in assessing the relative contribution of the patents-in-suit to K2M’s accused products. *Id.*

Dr. Sachs also reviewed the patents (and patent applications) covered by the five licenses discussed by Ms. Davis and compared them to the patents-in-suit. ECF No. 605-1. He concluded that the former are technically comparable, and in some cases identical, to one or more of the latter. *Id.* Ms. Davis relies upon such comparisons in identifying the Stryker, Alphatec, Allez, and NuVasive licenses as most instructive for the hypothetical negotiation. Davis Report at 38, 41, 43, 69. In reviewing the licenses involving [REDACTED] (Stryker, DePuy, and NuVasive), Ms. Davis also relied upon Dr. Sachs’s opinions that [REDACTED] [REDACTED] covered therein offered similar benefits, and were technically comparable, to one or more of BT’s patents-in-suit. ECF 605-1, at 4–24.

II. DISCUSSION

A. Gatekeeping and the Standards Governing Expert Testimony

Rules 702 and 104(a) of the Federal Rules of Evidence and the line of cases flowing from the Supreme Court’s decision in *Daubert v. Merrill Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 589–93 (1993), govern K2M’s challenge to Ms. Davis’s testimony. Rule 702 provides that an expert may testify in the form of an opinion if the expert’s scientific, technical, or other specialized knowledge will help the finder of fact understand the evidence or determine a basic fact in issue; the testimony is based on sufficient facts or data; is the product of reliable principles and methods; and the expert has reliably applied the principles and methods to the facts of the case.

Application of Rule 702 involves two primary inquiries: 1) whether the proposed testimony is relevant; and 2) whether it is reliable. *Kumho Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 141 (1999); *United States v. Forrest*, 429 F.3d 73, 80 (4th Cir. 2005). Before admitting

disputed expert testimony, the court must make these inquiries and exercise its gatekeeping function. *Nease v. Ford Motor Co.*, 848 F.3d 219, 230–31 (4th Cir. 2017). As noted by the Fourth Circuit, although “Rule 702 was intended to liberalize the introduction of relevant expert evidence,” the potentially powerful and persuasive nature of such evidence requires its exclusion when there exists “a greater potential to mislead than to enlighten.” *Westberry v. Gislaved Gummi AB*, 178 F.3d 257, 261 (4th Cir. 1999).

A court assessing the relevance of an expert’s testimony reviews “whether . . . [it] is sufficiently tied to the facts of the case . . . [and] will aid the jury in resolving a factual dispute.” *Daubert*, 509 U.S. at 591 (citation omitted). Expert testimony about matters coming within a jury’s knowledge and experience is not helpful and barred by Rule 702. *Persinger v. Norfolk & W. Ry. Co.*, 920 F.2d 1185, 1188 (4th Cir. 1990). To assess whether an expert’s testimony will aid a fact finder to understand evidence and resolve disputed facts, a court must consider whether such testimony “fits” the facts of the case, by relating to the inquiry the jury must address.

To be deemed reliable, expert testimony must be grounded in “scientific, technical, or other specialized knowledge and not on belief or speculation” and “derived [from the use of] scientific or other valid methods.” *Oglesby v. Gen. Motors Corp.*, 190 F.3d 244, 250 (4th Cir. 1999) (citation omitted). As the Fourth Circuit noted in *Nease*, 848 F.3d at 230, the Supreme Court’s decision in “*Kumho Tire* [made clear] that *Daubert* was not limited to the testimony of scientists.”

In *Daubert*, the Court set out five factors a court may consider when evaluating expert testimony for reliability. *Daubert*, 509 U.S. at 593–94. Those factors, however, do not necessarily apply to every case; nor was the listing all encompassing. *Kumho Tire*, 526 U.S. at 141, 150–51 (describing factors as “helpful, not definitive”). Instead, a court’s analysis of expert testimony is “flexible” and focused upon the principles and methodology employed, rather than the expert’s

conclusions. *Id.*; see *Westberry*, 178 F.3d at 261 (noting that a court need not decide whether an expert's testimony "is irrefutable or certainly correct").

Finally, the proponent of expert testimony bears the burden of establishing, by a preponderance of the evidence, that the testimony is admissible in accordance with these principles. *Cooper v. Smith & Nephew, Inc.*, 259 F.3d 194, 199 (4th Cir. 2001) (citation omitted).

B. Reasonable Royalty Damages for Patent Infringement

As K2M's motions relate to Ms. Davis's methodology for setting a reasonable royalty for alleged infringement of BT's patents, a review of damages caselaw is necessary.

As here, when lost profits are not at issue, a patent owner may seek compensation for infringement in the form of a reasonable royalty. See *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009). By statute, damages for patent infringement shall "in no event [be] less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284 (2012). One method for determining such a royalty is based upon a "hypothetical negotiation, occurring between the parties at the time that infringement began." *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1312 (Fed. Cir. 2011). The hypothetical negotiation construct tries "to recreate the *ex ante* licensing negotiation scenario and to describe the resulting agreement," based upon the assumption that the patent claims are valid and infringed. *Lucent Techs., Inc.*, 580 F.3d at 1325. This negotiation framework is designed "to discern the value of the *patented technology*" at such a time. *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 76 (Fed. Cir. 2012) (emphasis added).

The first of fifteen factors courts may consider when determining a reasonable royalty is "[t]he royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an *established* royalty." *Georgia-Pacific Corp. v. U. S. Plywood Corp.*, 318 F. Supp.

1116, 1120 (S.D.N.Y. 1980) (emphasis added); see *Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 32 (Fed. Cir. 2012) (noting the absence of any requirement to use the *Georgia-Pacific* factors). “Actual licenses to the patented technology are highly probative as to what constitutes a reasonable royalty for those patent rights because . . . [they] most clearly reflect the economic value of the patented technology in the marketplace.” *LaserDynamics, Inc.*, 694 F.3d at 79 (citing *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010)). No one contends that any such established royalty program, independent of BT licensing policies, exists here.

Absent that, a party may rely on licenses “sufficiently comparable to the hypothetical license at issue in suit.” *Lucent Techs., Inc.*, 580 F.3d at 1325. One potentially comparable license may involve the licensing of unasserted patents with the patents-in-suit. The use of such a license, however, may affect the selection of a reasonable royalty. Cf. *Ericsson, Inc., v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014) (specifying that patent infringement damages “must reflect the value attributable to the infringing features of the product, and no more”).

In considering whether a license is sufficiently comparable, “alleging a loose or vague comparability between different technologies or licenses does not suffice.” *LaserDynamics, Inc.*, 694 F.3d at 79. Thus, a court performing its gatekeeping function should ensure that an expert’s analysis meets the “minimum threshold” of using a “sound” methodology and relies upon evidence “sufficiently related to the case at hand.” *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831, 852 (Fed. Cir. 2010), *aff’d*, 564 U.S. 91 (2011). Once that threshold is met with respect to an expert’s selection of comparable licenses, factual issues about the “degree of comparability” and whether the expert appropriately considered “certain variables” are “best addressed by cross examination and not by exclusion.” *ActiveVideo Networks, Inc. v. Verizon Commc’ns, Inc.*, 694 F.3d 1312, 1333 (Fed. Cir. 2012) (citation omitted). Stated another way, “the fact that a license is not perfectly

analogous generally goes to the weight of the evidence, not its admissibility.” *Ericsson, Inc.*, 773 F.3d at 1227.

However, the Federal Circuit has “cautioned that ‘district courts performing reasonable royalty calculations [must] exercise vigilance when considering past licenses to technologies *other* than the patent in suit,’ and ‘must account for differences in the technologies and economic circumstances of the contracting parties.’” *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1330 (Fed. Cir. 2014) (quoting *ResQNet.com, Inc.*, 594 F.3d at 869); *Finjan, Inc. v. Secure Computing Corp.*, 626 F.3d 1197, 1211 (Fed. Cir. 2010)); *see also Bio-Rad Labs., Inc. v. 10X Genomics, Inc.*, 967 F.3d 1353, 1372–73 (Fed. Cir. 2020) (adding that comparability analysis also requires considering whether any such license arose under circumstances comparable to the hypothetical negotiation).

Such vigilance is also appropriate when an expert’s analysis relies upon licenses resulting from agreements to settle litigation. Although the Federal Circuit has questioned the suitability of using prior settlements in fixing a reasonable royalty, the court permits their use in “limited circumstances.” *LaserDynamics, Inc.*, 694 F.3d at 77–78; *see ResQNet.com, Inc.*, 594 F.3d at 872–73 (remanding due to expert’s unsound reliance on inapposite licenses to inflate the royalty and observing “that the most reliable license in th[e] record arose of out of litigation”). Indeed, “no per se rule bar[s] reference to settlements simply because they arise from litigation.” *AstraZeneca AB v. Apotex Corp.*, 782 F.3d 1324, 1336 (Fed. Cir. 2015). More recently, the court advised, “prior settlements can be relevant to determining damages,” but that “some, while probative, will introduce a danger of unfair prejudice that substantially outweighs the probative value.” *Elbit Sys. Land and C4I Ltd. v. Hughes Network Sys., LLC*, 927 F.3d 1292, 1299–1300 (Fed. Cir. 2019).

Although identity of circumstances is not required, assessing whether settlement agreements are comparable requires consideration of matters such as “similarities and differences in technologies and market conditions and the state of the earlier litigation when settled.” *Id.* To avoid skewing the selection of a royalty from a hypothetical negotiation, an expert must take care to use sufficiently comparable licenses and account for similarities and differences between the settlement at issue and the hypothetical negotiation. *Id.* (noting the expert appropriately considered the timing of the settlement relative to the hypothetical negotiation, the related nature of the technologies, the similar competitive relationships at issue, and any needed adjustment of the royalty for the patent at issue relative to the licensed technology); *see also Prism Techs. LLC v. Sprint Spectrum L.P.*, 849 F.3d 1360, 1370–71 (Fed. Cir. 2017).

“When, [as here,] the accused technology does not make up the whole of the accused product, apportionment is required.” *Finjan, Inc. v. Blue Coat Sys., Inc.*, 879 F.3d 1299, 1309 (Fed. Cir. 2018). In such a case, a “patentee must give evidence tending to separate or apportion . . . the patentee’s damages between the patented feature[s] and the unpatented features.” *LaserDynamics, Inc.*, 694 F.3d at 67; *see Finjan*, 879 F.3d at 1309 (specifying that “apportionment is required . . . [to] ‘reflect the value attributable to the infringing features of the product, and no more’”) (citation omitted). An expert whose opinions on damages fail to “separate the value of the allegedly infringing features from the value of all other features” is inadmissible. *See Commonwealth Sci. & Indus. Rsch. Org. v. Cisco Sys., Inc.*, 809 F.3d 1295, 1301 (Fed. Cir. 2015) (“*CSIRO*”).

Recognizing that the selection of a reasonable royalty is not an exact science, the Federal Circuit permits damages to be proven in various ways, provided that the methodology is relevant and reliable. *See CSIRO*, 809 F.3d at 1301–04. For example, apportionment may be addressed

via the royalty rate, royalty base, or some combination of the two. *Ericsson, Inc.*, 773 F.3d at 1226. Because comparable licenses rarely constitute perfect analogs to a hypothetical negotiation, *id.* at 1227, an expert relying upon the same must account for the technological and economic differences and circumstances giving rise to the licenses relative to the hypothetical negotiation and/or show that the licenses are so comparable that additional apportionment is not required. *See Vectura Ltd. v. GlaxoSmithKline LLC*, 981 F.3d 1030, 1040 (Fed. Cir. 2020); *Bio-Rad Labs., Inc.*, 967 F.3d at 1372–73; *VirnetX, Inc.*, 767 F.3d at 1330.

These principles form the backdrop to the arguments raised in K2M’s motions.

C. The Alphatec and Allez settlement licenses relied upon by Ms. Davis are not sufficiently comparable to the hypothetical negotiation, but the Stryker license agreement is sufficiently comparable.

K2M asserts that Ms. Davis’s use of two settlement licenses, and a third license agreed to after earlier litigation, renders her analysis unreliable or warrants exclusion of a part of it. *See* ECF No. 546, at 9–10 (arguing that the subject licenses fail to “meet the baseline comparability test”).

1. Alphatec and Allez Settlement Licenses

The Court begins with K2M’s challenge to the comparability of the Alphatec Spine, Inc. (“Alphatec”), and Allez Spine, LLC (“Allez”) settlement licenses, to the hypothetical negotiation. Effective May 1, 2008, Biedermann Motech GmbH (“BM”) and DePuy entered into a settlement with, and agreed to license the ‘678 patent to Alphatec.¹⁰ ECF No. 552-1. Effective September 12, 2008, BM and DePuy also entered into a settlement agreement with, and agreed to license the ‘678 patent to Allez. ECF No. 552-2. Both sets of agreements pertain to spinal screw products

¹⁰ The Alphatec and Allez settlement agreements and licenses supplied to the Court are unsigned. *See* ECF Nos. 552-1, 552-2. The Court assumes that the agreements and licenses were, in fact, consummated on or about the dates alleged.

sold by Alphatec and Allez that infringed BT's '678 patent. ECF No. 552-1, at 2; ECF No. 552-2, at 2. BT's '678 patent is not one of the patents-in-suit at issue here.

The first agreement called for Alphatec to pay a lump sum of [REDACTED] for past infringing sales and a [REDACTED] royalty on future net sales of its Zodiac and Solanas screw products, among others. ECF No. 552-1, at 2, 7, 9, 11. The second agreement with Allez specified payment of [REDACTED] ECF No. 552-2, at 2–3, 7–8.

K2M argues the Alphatec and Allez settlement licenses are not comparable because: (1) they arose four years before the 2012 hypothetical negotiation, and during litigation; (2) they involved only the '678 patent and none of the patents-in-suit; (3) one of the licensors, DePuy, competed with both Alphatec and Allez; and (4) both settlements involved lump sum payments, which cannot be reliably converted to a royalty rate. ECF No. 546, at 9.

K2M contends that the litigation giving rise to the Alphatec and Allez agreements skews their utility in calculating a reasonable royalty. *Id.* at 6–7. K2M advises that these settlements occurred only after BM and DePuy successfully sued Medtronic for infringing the '678 patent, and a jury awarded \$226.3 million in lost profits damages.¹¹ *Id.* at 7; *See DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 526 F. Supp. 2d 162, 177 (D. Mass. 2007). Five months later, Alphatec settled with BM and DePuy on the terms noted above. ECF No. 546, at 7; ECF No. 552-1. Soon thereafter, Allez also settled on the terms noted above. ECF No. 546, at 7; ECF No. 552-2. Contending Ms. Davis has not accounted for how such licenses differ from the posited

¹¹ On appeal, and after the agreements described above, the award of lost profits was reduced by \$77.2 million dollars. *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1333–34 (Fed. Cir. 2009).

hypothetical negotiation, K2M argues her testimony is unreliable and fails to satisfy the minimum threshold or baseline of comparability. ECF No. 546, at 6–10.

BT argues that no absolute bar prohibits the use of settlement agreements in calculating a reasonable royalty. ECF No. 602, at 8, 10. BT also argues that Ms. Davis rigorously analyzed the technological and economic circumstances of the disputed settlement licenses relative to the hypothetical negotiation, as well as in the context of BT’s licensing practices and its move away from exclusive licenses. *Id.* at 10–12. In addition to the facts described below, BT asserts that Ms. Davis “consider[ed] the settlement nature of both the Alphatec and Allez licenses, weighed their importance, and found . . . [them] . . . sufficiently comparable.” *Id.* at 8–9. Finally, BT contends that K2M’s critiques of Ms. Davis’s analysis and selection of the Alphatec and Allez settlement licenses are matters for cross-examination. *Id.* at 12.

The facts relating to the terms and timing of the Alphatec and Allez settlement agreements licenses are undisputed. Ms. Davis identifies the following matters as pertinent to hypothetical negotiators. First, she finds that the ’678 patent is technologically comparable to and offered “similar benefits to the patents-in-suit.” Davis Report at 46; *see id.* at 43. Ms. Davis bases this finding on the opinions of Dr. Sachs. *Id.* at 46. He opined that the ’678 patent, which facilitates spinal surgery and “claims a pedicle screw design directed to a polyaxial screw” and also addresses the “rigid attachment of bone[] screws to spinal rods using a compression member,” was technically comparable to the patents-in-suit. ECF No. 605-1, at 23–25; ECF No. 605-4, at 15. Second, she observes that Alphatec and Allez each admitted that the ’678 patent was valid, enforceable, and infringed. Davis Report at 46. Third, each agreement involved the payment of running royalties ([REDACTED] respectively) structured as a percentage of net sales. *Id.* Fourth, relying on statements by Mr. Biedermann, she finds the [REDACTED] by

Alphatec and Allez [REDACTED]. *Id.* at 44, 46. Finally, she notes that the agreements at issue were not entered into [REDACTED]. *Id.* at 46; *see id.* at 43, 45 ([REDACTED]).

These facts are insufficient to meet the baseline of comparability test. Ms. Davis’s analysis lacks sufficient information for the Court to find preliminarily, as a gatekeeper, that the Alphatec and Allez settlement licenses constitute real-world evidence of the commercial market value of the asserted patents. *See* Fed. R. Evid. 104(a). To start, aside from noting that the licenses were concurrently entered into as part of settlements with Alphatec and Allez, Davis Report at 43–46, Ms. Davis’s report nowhere discusses the underlying litigation. *Cf.* ECF No. 552-5, at 4–5 (188:4–189:13) (testifying that the Allez settlement occurred “pretty close to trial,” cutting off further litigation costs). The settlement agreements resolved lawsuits pending, respectively, in the District of Massachusetts against Alphatec, ECF No. 552-1, at 2–5, and in the Central District of California against Allez, ECF No. 552-2, at 2–6. Yet, Ms. Davis offers no details about those cases.

Given K2M’s plausible contention that the *Medtronic* litigation over the ’678 patent promptly led to separate decisions by Alphatec and Allez to settle and take licenses, ECF No. 546, at 6–7, Ms. Davis needed to address the litigation and/or to offer reasons why such discussion was unnecessary.¹² Merely acknowledging that the licenses were entered into as part of settlements, in which Alphatec and Allez agreed the ’678 patent was valid, enforceable, and infringed, is not, as BT asserts, “rigorous analysis” and fails to account for whether the attendant circumstances

¹² Counsel for BT attempts to fill these gaps, for example, by arguing that the *Medtronic* trial results informed Alphatec and Allez’s decisions to enter into settlement licenses. ECF No. 602, at 14–15 (arguing that the licensees benefited from information gathered during the adversarial process); *see Prism Techs. LLC*, 849 F.3d at 1371). As Ms. Davis’s report lacks such analysis, the Court declines to consider it.

were comparable to the hypothetical negotiation. *See Bio-Rad Labs., Inc.*, 967 F.3d at 1372–73; *LaserDynamics, Inc.*, 694 F.3d at 77 (contrasting the payment of “fees . . . tainted by the coercive environment of patent litigation” with the willing licensor/licensee premise of a voluntary, hypothetical negotiation).

Nor, as BT suggests, does Ms. Davis’s generic deposition testimony that the dynamics associated with a license to settle litigation may be accounted for when weighing such a license at trial, solve the problem. *See* ECF No. 602, at 8; ECF No. 568-2, at 4 (31:20–32:8). As the court observed in *AVM Techs., LLC v. Intel Corp.*, in excluding expert testimony about a settlement license not involving the patent-in-suit, “[w]ithout analysis of the litigation, the [expert’s] conclusion [about the hypothetical negotiation] cannot be based on ‘sound economic and factual predicates.’” 927 F. Supp. 2d 139, 143 (D. Del. 2013) (noting absence of analysis of factors affecting the value of the settlement, including the damages sought and issues of willfulness) (citing *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002)).

Accounting for such matters is all the more important as the licenses at issue do not involve the patents-in-suit. Although settlement licenses may be used at trial in limited circumstances and when sufficiently comparable, the window for admission narrows as the circumstances diverge from the hypothetical negotiation and an expert fails to address such differences.¹³ *See*

¹³ The Court rejects K2M’s assertion that the comparability threshold for settlement licenses requires a finding that the disputed licenses are the “most reliable” ones in the record. *See* ECF No. 624, at 7–8. Although the court in *ResQNet.com* characterized a single license arising out of litigation over the patents-in-suit as the “most reliable license in th[e] record”—where five other licenses relied upon by the expert did not involve the asserted patents and had no “discernible link to the claimed technology”—it did not establish that as a condition for an expert’s use of a settlement license. *ResQNet.com, Inc.*, 594 F.3d at 870–73. Instead, the court ruled that the district court erred by considering the five inapposite licenses used to inflate the royalty rate, and remanded for recalculation of a reasonable royalty. *Id.* at 872–73. Nor have the Federal Circuit’s later decisions on settlement licenses imposed such a requirement.

LaserDynamics, Inc., 694 F.3d at 77–78. Ms. Davis identifies some circumstances deemed comparable, including: the technical comparability of the '678 patent to the asserted patents; matters of validity and infringement; non-exclusivity; [REDACTED]; and [REDACTED]. Davis Report at 43–46.

She fails to address, however, other circumstances bearing on the reliability and relevance of her analysis. For example, Ms. Davis engages in no substantive analysis to determine how the incremental value added to Alphatec and Allez's accused products attributable to the use of the technology covered by the '678 patent *compares* to the incremental value supplied to K2M's accused products by virtue of the use of BT's patented technology. *See Ericsson, Inc.*, 773 F.2d at 1226 (noting "[t]he essential requirement is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product"); *VirnetX, Inc.*, 767 F.3d at 1328 (noting a district court must exercise its gatekeeping role "to ensure that only theories comporting with settled principles of apportionment . . . reach the jury").

Ms. Davis relies on Dr. Sachs to opine that the '678 patent "offers similar benefits" to the asserted patents. Davis Report at 43. Dr. Sachs addressed, however, only technical comparability and did not speak to the relative comparative values of licensed technology and the asserted patents. *See* ECF No. 645-1, at 3 (212:11 – 213:20) (stating he analyzed the licensed patents "to determine technical comparability," not to opine about their equal, greater, or lesser value to a surgeon in relation to the patents-in-suit). For this reason, BT's assertions that Dr. Sachs explained, and/or that his reports support a finding, "that those other [licensed] patents provided *similar value* as the patents at issue here" are incorrect. ECF No. 604, at 11 (emphasis added); *see id.* at 12.

Nor did Ms. Davis address market conditions in 2008, relative to those in 2012, at the time of the hypothetical negotiation. Although BT's argument that the passage of time does not preclude a settlement license from being comparable is plausible, ECF No. 602, at 13–14 (citing cases), there appears to be no evidence linking the market conditions in 2008 to those in 2012, or comparing the market status/size of Alphatec and/or Allez, with K2M's status/size.

Nor did Ms. Davis analyze how, and/or whether, to adjust her hypothetical negotiation royalty rate (██████████) to account for any differences in the ██████████ in the Alphatec and Allez settlement licenses. Ms. Davis did not, for example, calculate an effective royalty rate, based on actual sales numbers of Allez's licensed products, for the ██████████ called for in that settlement license, so as to approximate the ██████████ paid by Allez. Also, while relying upon Mr. Biedermann's statements, Davis Report at 44, 46, and terms linking ██████████ paid by Alphatec ██████████ and Allez ██████████ ECF Nos. 552-1, at 2–3; ECF No. 552-2, at 2, to indicate that the lump sums correspond to ██████████ royalty rates, Ms. Davis conducted no analysis to confirm Mr. Biedermann's assertions. *Cf. Lucent Techs., Inc.*, 580 F.3d at 1330 (noting that, as “fundamental differences exist between lump sum . . . and running royalty agreements,” “some basis for comparison must exist in the evidence” to translate the latter into the former to support a jury's lump sum damages award based on running royalty agreements).

Based on the foregoing, and cognizant of the need not to conflate admissibility questions with the assignment of weight to trial evidence, the Court finds that Ms. Davis's analysis of the Alphatec and Allez settlement licenses is both unreliable and insufficiently tied to the facts of this dispute to be relevant and helpful to the jury. Without more, the Alphatec and Allez licenses have not been shown to be sufficiently comparable to the hypothetical negotiation as proxies for and/or

as real-world evidence of the commercial market value of the asserted patents. Ms. Davis's analysis of, and opinions stemming from, those settlement licenses are excluded.¹⁴

2. Stryker License Agreement

Effective April 19, 2013, BT and DePuy Synthes entered into a patent license agreement with Stryker [REDACTED]

[REDACTED] (collectively, "Stryker").¹⁵ ECF No. 552-3. [REDACTED]
[REDACTED]. ECF No. 552-3, at 1–

5. [REDACTED]
[REDACTED]¹⁶ *Id.* at 2–

5. As part of the license, Stryker agreed to pay a [REDACTED]
[REDACTED]. *Id.* at 5.

¹⁴ The foregoing conclusion also supports K2M's request to exclude the Alphatec and Allez licenses on Rule 403 grounds. *See, e.g.*, ECF No. 642, at 4–6. Having failed to establish the baseline comparability of these licenses not involving any of the patents-in-suit, to meaningfully account for their differences, to specify how to relate the royalties and lump sums paid to the hypothetical negotiation, and to apportion, reduces the licenses' probative value and also increases the risk of unfair prejudice to K2M. Allowing use of the licenses without proper expert analysis will also likely mislead and/or confuse the jury. Accordingly, as the dangers of jury confusion and unfair prejudice to K2M substantially outweigh any remaining probative value, it is also proper to exclude such licenses pursuant to Rule 403 of the Federal Rules of Evidence.

¹⁵ [REDACTED] ECF No. 552-3, at 2–5.
[REDACTED] the Court refers to the licensees as "Stryker." ECF No. 552-3, at 5.

¹⁶ [REDACTED] ECF No. 552-3, at 2.
[REDACTED] Davis Report at 36.
[REDACTED] *Id.*; *see, e.g.*, ECF No. 497, at 5.

[REDACTED]. *Id.* at 3–5. Based on Mr. Biedermann’s statements [REDACTED] but agreed to a [REDACTED] [REDACTED]” Davis Report at 38. Thus, Ms. Davis reports that “[t]he parties agreed that the total value of the licensed technology was [REDACTED].” *Id.*

K2M argues that Ms. Davis’s reliance upon the 2013 Stryker license also fails to meet the baseline comparability test. ECF No. 546, at 10. K2M asserts that DePuy’s involvement separates the Stryker license from the hypothetical negotiation. *Id.* Faced with the prospect of losing profits to a competitor (Stryker), K2M contends that DePuy sought a royalty greater than an inventor acting alone would have sought. *Id.* K2M argues also that Stryker agreed to pay a [REDACTED] royalty to enable continuing sales of its existing [REDACTED] product line and avoid any potential injunction. *Id.* Finally, K2M argues that the earlier, lengthy litigation over the favored-angle patents between BT and DePuy (on the one hand) and Stryker (on the other), skewed the licensed royalty rate. *Id.* at 7.

BT mostly relies upon the arguments discussed above with respect to Alphatec and Allez about why Ms. Davis correctly determined the Stryker license to be sufficiently comparable and instructive. ECF No. 602, at 7–15. Further, BT observes that Ms. Davis addressed why the Stryker license was free of distorting litigation dynamics and avoidance concerns, as the interference matter had long since concluded and did not involve a contest over infringement and validity. *Id.* at 8, 15.

BT also disputes that DePuy’s presence differentiates the Stryker license from the hypothetical negotiation involving BT (as inventor) and K2M (a noncompetitor). *Id.* at 12. As observed by Ms. Davis, DePuy’s status as [REDACTED] gives it

status in the hypothetical negotiation. *Id.* Finally, BT argues, based on Ms. Davis's analysis, that in any such negotiation it would have been protective of existing relationships with licensees, such as DePuy. *Id.*

Ms. Davis identifies the following matters from the Stryker license, as pertinent to any hypothetical negotiation. First, she notes the parties effectively agreed that the total value of the technology [REDACTED] Davis Report at 35, 38.

Second, because the agreement specified a [REDACTED], Ms. Davis finds it suggestive of a [REDACTED]

[REDACTED]. *Id.* [REDACTED]

[REDACTED]

[REDACTED]. *Id.* Dr. Sachs

opined that the [REDACTED] offered similar benefits to the patents-in-suit. *Id.* Fourth, Stryker, like K2M, sold spinal products. *Id.* And finally, the agreement shows that BT (and its exclusive licensee, DePuy) [REDACTED]

[REDACTED] *Id.*

Ms. Davis's use and selection of the Stryker license satisfies the minimum threshold for comparability for several reasons. First, the Stryker license involves [REDACTED]

[REDACTED], drawing it closer to the current dispute. ECF No. 552-3, at 2–4 (referencing the

[REDACTED] Notably, BT and DePuy licensed to Stryker, among other things, that technology, [REDACTED]

[REDACTED], consistent with BT's reported licensing practices.

Second, when the Stryker license was consummated, no litigation existed between the parties about infringement or the validity of BT's patents, and the prior patent interference

litigation had been resolved. Davis Report at 34; ECF No. 552-8, at 4. Over 15 months had passed from the Federal Circuit's January 12, 2012 decision—affirming the trial court's 2010 ruling upholding the result of the patent interference proceeding (and its cancellation of the claims of Stryker's patent)—to the effective date of the license, April 19, 2013.¹⁷ *Stryker Spine v. Biedermann Motech GmbH*, 750 F. Supp. 2d 107 (D.D.C. 2010), *aff'd*, 451 F. App'x 954 (Fed. Cir. 2012); ECF No. 552-3, at 2. [REDACTED]

[REDACTED] Davis Report at 38. Based on such facts, a factfinder could reasonably conclude that litigation coercion played little to no role in the terms of the Stryker license.

Also, K2M reads too much into the Court's statement in its summary judgment ruling that Stryker entered into the license "in an effort to avoid future litigation." ECF No. 486, at 44; *see* ECF No. 642, at 5–7. Similarly, K2M's contention that the Court found the Stryker license was, in fact, a "settlement agreement" by looking to cases discussing contractual estoppel and settlement agreements, reaches too far. ECF No. 546, at 7–8; ECF No. 486, at 49–50. In fact, the Court repeatedly referred to the matter as a "patent license agreement," "post-litigation agreement," and/or "contract." ECF No. 486, at 46–56.

In any event, the desire to avoid future litigation plays a role in nearly every licensing agreement. *See Prism Techs. LLC*, 849 F.3d at 1370 (noting "the inherent connection between patent licenses and at least the potential for litigation" and the Federal Circuit's frequent recognition "that a . . . license to practice a patent is in substance nothing but a covenant not to sue"). Undoubtedly, the potential for renewed litigation existed before the parties agreed to the

¹⁷ During the months preceding and continuing after execution of the Stryker license, and as indicated in the materials discussed in K2M's briefing to preclude certain evidence of deposition testimony, emails, and meetings between Stryker and BT representatives, BT and Stryker were interacting at high levels [REDACTED]

[REDACTED] *See, e.g.*, ECF Nos. 371-1, 371-2, 371-4, 548.

Stryker license. *See* ECF No. 552-3 at 7, ¶ 3.8. And, as Ms. Davis acknowledges, the interference litigation sheds light on the origin of the license. Davis Report at 37. Whether it skewed the resulting license is a matter for the factfinder, rather than grounds for exclusion. The same is true for K2M’s claim that the license’s royalty rate reflects Stryker’s fear of litigation and an injunction on sales of infringing products already on the market. *See* 35 U.S.C. § 283.

Finally, nor does DePuy’s presence as a co-licensor render the connection between the Stryker license and the hypothetical negotiation too remote or render Ms. Davis’s methodology unreliable. As Ms. Davis notes, by virtue of DePuy’s [REDACTED] [REDACTED] beginning on January 1, 2012, “it is reasonable to assume that DePuy [] would be involved in the hypothetical negotiation along with [BT] and K2M.” Davis Report at 26. Alternatively, it is also reasonable to assume that, BT would approach any hypothetical negotiation cognizant of the need not to damage relationships with existing licensees, such as DePuy. *Id.* at 62–63.

For these reasons, Ms. Davis’s selection and analysis of the Stryker license is reliable and sufficiently tied to the facts of the case and the Court declines to exclude it on the grounds set forth in K2M’s motion to exclude settlement licenses.¹⁸ ECF No. 528.

D. Ms. Davis’s damages analysis must be excluded due to insufficient apportionment analysis.

K2M next asserts that Ms. Davis failed to apportion her proposed royalty in three ways. First, K2M argues that, by applying the same royalty ([REDACTED] of the net product sales) regardless of whether an accused product infringes one or five asserted patents, for example, Ms. Davis failed to isolate the economic harm resulting from infringement of the claimed inventions. ECF No. 564,

¹⁸ The Court addresses apportionment and Rule 403 concerns relating to the Stryker license below.

at 12–13. Second, K2M argues that Ms. Davis’s royalty analysis fails to differentiate the infringing and non-infringing features of the accused products and isolate the value attributable to the former. *See, e.g., id.* at 15–17; ECF No. 644, at 7. Finally, K2M asserts that Ms. Davis improperly inflated the royalty base by including certain non-infringing rods associated with the accused Everest and Yukon screw products. ECF No. 564, at 5–6.

1. Apportionment by patent(s)

The Court need not address K2M’s apportionment by patents argument for the reasons discussed below. Section 284 of Title 35, United States Code, addresses damages for patent infringement and provides that a “court shall award . . . damages 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.” 35 U.S.C. § 284. Relying on this provision and apportionment caselaw, K2M argues that, as the scope of its alleged use of BT’s inventions shrinks, compensatory damages for any alleged infringement must necessarily do the same. *See* ECF No. 564, at 8 (noting that, although the number of BT patents asserted has been materially reduced, Ms. Davis has not reduced the proposed [REDACTED] royalty rate). When multiple patents are alleged to be infringed, K2M implicitly argues that, to reliably tie damages to “the use made of an invention,” an expert must apportion any posited royalty rate separately for each asserted patent, instead of applying a single rate to all such patents. Absent that, K2M contends there exists no proper distillation of damages for each patent found to have been infringed.

Ms. Davis opines that, “[r]egardless of which patents-in-suit . . . are . . . infringed, . . . the royalty rate agreed upon in the hypothetical negotiation would remain the same.” Davis Report at 25; *see, e.g.,* ECF No. 568-2, at 8 (57:17–58:22). Rather than assigning only a portion of her [REDACTED] [REDACTED] royalty rate to each asserted patent (or applicable claim therein), Ms. Davis opines that the

posited rate applies for *each* of the asserted patents, without cumulation, consistent with BT's licensing practices and its existing licenses. *See, e.g.*, Davis Report at 70. This conflicts with the assumption underlying K2M's overcompensation argument; namely, that the royalty attributable to each asserted patent is some subset of the total [REDACTED] rate such that, if K2M infringed only one patent, the rate would be far less. *See, e.g.*, ECF No. 616-2, at 11, 82 (describing Dr. Putnam's dissection of Ms. Davis's maximum [REDACTED] royalty and assignment of [REDACTED] to the favored-angle patent features and [REDACTED] to all other features of the other patents-in-suit); ECF No. 674, at 108–10 (ruling that a portion of Dr. Putnam's analysis was unreliable "because it rests upon premises at odds with any fair reading of Ms. Davis's report").

To some extent, K2M's first apportionment argument invites speculation about the number of BT patents, if any, found to be valid and infringed. Such matters cannot be determined at this juncture. Also, like those aspects of Dr. Putnam's analysis the Court previously rejected and excluded, *see* ECF No. 674, at 105–10, it rests upon the faulty assumption that Ms. Davis's royalty rate is a composite, comprised of sub-rates necessarily attributable to each of the asserted patents. Provided a reliable basis exists for assigning a single royalty rate for the infringement of one or more of the asserted patents and that such results in adequate compensation of not less than the use(s) made of the invention(s), Ms. Davis's opinions are a matter for cross-examination and not exclusion. *Cf. Omega Patents, LLC v. CalAmp Corp.*, 13 F.4th 1361, 1377–79 (Fed. Cir. 2021) (indicating that comparable licenses theoretically could support the use of a single \$5.00 royalty per unit, regardless of the number of patents licensed, if the evidence established that the license rate was properly apportioned to the value of the patented invention). As discussed below, however, any such conclusion must flow from review of Ms. Davis's analysis on its own terms.

Moreover, although neither case presented, and the Federal Circuit did not address the issue raised by K2M, both the *Bio-Rad* and *VirnetX* cases involved damages experts, who like Ms. Davis, applied a single royalty rate to claims of infringement of multiple patents. In *Bio-Rad*, the expert applied a single 15% royalty rate to claims that six accused product lines infringed one or more of three asserted patents.¹⁹ *Bio-Rad Labs., Inc.*, 967 F.3d at 1362, 1372, 1376. Similarly, in *VirnetX*, the expert applied a 1%, single royalty rate to the infringement of four patents, based upon review of six comparable licenses (four related to the patents-in-suit; two involving related technology) and the patent owner's licensing policy.²⁰ *VirnetX, Inc.*, 767 F.3d at 1325, 1330–31.

Nor does the ruling in *MiiCS & Partners, Inc. v. Funai Electric Co.*, No. 14-804-RGA, 2017 WL 6268072 (D. Del. Dec. 7, 2017), upon which K2M relies, definitively answer the first apportionment challenge. See ECF No. 564, at 12–13. There, the defendants sought to exclude plaintiffs' damages expert's opinion as unreliable because it "applie[d] a royalty base that include[d] units accused under any asserted patent to a royalty rate with contributions from every

¹⁹ BT argues that the court's statement in *Bio-Rad* that "[t]here is no blanket rule of *quantitative* apportionment in every comparable license case" runs counter to K2M's argument for component royalty rates for each patent. ECF No. 604, at 14. The court made that statement, however, in addressing a challenge to an alleged failure to apportion between patented and unpatented features of the six accused product lines, consistent with K2M's second apportionment challenge. *Bio-Rad Labs., Inc.*, 967 F.3d at 1376. Also, the court's affirmance of a damages verdict based on a single royalty rate for multiple patents, in spite of vacating infringement findings for two of the three asserted patents, appears to rest upon party concessions and the fact that each of the six accused product lines infringed the remaining patent. *Id.* at 1362, 1372.

²⁰ As argued by K2M, the *VirnetX* court ultimately vacated the damages award. ECF No. 674, at 42. It did so, however, for reasons having nothing to do with the expert's selection of a single royalty rate for the infringement of multiple patents. 767 F.3d at 1326–29. Indeed, and as noted by BT, the court rejected a comparability challenge to the six licenses supporting (along with the patentee's licensing policy) the expert's proposed royalty. ECF No. 604, at 14; *VirnetX, Inc.*, 767 F.3d at 1329–31 (finding no abuse of discretion in permitting the expert's "testimony regarding the proper royalty rate based on these allegedly comparable licenses").

asserted patent.” *MiiCS & Partners, Inc.*, 2017 WL 6268072, at *5. The defendants argued that this led to a “vast over[]count[ing of] the number of infringing units.” *Id.*

The district court likened the expert’s proposed, single royalty rate to a composite royalty rate for the two remaining patents-in-suit and found it at odds with Federal Circuit caselaw focusing damages “compensation [on] the economic harm caused by infringement of the claimed invention.” *Id.* (citing *ResQNet.com, Inc.*, 594 F.3d at 869; 35 U.S.C. § 284). The court granted defendants’ *Daubert* motion, finding that the expert’s analysis “assign[ed] to each accused product the same per-unit royalty regardless of how many patents that product [was] accused of infringing [and] . . . result[ed] in a damages calculation that overcompensate[d] Plaintiffs and [did] not appropriately reflect the inventions’ footprints in the marketplace.” *Id.* at *5–6.

This ruling is distinguishable for at least two reasons. First, the court’s cursory analysis contains no information about the basis for the expert’s proposed royalty rate and, more particularly, whether the expert, like Ms. Davis, identified and analyzed comparable historical licenses to select the rate proposed. *See id.* Second, also unexplained is how use of the expert’s methodology led to the complained of “vast[]” overcounting of the number of infringing units. *See id.* The use of such a faulty royalty base would render any resulting damage calculation unreliable. Here, however, K2M’s claim is not about the overcounting of numbers of accused products, but rather about overcompensation due to an excessive royalty rate. Finally, to the extent the ruling indicates an expert “must carefully tie proof of damages to the claimed invention’s footprint in the marketplace,” the Court agrees and turns its attention to Ms. Davis’s analysis.

2. Apportionment by infringing feature(s)

a. Ms. Davis's reliance on built-in apportionment is not supported by sufficient analysis.

It is undisputed here that the asserted technology does not comprise the whole of K2M's accused Everest, Yukon, and Cascadia products and that apportionment is required.²¹ *See, e.g.*, ECF No. 564, at 20; ECF No. 604, at 12; *see also Finjan, Inc.*, 879 F.3d at 1309. Ms. Davis purports to accomplish this via the Stryker, NuVasive, Alphatec, and Allez licenses, Davis Report at 66–67, 69–70, the latter two of which the Court has already excluded. Although Ms. Davis identifies certain factors noted above linking these licenses to the hypothetical negotiation, she relies upon the concept of built-in apportionment. She explicitly says so in discussing *Georgia-Pacific* factor number 13 (distinguishing between the value attributable to an invention and non-patented elements, etc., added by the infringer). *See Georgia-Pacific Corp.*, 318 F. Supp. at 1120. In conclusory fashion, Ms. Davis states:

I have discussed above the licenses that I believe would be relevant to hypothetical negotiators and that would be instructive as to the appropriate royalty in this matter. I understand that case law exists finding that the value of the patented technology as distinguished from other attributes of the accused product(s) can be supported by the parties' prior licensing agreements. Therefore, apportionment has already been taken into account during the negotiation of such agreements.

Davis Report at 66–67. At deposition, Ms. Davis confirmed this point stating that, other than reviewing said licenses, she performed no independent analysis to assess the value of the patented features in the accused products relative to non-patented features, as she knew of no such

²¹ When it is established that a “patented feature drives the demand for an entire multi-component product,” damages may be calculated based on a royalty base of the sales of the entire product. *LaserDynamics, Inc.*, 694 F.3d at 67. This is known as the entire market value rule. *See Vectura Ltd.*, 981 F.3d at 1040. BT does not rely upon the entire market value rule here. Nor has Ms. Davis conducted any analysis of whether the use of BT's patented technology drove customer demand for K2M's accused products. Therefore, the Court turns to principles of apportionment.

information that would enable such analysis. ECF No. 568-2, at 8–9 (61:17–62:16); *see id.* at 9 (59:21–61:16). Further, although not recalling whether Dr. Sachs performed such an analysis, Ms. Davis disclaimed any reliance upon it. *Id.* (62:17–63:2).

The concept of built-in apportionment rests upon the assumption “that the negotiators of [the] comparable license[s] settled on a royalty rate and royalty base combination embodying the value of the asserted patent[s].” *Vectura Ltd.*, 981 F.3d at 1041. On the matter of comparative value, however, Ms. Davis assumes that built-in apportionment applies without sufficient analysis. For example, in assessing the 2013 Stryker agreement, Ms. Davis nowhere assesses

[REDACTED]

relates to the value of K2M’s alleged infringing use of BT’s asserted patents in the Everest and Yukon systems.²² *See* ECF No. 552-3, at 2 (defining the “Biedermann [REDACTED]”). Rather than addressing whether the use made of, and value attributed to, the patented features in the licensed Stryker products aligns with the same in K2M’s products, Ms. Davis merely assumes this to be so. *Cf. Bio-Rad Labs., Inc. v. 10X Genomics, Inc.*, 396 F. Supp. 3d 368, 391 (D. Del. 2019) (noting how an expert “‘compared the unpatented features of the accused product with what he considered to be the unlicensed features of the products in the [prior] licenses’”).

Ms. Davis also does not discuss or attempt to account for the fact that the Stryker license does not involve or relate in any way to [REDACTED]

[REDACTED]

²² The accused Cascadia product line does not make use of the asserted favored angle patents.

hypothetical negotiation), the [REDACTED] between BT and NuVasive, and the [REDACTED] [REDACTED] in the license in the pertinent comparison.²⁴

Moreover, Ms. Davis also fails to consider and account for the fact that none of the licenses relied upon involve BT's [REDACTED]²⁵

b. Dr. Sachs did not address comparable value.

In opposing the motion to exclude Ms. Davis and recognizing the need to address both technological and value comparability, *see Lucent Techs., Inc.*, 580 F.3d at 1331, BT asserts that the “licenses are to technology comparable in value to the technology asserted here.” ECF No. 604, at 12. BT contends “K2M completely ignores the opinions of Dr. [] Sachs . . . that the patented technology at issue is comparable in value to the technology in the historical licenses on which Ms. Davis predicates her opinion.” *Id.* at 5. To the extent such licenses involve other than the asserted patents, BT argues that Ms. Davis again relied upon “the technical evaluation of Dr. Sachs . . . who explained that those other patents provided similar value as the patents at issue here.” *Id.* at 11.

Dr. Sachs, however, did not address the relative comparative values of the licensed technology and the infringing uses made of asserted patents. *See* ECF No. 645-1, at 3 (212:11–213:20) (indicating he did not consider whether the licensed patents were of equal, greater, or

²⁴ Ms. Davis's third supplemental report on September 15, 2021, indicates that, [REDACTED]
[REDACTED]
[REDACTED] ECF No. 699-1, at 9–10.

²⁵ As indicated above, Ms. Davis's analysis of the Alphatec and Allez licenses also falls short on apportionment. Further, to whatever extent Ms. Davis relies on the DePuy license, which she discounted as “not particularly instructive,” Davis Report at 42, her analysis is also deficient for lack of apportionment.

lesser value to a surgeon in relation to the patents-in-suit). Dr. Sachs only addressed matters of technical comparability between the asserted patents and the patents covered in the licenses.²⁶ *See, e.g.*, ECF No. 605-1, at 3 (reciting that Dr. Sachs “looked at the patents that are the subject of the license, and determined whether they were technically comparable to the Patents-In-Suit”); *see id.* at 3–11 (addressing the Stryker license), 11–12 (addressing the DePuy license), 13–23 (addressing the NuVasive license), 23–25 (addressing the Alphatec and Allez licenses).

c. BT’s licensing practices alone are insufficient to address apportionment.

BT also argues that apportionment concerns are partly addressed by Ms. Davis’s reliance upon Mr. Biedermann’s description of BT’s licensing practices. ECF No. 604, at 13–14. BT argues that she accounted for the differences between the licenses and the hypothetical negotiation “by considering both Mr. Biedermann’s explanation of his licensing practices and the actual results of such negotiations with other competitors for similar technology.” *Id.* at 17. Notwithstanding K2M’s argument to the contrary, *see, e.g.*, ECF No. 644, at 11–12, an expert may rely upon a corporate witness’s statements about a licensing policy, or about how past licenses would inform a hypothetical negotiation, if a factual basis exists for doing so. *See, e.g., VirnetX, Inc.*, 767 F.3d at 1330 (finding no error in permitting expert testimony positing a 1% royalty rate based upon six comparable licenses, and noting that such rate was also based upon the expert’s “understanding

²⁶ In doing so, Dr. Sachs reviewed each of the patents-in-suit and opined that they reduced the complexity of spinal surgeries, facilitated surgeons’ performance, and improved patient outcomes. ECF No. 605-1, at 4–9; ECF No. 605-4, at 2–12. Ms. Davis also reports that Dr. Sachs opined that “[the patents-in-suit] claim important aspects of K2M’s products.” Davis Report at 13 n.40. The excerpted portions of Dr. Sachs’s reports provided to the Court with the parties’ briefs do not contain the opinion noted. Assuming the foregoing is true, does not solve the apportionment problem. *Cf. VirnetX, Inc.*, 767 F.3d at 1329 (“[w]hether ‘viewed as valuable, important, or even essential,’ the patented feature must be separated”).

that VirnetX had a ‘policy’ of licensing its patents for 1–2%”); *Studiengesellschaft Khole, m.b.H. v. Dart Indus., Inc.*, 862 F.2d 1564, 1568 (Fed. Cir. 1988); cf. *Bio-Rad Labs., Inc.*, 967 F.3d at 1375–76 (finding substantial evidence supporting jury’s damage award included corporate witness testimony about how a royalty rate from a prior licensing agreement “would translate to a much higher royalty rate . . . in the hypothetical negotiation”).²⁷ Therefore, the Court declines to exclude Ms. Davis’s opinions based solely on her partial reliance upon Mr. Biedermann’s statements about BT’s approach to licensing.

Although reliance upon a patentee’s licensing policies is permissible, an expert may not do so “without regard to comparability.” *Omega Patents, LLC*, 13 F.4th at 1379. The *Omega Patents* decision, which found that the patentee failed to present sufficient evidence to sustain a damages award premised, in part, upon purportedly comparable licenses with built-in apportionment, is instructive. *Id.* at 1376–82. On appeal, the patentee argued, among other things, that the combination of 18 comparable licenses and a corporate officer’s testimony about its licensing program provided sufficient evidence for a jury award of a \$5.00 royalty per infringing unit. *Id.* at 1378–79. [REDACTED] the patentee’s licensing program set a “licensing fee . . . [of] ‘five dollars [per unit] whether it’s one patent or 50 patents.’” *Id.* at 1378; see, e.g., Davis Report at 69 (noting the ‘[REDACTED]’). The patentee’s president also testified that “[no] particular patent [is] treated as more valuable than another’ and [the] . . . policy was ‘one price for all.’” *Id.* at 1379. Similar to

²⁷ The rejection of a corporate witness’s testimony in *Finjan*, 879 F.3d at 1311–12, is distinguishable. There, the testimony offered in support of the patent holder’s reasonable royalty contention lacked a factual connection to the case. *Id.* The court characterized the \$8-per-user fee at issue as “plucked from thin air,” without anything tying it to the corporate witness’s testimony about an 8 to 16% royalty starting point in licensing negotiations, and without any explanation of facts connecting the matter giving rise to the 8 to 16% rate to the case at hand. *Id.*

Ms. Davis, the patentee's expert testified that the infringer "should pay the same rate no matter how many claims or how many of the patents it infringes." *Id.* (also testifying "[t]hat [\$5.00 is] the market rate for the data bus patents, be it one or two or three or four or 30"); *see, e.g.*, Davis Report at 70 (opining that the [REDACTED] "rate would apply regardless of which of the asserted patents are ultimately found to be valid and infringed").

The Federal Circuit rejected the patentee's argument that testimony about the licensing program sufficiently supported the jury's award. *Omega Patents, LLC*, 13 F.4th at 1379. The court found that a licensing policy applying the same licensing fee "*regardless*" of the patents involved failed to adequately "speak to 'built-in apportionment' between the patented improvement added to the [accused product] and the conventional features of the [accused product]." *Id.* The court added that "[t]o hold otherwise would improperly permit [the patentee] to hide behind its generic licensing arrangement to avoid the task of apportionment." *Id.*

Turning to the licenses in evidence, the court ruled that the patentee failed to show that they "attributed a \$5.00-per-unit royalty to the value of the" single, asserted patent.²⁸ *Id.* Although recognizing that identical circumstances were not required, and that comparable licenses could include other patents, foreign intellectual property rights, and even cross-licenses, the court emphasized the need to account for the differences and apportion when invoking such licenses to value asserted patents. *Id.* at 1380. In *Omega Patents*, the patentee's expert "merely *identified*," but "failed to adequately account for 'substantial 'distinguishing facts' between the proffered licenses and a hypothetical negotiation." *Id.* Accordingly, the court concluded that the patentee

²⁸ In addressing the licenses, the court characterized the expert's testimony that the infringer "should pay the same rate no matter how many claims or how many of the patents it infringes," as "[f]urther walking away from apportionment." *Omega Patents, LLC*, 13 F.4th at 1379.

failed to provide a basis in fact for the jury “to associate the royalty rates used in prior licenses to the hypothetical negotiation at issue.” *Id.* at 1380–81.

The problems identified in *Omega Patents* are also present here. Aside from listing certain similarities and differences between the hypothetical negotiation and the licenses at issue, Ms. Davis engages in little analysis accounting for the same or explaining why such an accounting is not required. *See* Davis Report at 31–35 (discussing DePuy license), 35–38 (discussing Stryker license), 39–42 (discussing NuVasive license); *see Exmark Mfg. Co., Inc. v. Briggs & Stratton Power Prods. Grp., LLC*, 879 F.3d 1332, 1349–51 (Fed. Cir. 2018) (finding error in failure to exclude damages expert’s conclusory and unexplained opinions and royalty rate lacking sufficient ties to the facts). Consistent with her statements about not independently analyzing the value of the patented features in the accused products relative to non-patented features, and knowing of no basis for doing so, ECF No. 568-2, at 9 (61:17–62:16); *see id.* at 8–9 (59:21–61:16), Ms. Davis apparently relies upon BT’s licensing policy to attempt to fill the gaps on comparative value.

For example, Ms. Davis attempts to normalize the NuVasive license’s purported [REDACTED] effective royalty rate to the hypothetical negotiation via Mr. Biedermann’s statements.²⁹ Davis Report at 40. She recites that “according to Mr. Biedermann, [REDACTED] he expects this agreement would have carried a royalty rate of [REDACTED] *Id.* at 42. Similarly, and setting aside other differences in the remaining licenses, it appears that Ms. Davis simply defaulted to the licensing policy to select the proposed royalty range, with little to no explanation about how to normalize the licensed royalty rates ([REDACTED] (DePuy), [REDACTED] (Stryker), [REDACTED]

²⁹ Such a reconciliation ignores, among other things, any accounting for the value of [REDACTED]
[REDACTED].

(Alphatec), and [REDACTED] (Allez)) to the hypothetical negotiation.³⁰ See ECF No. 564, at 19 (arguing that the [REDACTED] ‘starting point’ became Ms. Davis’s royalty end point”). Given the disparities between the posited comparable licenses and the hypothetical negotiation, Ms. Davis needed to do more accounting and less relying upon generic licensing policies as a substitute for the task of apportionment.³¹ See *Omega Patents, LLC*, 13 F.4th at 1379.

d. Ms. Davis’s analysis is distinguishable from that reviewed in other Federal Circuit cases addressing built-in apportionment.

Finally, the Federal Circuit cases BT relies upon discussing built-in apportionment do not support a contrary conclusion. In *CSIRO*, the Federal Circuit ruled that the district court committed no apportionment error in using as a starting point of its reasonable royalty analysis informal, pre-suit negotiations between the two litigants concerning the single patent-in-suit. *CSIRO*, 809 F.3d at 1302–04 (noting that, inasmuch as the parties negotiated about the value of the asserted patent, the “starting point of the district court’s analysis already built in apportionment”). Here, of course, none of the prior licenses Ms. Davis relies upon involved complete identity of the parties to the suit and the asserted patents.

³⁰ Of course, if BT’s licensing policy applied without exception, each of these licenses should call for royalties ranging from either [REDACTED] or [REDACTED], depending on the type of relationship.

³¹ BT also argues that Ms. Davis’s own economic comparability analysis, between the hypothetical negotiation and the licenses, and her analysis of the relative contribution of the asserted patents to K2M’s accused products, also reliably satisfies the duty to apportion. ECF No. 604, at 12. The Court disagrees. Although discussing the relative importance of K2M’s accused products to its total product sales and suggesting that this would inform the hypothetical negotiation, Davis Report at 47, 50–51, Ms. Davis does not analyze its potential impact upon the utilization of licenses as proxies for the contribution of the asserted patents to the accused products. Similarly, to qualitatively highlight the relative contribution of the patents-in-suit to the accused products, Ms. Davis notes that K2M’s marketing highlights features and benefits of the patents-in-suit, and a Stryker representative’s testimony that its acquisition of K2M enabled it to update its technology portfolio. *Id.* at 51–53. Again, however, Ms. Davis does not analyze how such information relates to her use of comparable licenses to capture market value.

Similarly, in *Elbit Sys. Ltd.*, 927 F.3d at 1301 (“*Elbit*”), the court also rejected an apportionment challenge to a damages award. In *Elbit*, the patentee relied on a comparable license theory and the expert testified that apportionment was effectively embedded in a settlement license entered into four months after the hypothetical negotiation.³² *Elbit*, 927 F.3d at 1300–01. Notably, the licensed technology and the infringed technology bore a close connection, as the former was a first generation, one-way satellite communication technology and the latter was a second generation, two-way version of such technology in a single patent. *Id.*; see *MLC Intell. Prop., LLC*, 10 F.4th at 1374 (describing *Elbit* as involving “slightly different technology”). Moreover, although opining about embedded or built-in comparable value, the expert additionally accounted for differences between the licensed and accused technology by assessing, based on other evidence, that the next generation system warranted a 20% increase in value over the prior system. *Elbit*, 927 F.3d at 1301 (reciting that the expert “‘came up with a market, comparable royalty rate, and then . . . adjusted it as necessary’ for the hypothetical negotiation”). Here, although BT offers evidence of technical and circumstantial comparability, Ms. Davis provides no analysis accounting for differences in the licenses and the accused technology and, unlike *Elbit*, no one-to-one relationship exists between the numbers of licensed and asserted patents.

In *Bio-Rad*, the Federal Circuit ruled that the trial court committed no error in admitting an expert’s opinion about a proposed 15% royalty rate predicated upon three allegedly comparable licenses (apparently not involving the patents at issue), without further adjustment, where the facts and his analysis reasonably supported a conclusion of built-in apportionment. *Bio-Rad Labs., Inc.*,

³² The facts in *Elbit*, in which the comparable license did not involve the patent-in-suit, demonstrate that K2M’s argument that “built-in apportionment . . . only applies to licenses that covered only the same patents as those in suit,” ECF No. 644, at 4, is mistaken.

967 F.3d at 1374–77. The court explained that the expert accounted for differences between the licensed and accused technology, by “assessing whether the importance of [the] technology to the particular license was similar to the hypothetical negotiation,” reviewing other evidence “to understand that the licenses were technologically comparable,” and determining “that the proportion of licensed/unlicensed features was comparable to the present case.” *Id.* at 1377; *see Bio-Rad Labs., Inc.*, 396 F. Supp. 2d at 391 (discussing the expert’s comparison of “the unpatented features of the accused product with what he considered to be the unlicensed features of the products in the [prior] licenses”). Here, Ms. Davis engaged in no comparison of unlicensed and unpatented features to support a claim to built-in apportionment. Nor did she analyze whether the relative value of the licensed technology to the licensed products was comparable to that provided by the asserted patents to the accused products.

Based on the foregoing, Ms. Davis’s opinions regarding the use of comparable licenses to set the proposed royalty rate range are excluded for failure to apportion.³³ Given the deficiencies described above, nor may Ms. Davis alternatively seek to predicate her royalty opinion based upon Mr. Biedermann’s statements about BT’s licensing practices.

3. Apportionment of the Royalty Base

K2M also argues that Ms. Davis’s opinions should be excluded for failure to apportion the royalty base comprised of net sales of all components of the accused products. ECF No. 564, at

³³ Although a closer call, the foregoing conclusion also supports a finding that the Stryker license should be excluded on Rule 403 grounds, as requested by K2M. *See, e.g.*, ECF No. 642, at 7–10. Although BT has met the low threshold of relevance, Ms. Davis’s failure to apportion with respect to the Stryker license reduces its probative value in valuing the accused products’ use of the remaining asserted patents and enhances the prospect of unfair prejudice to K2M and the risks of misleading and confusing the jury. Thus, the failure to apportion also supports exclusion of the Stryker license as its probative value is substantially outweighed by dangers of jury confusion and unfair prejudice. *See Fed. R. Evid.* 403.

20–22. Recognizing that apportionment may be accomplished via the royalty rate, royalty base, or some combination thereof, and that Ms. Davis sought only to apportion via the royalty rate, ECF No. 644, at 7–8, 10, K2M faults her alleged inclusion of non-infringing product components in the royalty base. *Id.* at 12–13. The disputed items included are: (1) rods associated with any alleged infringement by Everest and Yukon products of the '820, '093, '600, and '121 patents, as only the bone screws are accused; and (2) 6.0 mm rods used with Everest screws associated with any alleged infringement of the '784 patent, as it is reportedly undisputed that any alleged infringement occurs only with use of a 5.5 mm rod. *Id.* Invoking the entire market value rule, K2M asserts that “[t]he only basis upon which Ms. Davis could properly include unpatented rods in the royalty base would be if the patented features of the bone screws were the basis for the sale of the unpatented rods.” ECF No. 564, at 20; *see also* ECF No. 644, at 13 (same).

K2M’s argument misses the mark as it is divorced from the damages methodology used by Ms. Davis. As noted above, the entire market value rule does not apply here, and as K2M agrees, Ms. Davis does not opine otherwise. ECF No. 644, at 13. Ms. Davis relies on a comparable license theory predicated on built-in apportionment.³⁴ Such a methodology permits “a party relying on a sufficiently comparable license [to] adopt the comparable license’s royalty rate and royalty base without further apportionment *and without proving that the infringing feature was responsible for the entire market value of the accused product.*” *Vectura Ltd.*, 981 F.3d at 1041 (emphasis added). Similarly, in another case involving built-in apportionment, the court rejected an infringer’s argument that “all damages models [must] begin with the smallest salable patent-practicing unit

³⁴ For this reason, K2M’s reliance on the analysis in *Enplas Display Device Corp. v. Seoul Semiconductor Co.*, 909 F.3d 398, 410–12 (Fed. Cir. 2018), is misplaced, as the patentee’s damages methodology involved a lump-sum, paid-in-full royalty, based neither on comparable licenses nor built-in apportionment. *See* ECF No. 564, at 19–20.

[as] untenable,” noting that “a methodology that values the asserted patent based on comparable licenses . . . is typically reliable because the parties are constrained by the market’s actual valuation of the patent.” *CSIRO*, 809 F.3d at 1303; *cf. Exmark Mfg. Co.*, 879 F.3d at 1348 (noting that “[s]o long as [a patentee] adequately and reliably apportions between the improved and conventional features of the accused [product], using the accused [product] as a royalty base and apportioning through the royalty rate is . . . acceptable”).

Thus, if properly predicated, BT’s damages model would not preclude the inclusion of non-infringing product components in the royalty base. The Court, however, has rejected Ms. Davis’s assertion of built-in apportionment as deficient. Notwithstanding this, Ms. Davis’s use of a royalty base that includes the disputed rods is not a separate basis for excluding her opinions. First, the inclusion of the rods with the screws is consistent with several of the licenses upon which Ms. Davis relies. [REDACTED]

[REDACTED] ECF No. 552-1, at 9; ECF No. 552-2, at 7; ECF No. 552-3, at 4, 17, 19–23. Similarly, according to K2M’s damages expert, the 2012 DePuy license defines the “[REDACTED]” as including “[REDACTED]” ECF No. 615-2, at 85 n.178; *cf. Davis Report* at 61 (noting K2M licensing agreements with “[REDACTED]”). This is consistent with the notion of built-in apportionment, which permits unpatented items to be included in the royalty base, provided that the licenses supporting such apportionment accurately represent the market value of the patented features of the accused products.

Second, the prior point dovetails with the notion that a patentee may recover damages for conveyed or bundled sales, when unpatented components are sold with patented ones and “the unpatented components must function together with the patented component in some manner so

as to produce a desired end product or result.” *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1550 (Fed. Cir. 1995) (indicating that lost profits on an unpatented product may be recovered when sold with a patented one where the two are “analogous to components of a single assembly or [are] parts of a complete machine, or they . . . constitute a functional unit”); *see Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1375, 1384 (Fed. Cir. 2001) (affirming a jury award of a lump sum reasonable royalty based on expert testimony that included bundled and convoyed sales in the royalty base). BT’s counsel effectively argued, and deposition testimony from a K2M witness supports the conclusion, that “Everest and Yukon spinal screws cannot be used for their intended purpose without the rods.” ECF No. 604, at 19; ECF No. 674, at 25; ECF No. 605-8, at 3.

Finally, to the extent that K2M offers to sell an accused Everest product infringing the undercut feature of the ’784 patent, and includes both the 5.5 mm and 6.0 mm rods for use as appropriately determined by the surgeon, such provides grounds for including the 6.0 mm rod in the royalty base. ECF No. 674, at 64–66. Accordingly, failure to apportion the royalty bases do not constitute a separate basis for excluding Ms. Davis’s damages analysis.

E. Rule 408(a)(1) of the Federal Rules of Evidence does not preclude the use of the Stryker, Alphatec, and Allez licenses for the purposes sought by BT.

The remaining portion of K2M’s motion in limine seeks to exclude the Stryker, Alphatec, and Allez licenses pursuant Rule 408 of the Federal Rules of Evidence. ECF No. 529, at 5–6. Rule 408 prohibits any party from seeking “to prove . . . the validity or amount of a disputed claim” via admission into evidence of a completed compromise of the claim. Fed. R. Evid. 408(a)(1); *see* Fed. R. Evid. 408 advisory committee notes (1972 Proposed Rules). Although evidence of the foregoing licenses has been excluded for the reasons discussed above, in the interest of

completeness the Court briefly addresses whether Rule 408(a)(1) provides an additional basis for excluding such licenses.

The Court rejects K2M's argument that Rule 408(a)(1) precludes the admission of settlement agreements with third parties in patent cases for the purpose sought here. Although it appears that the Federal Circuit has yet to definitively address the contours of Rule 408's application to settlement agreements in patent cases, its decisions, like Rule 408 itself, do not foreclose all uses of the same. To the contrary, Federal Circuit rulings establish that such agreements may be admitted in appropriate circumstances when germane to the determination of a reasonable royalty. *See, e.g., Elbit*, 927 F.3d at 1299–1300; *Astrazeneca*, 782 F.3d at 1336–37; *LaserDynamics, Inc.*, 694 F.3d at 77–78; *In re MSTG, Inc.*, 675 F.3d 1337, 1348 (Fed. Cir. 2012); *ResQNet.com, Inc.*, 594 F.3d at 872; *see also Innovation Sciences, LLC v. Amazon.com, Inc.*, No. 4:18-cv-474, 2020 WL 4884000, at *1 (E.D. Tex. Aug. 20, 2020) (distinguishing between offering a settlement agreement to prove the validity or amount of a “disputed claim” and performing reasonable royalty analysis), *appeal docketed*, No. 21-2111 (July 1, 2021); *Intelligent Verification Sys., LLC v. Microsoft Corp.*, No. 2:12cv525, 2015 WL 1518099, at *10 (E.D. Va. Mar. 31, 2015) (denying motion in limine to preclude reliance, pursuant to Rules 403 and 408, on settlement agreements and related materials), *aff'd*, 628 F. App'x 767 (Fed. Cir. 2016); *see also Wyatt v. Security Inn Food & Beverage, Inc.*, 819 F.2d 69, 71 (4th Cir. 1987) (observing that although Rule 408 “generally forbids testimony regarding compromises or offers to compromise, [it] need not prevent a litigant from offering such evidence when he does not seek to show the validity or invalidity of the compromised claim”).

Absent the grounds for exclusion reviewed above, these authorities establish that the purposes for which BT seeks to use the Alphatec, Allez, and Stryker licenses are not otherwise precluded by Rule 408.

CONCLUSION

Accordingly, for the reasons stated herein, K2M's motion to exclude unreliable testimony by plaintiff's damages expert, Julie Davis, (ECF No. 555) is: (1) **GRANTED IN PART** such that Ms. Davis's opinions on damages are excluded for failure to reliably engage in apportionment analysis needed to sufficiently tie her posited comparable licenses to the facts of this case and any alleged infringement of BT's asserted patents; (2) **GRANTED IN PART** such that Ms. Davis is alternatively precluded from seeking to predicate her selection of a royalty rate range on Mr. Biedermann's statements about BT's licensing practices; and (3) **DENIED IN PART** with respect to K2M's claims regarding the inclusions of rods in the royalty base.

K2M's motion *in limine* to exclude settlement agreements on the subject of a reasonable royalty (ECF No. 528) is: (1) **GRANTED IN PART** such that the Alphatec and Allez settlement agreements and licenses are excluded for failure to meet the baseline of comparability test and on Rule 403 grounds; (2) **DENIED IN PART** such that the Stryker license meets the baseline of comparability test; (3) **GRANTED IN PART** as to the Stryker license on Rule 403 grounds, based on the above-described apportionment deficiencies; and (4) **DENIED IN PART** to the extent that K2M seeks exclusion of the Alphatec, Allez, and Stryker licenses based on Rule 408(a)(1).

The Clerk shall forward a copy of this Opinion and Order to all counsel of record.



Robert J. Krask
United States Magistrate Judge

Robert J. Krask
United States Magistrate Judge

Norfolk, Virginia
December 2, 2021