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**UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN JOSE DIVISION**

DOMINION ASSETS LLC,  
Plaintiff,  
v.  
MASIMO CORPORATION, et al.,  
Defendants.

Case No. 14-cv-03002-BLF

**ORDER GRANTING DEFENDANTS’  
MOTION TO EXCLUDE TESTIMONY  
OF PLAINTIFF’S DAMAGES EXPERT  
ELVIR CAUSEVIC UNDER *DAUBERT***

[Re: ECF 111]

Before the Court is Defendants Masimo Corporation and Cercacor Laboratories, Inc.’s (collective, “Masimo”) motion to exclude testimony of Plaintiff Dominion Assets LLC’s (“Dominion”) damages expert Elvir Causevic under *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993). Mot., ECF 111. For the reasons stated on the record and set forth below, Masimo’s motion is GRANTED.

**I. BACKGROUND**

**A. The Asserted Patent**

After years of litigation, Dominion currently asserts infringement of claim 1 of U.S. Patent No. 5,379,764 (“the ’764 patent”) against Masimo.<sup>1</sup> The ’764 patent is titled “Non-Invasive Determination of Analyte Concentration in Body of Mammals” and discloses improved methods for noninvasively measuring the concentration of blood components using radiation. For example, the ’764 patent describes the use of mathematical techniques of pretreatment and multivariate analysis to respectively “eliminate or minimize the effects of detector offset and optical scattering

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<sup>1</sup> The Court granted Masimo’s motion for summary judgment that the asserted claims in Dominion’s U.S. Patent No. 5,460,177 (the “’177 patent”) are invalid. ECF 93.

1 drift” and determine the concentration of glucose based upon its spectral properties. Ex. A to  
2 Lateef Decl. (“the ’764 patent”) at 2:63–3:16, ECF 112-1. Claim 1 of the ’764 patent recites:

- 3 1. A method of non-invasive determination of the concentration of at  
4 least one analyte in the blood of a mammal, comprising the steps of:
- 5 (a) projecting near infrared radiation on a portion of the body of the  
6 mammal, said radiation including a plurality of wavelengths;
  - 7 (b) sensing the resulting radiation emitted from said portion of the  
8 body;
  - 9 (c) deriving from the sensed resulting radiation a first expression for  
10 the magnitude of said sensed radiation as a function of  
11 wavelength of the sensed radiation;
  - 12 (d) pretreating said first expression to minimize the influence of  
13 instrument offset and drift to obtain a second expression for the  
14 magnitude of said sensed radiation as a function of wavelength;  
15 and
  - 16 (e) performing multivariate analysis of said second expression to  
17 obtain a value for the concentration of said analyte.

18 ’764 patent at 8:33–51.

## 19 **B. The Accused Technology and Products**

20 Masimo was founded in 1989 and developed a technology called Signal Extraction  
21 Technology (“SET”) which allows noninvasive measurements of the oxygen saturation level in  
22 blood and pulse rate. Mot. 3; *see also* Ex. J to Lateef Decl. (“Causevic Report”) ¶ 121, ECF 110-  
23 4. In 2005, Masimo introduced its “Rainbow” technology to measure new parameters. Dominion  
24 alleges infringement of the ’764 patent based on the measurement of three new Rainbow  
25 parameters: total hemoglobin (SpHB), carboxyhemoglobin (SpCO), and methemoglobin  
26 (SpMET). Mot. 5 (citing Causevic Report ¶ 20).<sup>2</sup> The accused products include Masimo’s Rad-  
27 57, Rad-87, and Radical 7. Mot. 5; Opp’n 3, ECF 114.

## 28 **II. LEGAL STANDARD**

### **A. Exclusion of Expert Testimony under *Daubert***

Federal Rule of Evidence 702 provides that a qualified expert may testify if “(a) the

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<sup>2</sup> Masimo submitted an excerpt of the Causevic Report which does not contain paragraph 20. Dominion does not dispute that it alleges infringement based on those three parameters.

1 expert’s scientific, technical, or other specialized knowledge will help the trier of fact to  
2 understand the evidence or to determine a fact in issue; (b) the testimony is based on sufficient  
3 facts or data; (c) the testimony is the product of reliable principles and methods; and (d) the expert  
4 has reliably applied the principles and methods to the facts of the case.” Fed. R. Evid. 702. In  
5 *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, the Supreme Court held that Rule 702 requires the  
6 district court to act as a gatekeeper to “ensure that any and all scientific testimony or evidence  
7 admitted is not only relevant, but reliable.” 509 U.S. 579, 589 (1993). In *Kumho Tire Co., Ltd. v.*  
8 *Carmichael*, the Supreme Court clarified that the “basic gatekeeping obligation” articulated in  
9 *Daubert* applies not only to scientific testimony but to all expert testimony. 526 U.S. 137, 147  
10 (1999). The Supreme Court also made clear that the reliability inquiry is a flexible one, and  
11 “whether *Daubert*’s specific factors are, or are not, reasonable measures of reliability in a  
12 particular case is a matter that the law grants the trial judge broad latitude to determine.” *Id.* at  
13 153; see also *Micro Chem., Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1391 (Fed. Cir. 2003).

14 “*Daubert* and Rule 702 are safeguards against unreliable or irrelevant opinions, not  
15 guarantees of correctness.” *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831, 854 (Fed. Cir. 2010)  
16 *aff’d*, 131 S. Ct. 2238 (2011). So long as an expert’s methodology is sound and his opinions  
17 satisfy the requirements of Rule 702, underlying factual disputes and how much weight to accord  
18 the expert’s opinion are questions for the jury. *Micro Chem.*, 317 F.3d at 1392; *Primiano v. Cook*,  
19 598 F.3d 558, 565 (9th Cir. 2010).

20 **B. Hypothetical Negotiation**

21 In a patent infringement case, the most common method for determining a reasonable  
22 royalty for damages is the hypothetical negotiation approach, which “attempts to ascertain the  
23 royalty upon which the parties would have agreed had they successfully negotiated an agreement  
24 just before infringement began.” *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed.  
25 Cir. 2009). The Federal Circuit has approved application of the non-exhaustive factors identified  
26 in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), to  
27 arrive at a reasonable royalty through hypothetical negotiation. See *Lucent Tech.*, 580 F.3d at  
28 1324–25.

1                   **III. MASIMO’S OBJECTION TO DR. CAUSEVIC’S DECLARATION**

2                   Dominion submitted a declaration of its damages expert, Elvir Causevic, in support of its  
3                   opposition to Masimo’s *Daubert* motion. Causevic Decl., ECF 114-1. Masimo objects to  
4                   Dr. Causevic’s declaration on the grounds that his opinions in the declaration are untimely.  
5                   Reply 1 n.1, ECF 117; *see also id.* at 10.

6                   The Court will not consider any new expert opinions contained in Dr. Causevic’s  
7                   declaration because those opinions have not been disclosed in a timely manner and violate the  
8                   Court’s scheduling order. *See* Fed. R. Civ. P. 26(a), 37(c)(1).

9                   **IV. DISCUSSION**

10                  Masimo moves to exclude Dr. Causevic’s opinions regarding the reasonable royalty for the  
11                  alleged infringement of the ’764 patent. According to Masimo, Dr. Causevic’s damages opinions  
12                  are inadmissible for three reasons: (1) he does not rely on a license agreement that is  
13                  technologically or economically comparable to the patented invention, (2) he does not apportion  
14                  damages to the allegedly infringing features, and (3) he fails to tie his royalty rate to the facts of  
15                  the case. The Court addresses each argument separately.

16                  **A. Dr. Causevic’s Reliance on License Agreements**

17                  Masimo moves to exclude Dr. Causevic’s opinions for relying on a license agreement that  
18                  is allegedly not comparable to the hypothetical negotiation at issue in this case.<sup>3</sup> Mot. 8.  
19                  Specifically, Masimo argues that Dr. Causevic offers damages opinions based on a settlement  
20                  agreement between Masimo and Nellcor that was signed in 2006. *Id.*; *see also id.* at 5–6 (citing  
21                  Ex. K to Lateef Decl. (“the 2006 Masimo-Nellcor Agreement”), ECF 112-11).

22                  In Masimo’s view, the 2006 Masimo-Nellcor Agreement involves Masimo’s patented SET  
23                  technology which is not technologically comparable to claim 1 of the ’764 patent. Mot. 8–9.  
24                  Masimo further asserts that the 2006 Masimo-Nellcor Agreement is “not economically  
25                  comparable to a hypothetical license [for] the ’764 patent.” *Id.* at 9. According to Masimo,  
26                  Dominion purchased the ’764 patent and thirteen other patents out of bankruptcy for  
27                  approximately \$100,000 where the bankruptcy resulted from the prior owner’s failure to develop a

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<sup>3</sup> The hypothetical negotiation date in this case is 2005. Causevic Report ¶ 135.

1 commercial product based on the '764 patent. *Id.* In comparison, Masimo argues, the 2006  
2 Masimo-Nellcor Agreement involves its SET technology that revolutionized the industry. *See id.*  
3 Moreover, Masimo contends that Dr. Causevic ignores the fact that the Masimo-Nellcor  
4 Agreement covers a portfolio of patents whereas the hypothetical negotiation at issue concerns a  
5 single claim of the '764 patent. Masimo asserts that Dr. Causevic's failure to address the  
6 technological and economic differences between the 2006 Masimo-Nellcor Agreement and the  
7 hypothetical negotiation renders his damages opinions inadmissible. *See id.* at 8–9.

8 Dominion counters that Dr. Causevic relies on “three separate comparable licenses” not  
9 just one. Opp'n 5. According to Dominion, Dr. Causevic considers two agreements between  
10 Masimo and Nellcor: (1) the 2006 Masimo-Nellcor Agreement (which Masimo challenges as  
11 discussed above) and (2) a license agreement entered in 2011 between Masimo and Covidien (a  
12 renamed division of Tyco, which is owned by Nellcor). *Id.*; Causevic Report ¶¶ 138–41. The  
13 parties do not dispute that the 2011 Masimo-Covidien Agreement is an amendment to the 2006  
14 Masimo-Nellcor Agreement. *See* Mot. 7; Opp'n 11. Dr. Causevic states that the 2011 Masimo-  
15 Covidien Agreement provided “a net royalty rate of 7.75% ‘of [Covidien’s] current pulse oximetry  
16 products sold in the United States for three years beginning March 15, 2011.’” Causevic Report  
17 ¶ 141. (citing *Masimo Co.: Masimo and Covidien Announce Extension of Royalty Agreement*,  
18 [http://www.4-traders.com/MASIMO-CO-58024/news/MASIMO-CO--Masimo-and-Covidien-  
19 Announce-Extension-of-Royalty-Agreement-13548770/](http://www.4-traders.com/MASIMO-CO-58024/news/MASIMO-CO--Masimo-and-Covidien-Announce-Extension-of-Royalty-Agreement-13548770/)). As for the third agreement, Dominion  
20 argues that Dr. Causevic relies on the “Amended And Restated Cross-Licensing Agreement  
21 Between Masimo Laboratories And Masimo Corporation” which was signed in 2007.<sup>4</sup> Dominion  
22 asserts that this agreement covers Rainbow technology and that Masimo publicly reported the  
23 terms of the agreement as the following: “The royalty is up to 10% of the Rainbow royalty base,  
24 which will include handhelds, tabletop and multi-parameter devices.” Opp'n 5 (citing Causevic  
25 Report ¶ 124). Based on the three agreements, Dominion contends, Dr. Causevic opines that the

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27 <sup>4</sup> Defendant Cercacor Laboratories was formerly known as Masimo Laboratories. Causevic  
28 Report ¶ 123. Defendant Cercacor Laboratories owns the Rainbow SET technology which it  
licenses to Defendant Masimo Corporation for production and sale of devices that use the  
technology. *Id.*

1 royalty rate for the '764 patent would be 4% after conducting a *Georgia-Pacific* analysis. *Id.* at 5.

2 Dominion further argues that Masimo “claims that [the] SET platform was an earthshaking  
3 advance . . . while implicitly downplaying the value of Rainbow SET technology” without  
4 evidentiary support. Opp’n 6. To counter Masimo’s claim, Dominion asserts that Masimo  
5 referred to Rainbow technology as “THE SECOND REVOLUTION” and that Masimo obtained  
6 FDA approval for its Rainbow SET products by filing 510(k) notices based on “substantial  
7 equivalence” to previously approved Pulse Oximetry SET products. *Id.* Dominion also contends  
8 that Dr. Causevic opines that the 2006 Masimo-Nellcor and 2011 Masimo-Covidien Agreements  
9 are relevant to the allegedly infringing technology:

10 The technology, from a user perspective is very similar – non-  
11 invasive, optical detection of blood analytes. It is used in similar  
12 hospital environments: surgery, intensive care, emergency  
13 departments, and others. It is used by similar medical practitioners  
14 (nurses and doctors), in a very similar setting. The instruments have  
15 similar form factor, with a sensor attached to the patient’s finger,  
16 earlobe or another body part, and a handheld reader device  
17 implementing the signal processing algorithms.

18 *See id.* (citing Causevic Report ¶ 139).

19 As a final point, Dominion argues that “disputes about *Georgia-Pacific* analysis go to its  
20 weight, not its admissibility.” Opp’n 6–7.

21 In the following, the Court addresses the three agreements identified by Dominion.

22 **i. The 2006 Masimo-Nellcor and 2011 Masimo-Covidien Agreements**

23 As mentioned, Dominion contends that Dr. Causevic considers both (1) the 2006 Masimo-  
24 Nellcor Agreement and (2) the 2011 Masimo-Covidien Agreement, which is an amendment to the  
25 earlier 2006 agreement. Opp’n 5, 11. In this regard, Dr. Causevic opines the following:

26 The data that has helped me come to a conclusion about a  
27 reasonable royalty rate is the fact that Masimo licensed comparable  
28 technology for its improved pulse oximeter in 2005 [sic] and  
renewed that license in a new agreement for 7.75% royalty five  
years later [in 2011], without the context of ongoing litigation.

Causevic Report ¶ 159. Masimo acknowledges that Dr. Causevic relies on both agreements. *See*  
Reply 2. Nevertheless, Masimo claims that Dominion fails to show that those agreements are (1)  
technologically and (2) economically comparable to the hypothetical negotiation. *See id.* at 3.

1           Regarding the technological similarity, Masimo asserts that Dr. Causevic does not provide  
2 any meaningful comparison between Masimo’s SET technology covered by the 2006 Masimo-  
3 Nellcor Agreement and the ’764 patent. Mot. 9. In Masimo’s view, Dr. Causevic makes only a  
4 superficial comparison. However, while Dr. Causevic does not delve into a detailed analysis, he  
5 considers that the technologies at issue commonly concern “*non-invasive, optical detection of*  
6 *blood analytes*,” the implementation of *signal processing algorithms* in similar devices, and the  
7 use in similar environmental settings. Causevic Report ¶ 139 (emphasis added). This opinion  
8 shows that Dr. Causevic does not merely rely on a license agreement in the general field of blood  
9 concentration detection but one which specifically concerns technology using “non-invasive,  
10 optical detection” technology based on “signal processing algorithms” like the subject matter of  
11 the ’764 patent. As such, Dr. Causevic bases his opinions on those factual similarities in his  
12 report. The Court thus finds Dr. Causevic’s opinion that the 2006 Masimo-Nellcor Agreement  
13 and the hypothetical negotiation involve *similar technology* is supported by an adequate  
14 foundation. Whether Dr. Causevic’s technological comparison is correct “go[es] to the weight to  
15 be afforded the testimony and not its admissibility.” *ActiveVideo Networks, Inc. v. Verizon*  
16 *Commc'ns, Inc.*, 694 F.3d 1312, 1333 (Fed. Cir. 2012) (permitting reliance on an agreement that  
17 did not involve the patents-in-suit).

18           Nevertheless, Dr. Causevic’s damages opinions contain a fundamental flaw because he  
19 fails to take account of the economic differences between the hypothetical negotiation and the  
20 agreements signed by Masimo and Nellcor (and its subsidiary Covidien). First, Masimo argues  
21 that Dominion paid approximately \$100,000 to purchase the ’764 patent (and thirteen other  
22 patents) out of bankruptcy, which resulted from the prior owner’s failure to develop a commercial  
23 product. Mot. 9; *id.* at 3 (citing Exs. B and C to Lateef Decl., ECF 112-2, -3). Dominion does not  
24 dispute this contention. On the other hand, as Dr. Causevic acknowledges, Masimo’s SET  
25 technology, which was the subject of the settlement between Masimo and Nellcor (Ex. L to Lateef  
26 Decl. 4, ECF 112-12), had an undisputable impact on the healthcare industry. *See, e.g.*, Causevic  
27 Report ¶ 121 (“Masimo SET® [] . . . virtually eliminated false alarms and increased pulse  
28 oximetry’s ability to detect life-threatening events. More than 100 independent and objective

1 studies have shown that Masimo SET<sup>®</sup> outperforms other pulse oximetry technologies, even under  
2 the most challenging clinical conditions.”). Despite the fact that Masimo’s SET technology had  
3 an enormous impact on the industry while the ’764 patent was sold out of bankruptcy for a fairly  
4 low price, Dr. Causevic provides no opinion whatsoever that takes account of this stark difference.  
5 To be sure, Dr. Causevic states that Masimo has touted benefits of both its SET technology and  
6 Rainbow SET technology. *See, e.g.*, Causevic Report ¶¶ 122. But even assuming Rainbow SET  
7 technology corresponds to the claimed invention of the ’764 patent, the fact that Dr. Causevic  
8 recognizes Masimo’s promotion of its technologies does not show how he takes account of the  
9 undisputed high value of the SET technology compared to the low price assigned to the ’764  
10 patent when it was purchased out of bankruptcy. Such a failure renders Dr. Causevic’s economic  
11 comparison unreliable. *See Sprint Commc'ns Co. L.P. v. Comcast IP Holdings, LLC*, No. CV 12-  
12 1013-RGA, 2015 WL 456154, at \*2 (D. Del. Jan. 30, 2015) (precluding license agreements where  
13 the expert did not “explain how her methodology accounts for” differences between those  
14 agreements and the hypothetical agreement).

15         Second, Masimo contends that Dr. Causevic ignores the fact that the Masimo-Nellcor  
16 Agreement covers a portfolio of patents whereas the hypothetical negotiation at issue concerns  
17 only a single claim of the ’764 patent. Mot. 10; Reply 3. Dominion does not provide any  
18 argument how Dr. Causevic justified ignoring the economic difference between a portfolio license  
19 and a license for a single claim of the asserted patent. This failure further supports Masimo’s  
20 position that Dr. Causevic’s opinions are unreliable. *See Lucent v. Gateway*, 580 F.3d 1301, 1328  
21 (Fed. Cir. 2009) (holding that an agreement to license multiple patents for broad PC-related  
22 technologies was “a vastly different situation than the hypothetical licensing scenario . . .  
23 involving only one patent” directed to a narrow method).

24         Third, Masimo asserts that Dr. Causevic ignores the fact that the Masimo-Nellcor  
25 Agreement was a settlement agreement. Mot. 9. Dominion does not challenge the fact that  
26 Masimo and Nellcor entered into a settlement agreement after an intense court battle and on the  
27 eve of a permanent injunction against Nellcor. *See* 2006 Masimo-Nellcor Agreement 1; Ex. L to  
28 Lateef Decl. 4. According to Masimo, the context of the settlement between Masimo and Nellcor



1 renders Dr. Causevic’s conclusion of comparability unreliable. Mot. 9.

2 The Federal Circuit has cautioned on relying on settlement agreements entered into as part  
3 of litigation. *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 77 (Fed. Cir. 2012)  
4 (“The notion that license fees that are tainted by the coercive environment of patent litigation are  
5 unsuitable to prove a reasonable royalty is a logical extension of *Georgia–Pacific*. . . .”). Thus, an  
6 expert’s failure to address the coercive effects of a litigation environment may render his or her  
7 opinion unreliable and thus inadmissible.

8 Here, Dr. Causevic admits the fact that the 2006 Masimo-Nellcor Agreement is a  
9 settlement agreement entered into as part of litigation. Causevic Report ¶ 138. This fact is  
10 particular important in this case because Nellcor was facing a permanent injunction when it signed  
11 that agreement. *See* Ex. L to Lateef Decl. 4. Dr. Causevic, however, does not explain why the  
12 royalty set forth in the 2006 Masimo-Nellcor Agreement would be comparable to the royalty in  
13 the hypothetical negotiation. Furthermore, Dr. Causevic’s consideration of the 2011 Masimo-  
14 Covidien Agreement does not obviate the settlement issue. As the parties acknowledge (*see* Mot.  
15 7; Opp’n 11), that agreement is an amendment to the 2006 settlement agreement. *See Masimo*  
16 *Co.: Masimo and Covidien Announce Extension of Royalty Agreement* (cited as footnote 11 in the  
17 Causevic Report). But Dr. Causevic provides no opinion explaining why the taint resulting from  
18 the litigation between Masimo and Nellcor in 2006 would be removed in the 2011 amended  
19 agreement. Dr. Causevic’s failure to address the litigation context of the 2006 Masimo-Nellcor  
20 Agreement and its later amendment in 2011 supports the contention that he did not establish that  
21 those agreements are economically comparable to the hypothetical negotiation. *See*  
22 *LaserDynamics*, 694 F.3d at 77.

23 Moreover, the Masimo-Nellcor Agreement was amended six years after the hypothetical  
24 negotiation date in 2005 (Causevic Report ¶ 161). But Dr. Causevic provides no analysis why the  
25 royalty rate determined in 2011 would be comparable to a rate assessed in a hypothetical  
26 negotiation in 2005 despite the long period between those two dates. *Cf. LaserDynamics*, 694  
27 F.3d at 78 (holding a settlement agreement “entered into a full three years after the hypothetical  
28 negotiation date” was “not relevant to the hypothetical negotiation analysis” given the changing

1 technological and financial landscape).

2 For the above reasons, the Court finds that Dominion has not shown that the 2006  
3 Masimo-Nellcor Agreement and the 2011 Masimo-Covidien Agreement are sufficiently  
4 comparable to the hypothetical negotiation in this case. Dr. Causevic’s failure to consider the  
5 aforementioned differences directly undercuts the reliability of his damages opinions based on  
6 those agreements and thereby rendering his opinions unreliable and inadmissible.

7 **ii. The Amended and Restated Cross-Licensing Agreement Between Masimo**  
8 **Laboratories and Masimo Corporation**

9 Dominion contends that Dr. Causevic relies on the “Amended and Restated Cross-  
10 Licensing Agreement Between Masimo Laboratories and Masimo Corporation” which was signed  
11 in 2007. Opp’n 5 (citing Ex. C to Wecker Decl. (“the 2007 Masimo Agreement”), ECF 114-5).  
12 Masimo counters that although Dr. Causevic identifies the 2007 Masimo Agreement in his expert  
13 report, Dr. Causevic “made crystal clear that his royalty rate depends solely on the” 2006 Masimo-  
14 Nellcor and 2011 Masimo-Covidien Agreements. Reply 2 (citing Causevic Report ¶ 159).

15 The Court agrees with Masimo. To be sure, Dr. Causevic lists the 2007 Masimo  
16 Agreement under the second *Georgia-Pacific* factor. Causevic Report ¶ 142. However, as  
17 Masimo argues, Dr. Causevic expressly opines that the “data that has helped me come to a  
18 conclusion about a reasonable royalty rate is the fact that Masimo licensed comparable technology  
19 for its improved pulse oximeter in 2005 [sic] and renewed that license in a new agreement for  
20 7.75% royalty five years later” and does not reference the 2007 Masimo Agreement as part of his  
21 consideration. *See* Causevic Report ¶ 159. Moreover, even assuming Dr. Causevic does rely on  
22 the 2007 Masimo Agreement, he never explains how the 10% royalty rate in that agreement  
23 supports his conclusion that the royalty rate for the ’764 patent would be 4%.

24 In his declaration, Dr. Causevic explains that he “observed that the [2007 Masimo  
25 Agreement] . . . required some adjustment due to the circumstance that Cercacor provided services  
26 beyond intellectual property, though [he] did not set out a quantitative evaluation on this.”  
27 Causevic Decl. ¶ 14. Dr. Causevic further states that this “observation impacted [his] expert  
28 opinion on the final royalty rate, taken together with all other factors, as is customary in a Georgia

1 Pacific analysis.” *Id.* Those opinions are untimely because they are not contained in his expert  
2 report. The Court therefore will not consider those statements. Moreover, those opinions fail to  
3 cure the deficiencies in Dr. Causevic’s report because he does not explain how he uses the  
4 *Georgia-Pacific* factors to adjust the 10% royalty rate by taking account of the fact that “Cercacor  
5 provided services beyond intellectual property.”

6 Accordingly, the Court concludes that Dr. Causevic may not rely on the 2007 Masimo  
7 Agreement to offer his damages opinions.

8 **iii. Conclusion**

9 For the foregoing reasons, the Court finds that Dr. Causevic’s report does not contain  
10 reliable damages opinions based on the 2006 Masimo-Nellcor, 2011 Masimo-Covidien, and 2007  
11 Masimo Agreements. The Court therefore GRANTS Masimo’s motion to exclude Dr. Causevic’s  
12 damages opinions with respect to those three agreements.

13 **B. Apportionment of Damages**

14 Masimo argues that Dr. Causevic’s damages opinions should be excluded because he fails  
15 to apportion the value of “patented and unpatented features.” Mot. 10. Specifically, Masimo  
16 contends that the accused products are multi-component products that include “numerous non-  
17 infringing features—including . . . Masimo SET and [an] additional, non-accused [R]ainbow  
18 parameter.” *Id.* at 12. On the basis that Dr. Causevic “never conclude[s] that the accused  
19 [R]ainbow parameters drive the demand for Masimo’s entire accused monitor,” Masimo asserts  
20 that Dr. Causevic’s opinions violate the entire market value rule. *Id.* Masimo further argues that  
21 Dr. Causevic neither apportioned the royalty base nor the royalty rate. *Id.* at 12–14.

22 Dominion counters that Dr. Causevic explains that the development and use of Rainbow  
23 products would not have been possible without the accused technology. Opp’n 7. For support,  
24 Dominion points to Dr. Causevic’s statement that “[w]ithout the innovations of [the ’764 patent], I  
25 don’t believe that Rainbow SET products would be possible.” *Id.* (citing Causevic Report ¶ 151).  
26 According to Dominion, Masimo fails to present any evidence showing that the patented invention  
27 is not critical to the accused Rainbow SET products. *Id.* at 7–9. Based on those arguments,  
28 Dominion challenges Masimo’s position that Dr. Causevic’s opinions violate the entire market

1 value rule.

2 “[R]easonable royalty damages are deemed the minimum amount of infringement damages  
3 ‘adequate to compensate for the infringement.’” *LaserDynamics, Inc. v. Quanta Computer, Inc.*,  
4 694 F.3d 51, 66 (Fed. Cir. 2012) (citing 35 U.S.C. § 284). “Such damages must be awarded ‘for  
5 the use made of the invention by the infringer.’” *Id.* at 66–67 (citing 35 U.S.C. § 284). Courts  
6 have required that “royalties be based not on the entire product” because “calculating a royalty on  
7 the entire product carries a considerable risk” of improper compensation where the accused  
8 product has non-infringing components. *Id.* The Federal Circuit has “cautioned against reliance  
9 on use of the entire market value of a multi-component product that includes a patented  
10 component because it ‘cannot help but skew the damages horizon for the jury, regardless of the  
11 contribution of the patented component to this revenue.’” *Power Integrations, Inc. v. Fairchild*  
12 *Semiconductor Int’l, Inc.*, 894 F.3d 1258, 1270 (Fed. Cir. 2018) (citing *Uniloc USA, Inc. v.*  
13 *Microsoft Corp.*, 632 F.3d 1292, 1320 (Fed. Cir. 2011)).

14 A narrow exception to the above principle is the entire market value rule. *LaserDynamics*,  
15 694 F.3d at 67. “If it can be shown that the patented feature drives the demand for an entire multi-  
16 component product, a patentee may be awarded damages as a percentage of revenues or profits  
17 attributable to the entire product.” *Id.* The “entire market value rule is appropriate only when the  
18 patented feature is the sole driver of customer demand or substantially creates the value of the  
19 component parts.” *Power Integrations*, 894 F.3d at 1272 (citation omitted). “[W]hen the product  
20 contains multiple valuable features, it is not enough to merely show that the patented feature is  
21 viewed as essential, that a product would not be commercially viable without the patented feature,  
22 or that consumers would not purchase the product without the patented feature.” *Id.* Rather, “the  
23 patentee must prove that those other features did not influence purchasing decisions” to rely on the  
24 entire market value rule. *Id.*

25 Under governing Federal Circuit law, the Court agrees with Masimo’s argument that  
26 Dr. Causevic’s opinions impermissibly apply the entire market value rule. Here, Dr. Causevic  
27 calculates the reasonable royalty based on sales of the accused products and thus relies on the  
28 entire market value of those products. *See Causevic Report* at 90–91; *id.* ¶ 131. Dominion does

1 not dispute that Dr. Causevic set the royalty base as the sales value of the accused products. But  
2 Dr. Causevic’s opinion that “[w]ithout the innovations of [the ’764 patent], I don’t believe that  
3 Rainbow SET products would be possible” is insufficient to support a proper application of the  
4 entire market value rule to calculate a reasonable royalty. As the Federal Circuit has repeatedly  
5 held, “it is not enough to . . . show that the patented feature is viewed as essential[] . . . or that  
6 consumers would not purchase the product without the patented feature.” *Power Integrations*, 894  
7 F.3d at 1272.

8           Indeed, while Dr. Causevic’s statement at best may support the contention that the accused  
9 Rainbow parameters are essential to Masimo’s Rainbow products, the opinion falls short of  
10 showing that the accused Rainbow parameters were the “sole driver of customer demand” or  
11 substantially created the value of the accused products. *Id.* As Masimo argues, the accused  
12 products are multi-component products that include “numerous non-infringing features” including  
13 Masimo’s SET technology and the ability to measure a non-accused Rainbow parameter. For  
14 example, the accused products Radical 7, Rad-57, and Rad-87 feature non-infringing SET  
15 technology that measures the oxygen saturation level and pulse rate. *See* Ex. G, H, and I to Lateef  
16 Decl., ECF 112-7, -8, -9. Although Dr. Causevic recognizes that Masimo’s SET technology has a  
17 significant value (Causevic Report ¶ 121), he fails to take into consideration whether the non-  
18 infringing features influenced customers’ decisions to purchase the accused products. Due to that  
19 failure, his damages opinions based on the entire market value of the accused products are  
20 impermissible. *Power Integrations*, 894 F.3d at 1272 (holding that the application of the entire  
21 market value rule is appropriate where it is shown that other valuable features “did not influence  
22 purchasing decisions”).

23           Dominion contends that Masimo ignores the fact that Dr. Causevic utilizes Masimo’s “own  
24 allocation of royalty-bearing revenues included in their own cross-licensing agreement and in their  
25 own financial data record keeping system.” Opp’n 9 (citing Ex. F to Wecker Decl. (“Schedule 7.1  
26 of Masimo’s expert report”), ECF 113-3). According to Dominion, “[w]hile [Dr.] Causevic  
27 reallocated a small amount of revenue from the SET Platform to the Rainbow SET platform, that  
28 decision is fully justified given the nature of the Rainbow multi-parameter products that competed

1 with far lower-priced SET products that continue to be sold for those customers who had no  
 2 interest in the Rainbow parameter measurements.” *Id.* (citing Causevic Decl. ¶¶ 9–10). Dominion  
 3 further argues that the royalty base can be readily adjusted to negate the reallocation and that the  
 4 result would be a reduction of about 8%. *Id.* (citing Causevic Decl. ¶ 11).

5 Those arguments are unavailing for several reasons. First, the cited portions in Dr.  
 6 Causevic’s declaration contain new opinions not disclosed in his expert report. Thus, Dominion  
 7 relies on untimely opinions that will not be considered. Second, even if the Court were to consider  
 8 statements in Dr. Causevic’s declaration, those opinions reflect only the structure of Masimo’s  
 9 cross-licensing agreement and do not establish that the allegedly infringing technology was “the  
 10 sole driver of customer demand” for the accused products. *Power Integrations*, 894 F.3d at 1272.  
 11 Thus, Dominion still would be unable to show that the entire market value rule is applicable. *Id.*  
 12 Third, as Masimo argues (Reply 10), Dr. Causevic’s declaration indicates that his royalty base  
 13 includes revenue for non-infringing monitors that were not configured to measure the accused  
 14 Rainbow parameters. Moreover, even if Dr. Causevic were allowed to adjust his royalty base to  
 15 negate his reallocation of revenue from those non-infringing monitors, the resulting royalty base  
 16 would still be derived from the entire value of the accused monitors that contain non-infringing  
 17 features including the SET technology and the ability to measure a non-accused Rainbow  
 18 parameter. In other words, the adjustment would not eliminate the value of those non-infringing  
 19 features.

20 Dominion further relies on *Exmark Mfg. Co. Inc. v. Briggs & Stratton Power Prod. Grp.,*  
 21 *LLC*, 879 F.3d 1332 (Fed. Cir. 2018) to support its position. Opp’n 10. In particular, Dominion  
 22 argues that the court in *Exmark* held that sales of the accused lawn mowers would be an  
 23 appropriate royalty base and thus Dr. Causevic may similarly base his opinion on sales numbers.  
 24 *See id.* However, *Exmark* is distinguishable from this case. In *Exmark*, the asserted claim was  
 25 directed to the “lawn mower as a whole.” 879 F.3d at 1348. In other words, the asserted claim  
 26 covered “the infringing product as whole, not a single component of a multi-component product.”  
 27 *Id.* There was “no unpatented or non-infringing feature of the product.” In contrast, here, the  
 28 accused products feature Masimo’s non-infringing SET technology and Dr. Causevic recognizes

1 that the SET technology had a valuable impact on the industry but he, nonetheless, fails to  
2 apportion damages (Dr. Causevic Report ¶ 121). As such, Dominion’s reliance on *Exmark* is  
3 unpersuasive.

4 Dr. Causevic admits that he does not opine about “what portion of the profit can be  
5 attributed to each feature or technology.” Causevic Report ¶ 156. Dr. Causevic’s failure to  
6 consider the value attributable to the infringing features separate from the non-infringing features  
7 reveals an additional flaw in his damages opinions.

8 Accordingly, the Court finds that Dr. Causevic’s opinions are unreliable with respect to  
9 apportionment of damages. The Court therefore GRANTS Masimo’s motion to exclude Dr.  
10 Causevic’s damages opinions based on his failure to apportion damages.

11 **C. Dr. Causevic’s Georgia-Pacific Analysis and Opinion on the Royalty Rate**

12 Masimo argues that Dr. Causevic fails to explain how the facts of the case factor into his  
13 determination of the royalty rate. Mot. 14. In his report, Dr. Causevic opines that the reasonable  
14 royalty rate would be 4% of the net sales for the ’764 patent and 3.5% percent for the ’177 patent.  
15 Causevic Report ¶ 161. In Masimo’s view, although Dr. Causevic identifies the *Georgia-Pacific*  
16 factors and makes conclusions about each factor’s impact, he “then pluck[s] the 4% royalty rate  
17 out of nowhere.” Mot. 14. Masimo contends that Dr. Causevic “never explains how [the  
18 *Georgia-Pacific*] analysis would have any impact on his royalty rate” and that “the only rationale  
19 for [Dr. Causevic’s] 4.0% rate is [the] relative ranking[] between . . . the ’764 and [the ’177  
20 patent].” *Id.* at 15. Masimo further asserts that Dr. Causevic’s analysis of *Georgia-Pacific* factor  
21 four and five contradicts accepted economic principles. *Id.* at 15–16.

22 Dominion responds that Masimo is wrong on the grounds that Dr. Causevic “makes clear  
23 that he based his opinion on the \$694 per unit royalty in the initial [2006] Nellcor agreement, the  
24 7.75% rate of the amended [2011] Nellcor deal and the up to 10% rate of the Masimo  
25 [Agreement].” Opp’n 10–11. Dominion also argues that Masimo’s challenge to factors four and  
26 five of the *Georgia-Pacific* analysis is more properly addressed as a subject for cross-examination.  
27 *Id.* at 11.

28 The Court agrees with Masimo’s argument that the 4% royalty rate for the ’764 patent is

1 not sufficiently tied to the facts of this case. As discussed earlier, the Court finds that Dr.  
2 Causevic may not rely on the 2006 Masimo-Nellcor, 2011 Masimo-Covidien, and 2007 Masimo  
3 Agreements. More importantly, Dr. Causevic never explicitly explains the starting point of his  
4 royalty rate and merely states that the impact of the *Georgia-Pacific* factors is either “Upward” or  
5 “Neutral.” In addition, although Dr. Causevic indicates that the claimed invention of the ’764  
6 patent “is most valuable” and the ’177 patent “is second,” his opinion is devoid of an analysis that  
7 supports his statement. Therefore, the Court finds that Dr. Causevic’s 4% royalty rate for the ’764  
8 patent is “plucked out of thin air.” *LaserDynamics*, 694 F.3d at 69; *Exmark*, 879 F.3d at 1351  
9 (holding that the royalty rate was plucked out of nowhere when the expert merely recited the  
10 *Georgia-Pacific* factors in a cursory manner and failed to tie the evidence or specific factors to the  
11 proposed rate).


12 Accordingly, the Court concludes that Dr. Causevic’s opinion that the reasonable royalty  
13 rate would be 4% of the net sales for the ’764 patent is unreliable. Masimo’s motion to exclude  
14 Dr. Causevic’s opinion regarding the 4% royalty rate of the ’764 patent is GRANTED.

15 **V. CONCLUSION**

16 For the foregoing reasons, the Court GRANTS Masimo’s motion to exclude testimony of  
17 Dominion’s damages expert Elvir Causevic under *Daubert v. Merrell Dow Pharmaceuticals, Inc.*,  
18 509 U.S. 579 (1993).

19  
20 **IT IS SO ORDERED.**

21  
22 Dated: August 1, 2018

23   
24 BETH LABSON FREEMAN  
25 United States District Judge  
26  
27  
28