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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

OAKLAND DIVISION

ORACLE USA, INC., et al., Plaintiffs, v. SAP AG, et al., Defendants.	Case No. 07-CV-1658 PJH (EDL) **REPLY DECLARATION OF ELAINE WALLACE IN SUPPORT OF DEFENDANTS' MOTION TO EXCLUDE EXPERT TESTIMONY OF PAUL K. MEYER** Date: September 30, 2010 Time: 2:30 p.m. Courtroom: 3, 3rd Floor Judge: Hon. Phyllis J. Hamilton

I, ELAINE WALLACE, declare as follows:

I am an attorney in the law firm of Jones Day, 555 California St., 26th Floor, San Francisco, California 94104, and counsel of record for Defendants SAP AG, SAP America, Inc. (together, "SAP"), and TomorrowNow, Inc. ("TN") (collectively, "Defendants") in the above-captioned matter. I am a member in good standing of the state bar of California and admitted to practice before this Court. I make this declaration based on personal knowledge and, if called upon to do so, could testify competently thereto.

Defendants attach the following unpublished cases for the convenience of the court in review of Defendants' Reply In Support of Defendants' Motion to Exclude Expert Testimony of Paul K. Meyer.

1. Attached as **Exhibit 1** is a true and correct copy of *Multimatic, Inc. v. Faurecia Interior Sys. USA, Inc.*, Nos. 08-1332, 08-1420, 2009 U.S. App. LEXIS 28156 (6th Cir. Dec. 22, 2009).

2. Attached as **Exhibit 2** is a true and correct copy of *Nilssen v. Motorola, Inc.*, No. 93 C 6333, 1998 U.S. Dist. LEXIS 12882 (N.D. Ill. Aug. 14, 1998).

3. Attached as **Exhibit 3** is a true and correct copy of from *Pierson v. Ford Motor Co.*, No. C-06-6503, 2008 U.S. Dist. LEXIS 111791 (N.D. Cal. Aug. 1, 2008).

4. Attached as **Exhibit 4** is a true and correct copy of *Sunstar, Inc. v. Alberto-Culver, Inc.*, No. 01-C-0736, 01-C-5825, 2004 WL 1899927 (N.D. Ill. Aug. 23, 2004).

5. Attached as **Exhibit 5** is a true and correct copy of *Transclean Corp. v Bridgewood Servs., Inc.*, No. 97-2298, 2001 U.S. Dist. LEXIS 24383 (D. Minn. Jan. 8, 2001).

I declare under penalty of perjury under the laws of the United States and the State of California that the foregoing is true and correct. Executed this 16th day of September, 2010 in San Francisco, California.

/s/ Elaine Wallace
Elaine Wallace

SFI-650243v1

EXHIBIT 1

LEXSEE

Positive
As of: Sep 16, 2010

MULTIMATIC, INC., Plaintiff-Appellee/Cross-Appellant, v. FAURECIA INTERIOR SYSTEMS USA, INC., Defendant-Appellant/Cross-Appellee.

Nos. 08-1332, 08-1420

UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

09a0820n.06; 358 Fed. Appx. 643; 2009 U.S. App. LEXIS 28156; 2009 FED App. 0820N (6th Cir.)

December 22, 2009, Filed

NOTICE: NOT RECOMMENDED FOR FULL-TEXT PUBLICATION. SIXTH CIRCUIT RULE 28 LIMITS CITATION TO SPECIFIC SITUATIONS. PLEASE SEE RULE 28 BEFORE CITING IN A PROCEEDING IN A COURT IN THE SIXTH CIRCUIT. IF CITED, A COPY MUST BE SERVED ON OTHER PARTIES AND THE COURT. THIS NOTICE IS TO BE PROMINENTLY DISPLAYED IF THIS DECISION IS REPRODUCED.

PRIOR HISTORY: [**1]

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MICHIGAN.

Multimatic, Inc. v. Faurecia Interior Sys. USA, 2007 U.S. Dist. LEXIS 12896 (E.D. Mich., Feb. 26, 2007)

CASE SUMMARY:

PROCEDURAL POSTURE: Plaintiff cross-car beam designer sued defendant supplier, alleging breach of a confidentiality agreement, a letter of intent, and prototype purchase orders. The United States District Court for the Eastern District of Michigan granted summary judgment to the designer as to the agreement and to the supplier as to the letter. After a jury awarded damages to each party, each party cross-appealed the judgment.

OVERVIEW: The district court properly granted the designer summary judgment as to liability as the agreement unambiguously covered preexisting and future trade secrets, and the designer exclusively owned the information that the supplier had disclosed to another designer. The lost profit award damage award to the designer was appropriate where the jury had ample evidence to conclude that the parties contemplated such damages at the time of contracting, the evidence was not unduly speculative, and the evidence provided a sound basis for concluding that the supplier would have selected the designer absent a breach of the agreement. The district court did not err in denying the supplier's discovery motion to compel disclosure, admitting the supplier's preproduction letter of intent, or admitting the designer's expert testimony. The denial of the supplier's Fed. R. Civ. P. 60(b) motion was also appropriate as the supplier offered no newly discovered evidence that existed at the time of trial, and events disproving a damages expert's forward-looking estimate were not extraordinary circumstances. The district court properly excluded the testimony of one designer expert as unduly speculative.

OUTCOME: The judgment was affirmed.

CORE TERMS: confidentiality agreement, beam, supplier, cross-car, ownership, sensitive information,

proprietary, summary judgment, engineering, prototype, disclosure, breached, disclosing, pre-existing, calculation, ambiguous, ambiguity, genuine, letter of intent, present tense, lost-profit, speculative, erosion, purchase orders, disclose, sharing, saving, profit margins, issues of material fact, confidentiality

LexisNexis(R) Headnotes

Civil Procedure > Trials > Jury Trials > Province of Court & Jury
Contracts Law > Contract Interpretation > Ambiguities & Contra Proferentem > General Overview
[HN1]Under Michigan law, as under the law of most (if not all) states, courts will enforce the terms of a contract if they have a clear, unambiguous, and definite meaning. Courts determine the meaning of unambiguous contract provisions, and juries generally determine the meaning of ambiguous provisions when there is competing extrinsic evidence over how to construe them.

Copyright Law > Subject Matter > Pictorial, Graphic & Sculptural Works > General Overview
[HN2]Copyright law is the legally cognizable form of ownership in 3D models, 17 U.S.C.S. § 102(a)(5).

Copyright Law > Conveyances > Formalities > Signature Requirement
Copyright Law > Conveyances > Formalities > Writing Requirement
[HN3]To transfer copyright ownership, the copyright owner must sign a written instrument acknowledging the transfer. 17 U.S.C.S. § 204(a).

Civil Procedure > Appeals > Standards of Review > De Novo Review
[HN4]The United States Court of Appeals for the Sixth Circuit gives fresh review to a claim that a jury verdict cannot stand as a matter of law, applies the law of the forum state in assessing the sufficiency of the evidence, and views the evidence in the light most favorable to the party for whom the verdict was rendered.

Contracts Law > Remedies > Foreseeable Damages > General Overview
[HN5]A plaintiff can recover only for damages that arise naturally from the breach or those that were in the contemplation of the parties at the time the contract was made.

Contracts Law > Remedies > Foreseeable Damages > Lost Profits
[HN6]Under Michigan law, a plaintiff cannot recover damages based on mere conjecture or speculation. Yet damages calculations with a reasonable basis of computation clear this hurdle even though the results are only approximate and speculative to some degree.

Contracts Law > Remedies > Foreseeable Damages > General Overview
[HN7]Unaccepted offers and preliminary negotiations generally do not establish the basis for a damages award.

Civil Procedure > Trials > Judgment as Matter of Law > General Overview
[HN8]The point of a Fed. R. Civ. P. 50(b) motion is not to tell the district court what the losing party might challenge on appeal but to give the district court a first shot at correcting the mistake, and to give the district court an explanation for doing so.

Civil Procedure > Discovery > Disclosures > General Overview
[HN9]A district court has broad discretion to deny unduly broad discovery requests.

Evidence > Relevance > Relevant Evidence
[HN10]Fed. R. Evid. 401 sets a low threshold for relevance, which is to say, evidence having any tendency to make the existence of any relevant fact more or less probable.

Evidence > Testimony > Experts > Admissibility
[HN11]To be admissible, expert testimony must be relevant and have a reliable basis in the knowledge and experience of the expert's discipline.

Civil Procedure > Judgments > Relief From Judgment > Newly Discovered Evidence
[HN12]Under Fed. R. Civ. P. 60(b)(2), the district court may relieve a party from a judgment if it uncovers newly

discovered evidence that, with reasonable diligence, could not have been discovered in time to move for a new trial. Fed. R. Civ. P. 60(b). The newly discovered evidence must relate to facts existing at the time of trial.

Civil Procedure > Judgments > Relief From Judgment > Extraordinary Circumstances
[HN13]District courts may grant relief under Fed. R. Civ. P. 60(b)(6) only in extraordinary circumstances. Events disproving a damages expert's forward-looking estimates are not such an extraordinary circumstance, as it is hardly unusual for future events to overtake the reasonable premises of an estimate.

Civil Procedure > Appeals > Standards of Review > Abuse of Discretion
Evidence > Testimony > Experts > General Overview
[HN14]The United States Court of Appeals for the Sixth Circuit reviews a district court's decision to exclude expert testimony for an abuse of discretion.

Evidence > Testimony > Experts > Daubert Standard
[HN15]In ensuring that expert testimony is relevant and reliable under Fed. R. Evid. 702, district courts must ensure that the testimony has a basis in the knowledge and experience of the expert's discipline and that the expert exhibits the same level of intellectual rigor expected of an expert outside the courtroom.

Evidence > Testimony > Experts > Daubert Standard
[HN16]Experts may not assume facts without some support for those assumptions in their expert report or elsewhere in the record.

Evidence > Testimony > Experts > Daubert Standard
[HN17]Perceived flaws in an expert's opinion go to weight only if they fall within the accepted norms of the discipline and have a non-speculative basis in fact.

COUNSEL: For MULTIMATIC, INC., a Canadian Corp. (08-1332), Plaintiff - Appellee Cross-Appellant: Steven C. Susser, Young & Susser, Southfield, MI.

For FAURECIA INTERIOR SYSTEMS USA, INC., a Delaware Corporation, Defendant - Appellant Cross-Appellee: Fred K. Herrmann, Joanne G. Swanson, Kerr, Russell & Weber, Detroit, MI.

For MULTIMATIC, INC., a Canadian Corp. (08-1420), Plaintiff - Appellee Cross-Appellant: Steven C. Susser, Young & Susser, Southfield, MI.

For FAURECIA INTERIOR SYSTEMS USA, INC., a Delaware Corporation, Defendant - Appellant Cross-Appellee: Fred K. Herrmann, Joanne G. Swanson, Kerr, Russell & Weber, Detroit, MI.

JUDGES: Before: CLAY and SUTTON, Circuit Judges; THAPAR, District Judge. * CLAY, Circuit Judge, dissenting.

* The Honorable Amul R. Thapar, United States District Judge for the Eastern District of Kentucky, sitting by designation.

OPINION BY: SUTTON

OPINION

[*645] SUTTON, Circuit Judge. Faurecia Interior Systems USA appeals (1) the district court's summary judgment decision that it breached a confidentiality agreement with Multimatic and (2) the jury's $ 10 million damage award. Multimatic cross-appeals the district court's [**2] exclusion of its damages expert, who claimed Multimatic suffered an additional $ 28.7 million in damages. Because the district court properly granted summary judgment on liability, the jury's verdict is supported by sufficient, and properly admitted, evidence and the district court did not abuse its discretion in excluding Multimatic's damages expert, we affirm.

I.

In October 2003, DaimlerChrysler selected Faurecia to supply instrument panels for its JS41 vehicle program, which [*646] covered the 2007 to 2012 Sebring and Avenger vehicle lines. In early 2004, Faurecia selected Multimatic to design the instrument panel's cross-car beam. In connection with this agreement, Multimatic asked Faurecia to sign a confidentiality agreement, which it did in February 2004.

With the confidentiality agreement in place, Multimatic and Faurecia began collaborating weekly on the cross-car beam design. At the same time, Multimatic began working on an alternate design--dubbed the "mass saving design"--that would meet Faurecia's requirements but weigh several pounds less than the current design. By

November 2004, Multimatic was ready to focus solely on the mass saving design. But because the parties had not yet [**3] agreed on a price for the cross-car beams, Multimatic worried (correctly) that Faurecia might switch suppliers. Faurecia signed a pre-development letter of intent that month to assuage Multimatic's concerns, and the two parties shifted their focus to refining the mass saving design.

In April 2005, Faurecia again looked to switch cross-car beam suppliers because the parties could not agree on a price for the product. It selected Brown Corporation as its new pre-production cross-car-beam supplier in May 2005 and terminated its relationship with Multimatic. Brown remained the cross-car-beam supplier once the JS41 program began production in 2006.

In May 2005, Multimatic filed this lawsuit against Faurecia, alleging that it breached the confidentiality agreement, breached the November 2004 letter of intent and breached several prototype purchase orders. The district court granted summary judgment for Multimatic on the breach-of-confidentiality-agreement claim and summary judgment for Faurecia on the breach-of-letter-of-intent claim. After a trial, a jury awarded Multimatic $ 9,381,306 for Faurecia's breach of the confidentiality agreement and $ 600,515 for breach of the purchase orders. [**4] Both parties appeal.

II.

We first consider whether the district court properly granted summary judgment to Multimatic on liability. This aspect of the appeal boils down to two questions: (1) Does the confidentiality agreement cover information created after Multimatic and Faurecia executed it and (2) did Faurecia reveal information owned *exclusively* by Multimatic? In answering these questions, we must give Faurecia the benefit of all reasonable factual inferences. *See* *Cavin v. Honda of Am. Mfg., Inc.*, 346 F.3d 713, 719 (6th Cir. 2003).

A.

As to the first question, Multimatic and Faurecia signed the confidentiality agreement so that they could share "their respective CAD designs, drawings, analysis models and results" concerning the cross-car beam that "Multimatic will design and supply." ROA 236. The agreement protects "sensitive information" that "each of Multimatic . . . and Faurecia possesses," defined as:

> [P]roprietary confidential information pertaining to its business and customers and . . . technical information relating to its products, designs and services, including compositions, raw materials, formulations, additives, components, production processes, plant layout, engineering [**5] concepts and designs, analysis models and results, know-how, and other intellectual or industrial property, which is generally not available to the public.

Id. The agreement adds that Multimatic and Faurecia must disclose any sensitive information "necessary to develop and [*647] supply" the cross-car beam during the agreement's three-year term. *Id.* And it provides that neither party may share sensitive information obtained under the confidentiality agreement with third parties unless they first impose "similar" confidentiality obligations. *Id.*

[HN1]Under Michigan law, as under the law of most (if not all) States, courts will enforce the terms of a contract if they have a "clear, unambiguous, and . . . definite meaning." *Mahnick v. Bell Co.*, 256 Mich. App. 154, 662 N.W.2d 830, 832-33 (Mich. Ct. App. 2003); *see also* *Rory v. Continental Ins. Co.*, 473 Mich. 457, 703 N.W.2d 23, 28 (Mich. 2005). Courts determine the meaning of unambiguous contract provisions, and juries generally determine the meaning of ambiguous provisions when there is competing extrinsic evidence over how to construe them. *Mahnick*, 662 N.W.2d at 833.

In our view, as in the view of the district court, the confidentiality agreement unambiguously covers pre-existing *and* [**6] future trade secrets. The preamble looks to the future, contemplating that Multimatic "will design" the cross-car beam and will share its "designs, drawings" and other information created during that process. ROA 236. The agreement's disclosure obligation confirms this forward-looking perspective, mandating disclosure of sensitive information "necessary to develop" the cross-car beam. *Id.* And nothing in the agreement draws a distinction between pre-existing and future information. The definition of "sensitive information" does not include the modifier "pre-existing" or otherwise restrict itself to a discrete time period.

The agreement also confirms that the parties knew how to exclude information from the compass of protected trade secrets. Immediately after defining sensitive information, it excludes information in the public domain and information the receiving party lawfully possessed prior to disclosure. In this context, had the agreement meant to exclude information post-dating its execution, one would expect to see language to that effect alongside the other carve-out clauses.

Our interpretation also gives effect to "every word" in the definition of sensitive information. *See Associated Truck Lines, Inc. v. Baer*, 346 Mich. 106, 77 N.W.2d 384, 386 (Mich. 1956). [**7] The definition picks up several types of information created during the design process--many of which necessarily would occur in the future--such as engineering designs, analysis models and results. If the agreement covers future information, as we think it does, the inclusion of these types of covered information in the definition imposes meaningful obligations. Were we to interpret the confidentiality agreement to cover only pre-existing information, by contrast, that would leave these provisions with no role to play.

Faurecia offers three rejoinders. *First*, it notes that the agreement repeatedly uses the present tense, including the verb "possesses" in the definition of sensitive information, suggesting that the agreement covers just pre-existing trade secrets. But it is not that easy. All contracts use the present tense--at least in part. And the parties' use of the present tense here provides a baseline for creating existing *and* future obligations, and the context of the agreement and its other terms show that the agreement covers both types of commitments. Proving the point, legal drafters frequently use the present tense to cover the present and the future. *See, e.g.*, 1 U.S.C. § 1; [**8] Mich. Comp. Laws §§ 141.602, 141.1162, 206.2, 257.80; *Heniser v. Frankenmuth Mut. Ins. Co.*, 449 Mich. 155, 534 N.W.2d 502, 503, 505, 509 (interpreting contract term to cover the future even though it was drafted in the present tense); Bryan [*648] A. Garner, *A Dictionary of Modern Legal Usage* 939 (2d ed. 1995). Verb tense alone cannot hold the weight that Faurcia places on it.

Second, the obligation to disclose sensitive information "to the extent necessary to design and develop" the cross-car beam, Faurecia argues, has no work to do if the agreement includes information created during the design process. Not so. The phrase still protects pre-existing information from disclosure to the same extent as an interpretation covering only pre-existing information.

Third, Faurecia worries that extending the confidentiality agreement to cover future information--especially the cross-car beam design itself--would give Multimatic the ability to "shut[] down production of an entire line of vehicles" because the agreement allows either party to request the immediate return of its sensitive information at any time. Faurecia Br. at 29. But Chrysler's policies indicate that it will not incorporate third-party designs into [**9] its production vehicles unless it has an irrevocable right to produce and use that design. The confidentiality agreement thus was prologue to a supply or licensing agreement, which would address these types of concerns if and when Faurecia chose to use (and pay for) Multimatic's design.

Nor does the promise to protect sensitive information become illusory if the confidentiality agreement covers future information. Faurecia complains that Multimatic could circumvent its disclosure obligation by immediately asking Faurecia to return any disclosed design materials. But the agreement's implicit covenant of good faith and fair dealing alleviates this concern. *See Lowes Home Centers, Inc. v. LL & 127, LLC*, 147 F. App'x 516, 523-24 (6th Cir. 2005).

B.

Faurecia separately argues that Multimatic did not exclusively own the information that Faurecia disclosed to Brown. Yet it is beyond question, as an initial matter, that Faurecia shared the cross-car beam design and associated engineering documents with Brown in April or May 2005. Brown needed the information to provide an accurate quote, which it gave to Faurecia on May 18, 2005. Brown's 2006 three-dimensional cross-car beam models also perfectly [**10] match Multimatic's 2005 models "except for minor revisions . . . resulting from a more mature vehicle package" by Chrysler. R.84 Ex. 33 at 21, 27. Faurecia offers no evidence suggesting that Brown recreated the design from scratch.

Once Faurecia transitioned the cross-car-beam project from Multimatic to Brown, it also disclosed Multimatic's design-failure mode and effects analysis and its design verification plan and report. Both represent "core engineering documents" that disclose Multimatic's

quality assurance processes, such as how to test for and prevent cross-car beam failures. R.84 Ex. 33 at 4, 20. These documents by their nature come within the categories of "information pertaining to [Multimatic's] business" and "analysis models and results" protected by the confidentiality agreement. ROA 236.

Multimatic exclusively owned this information. All of the record evidence--including deposition testimony by two Faurecia employees intimately involved in the cross-car beam development--indicates that Multimatic alone created the 3D models Faurecia shared with Brown in 2005. Faurecia may well dispute who came up with some of the ideas embodied in the 3D models, but that does nothing to [**11] counter the reality that Multimatic created the models.

[*649] In addition, Multimatic solely created and solely owned the engineering documents Faurecia provided to Brown. Only Multimatic employees are identified as creating and maintaining those documents. And Faurecia forwarded the Multimatic emails containing those documents to Brown without any modification or comment.

[HN2]Copyright law--the legally cognizable form of ownership in 3D models, *see* 17 U.S.C. § 102(a)(5); *Robert B. Jones Assoc., Inc. v. Nino Homes*, 858 F.2d 274, 278 (6th Cir. 1988)--confirms Multimatic's exclusive ownership of the cross-car beam models. [HN3]To transfer copyright ownership, the copyright owner must sign a written instrument acknowledging the transfer. *See* 17 U.S.C. § 204(a). Faurecia has not produced any writing signed by Multimatic that transfers its copyright in the 3D models to Faurecia or to Chrysler.

Faurecia disagrees, pointing to a January 2005 email from Lee James, a Multimatic engineer, who agrees to comply with several of Chrysler's cross-car beam specification requirements, including some in Chrysler's PS-7000 process standard. In that standard, Chrysler outlines technical specification requirements for [**12] designs created by third-party suppliers. But it also describes two potential IP ownership arrangements between outside suppliers and Chrysler: either the supplier retains IP ownership but grants Chrysler a license to use the IP or the supplier assigns IP ownership to Chrysler.

According to Faurecia, a jury could infer from James' email that Multimatic agreed to give Chrysler ownership in the cross-car beam design. That is a stretch. A jury could not reasonably infer that a Multimatic engineer's email to Faurecia acknowledging screw-torque testing procedures, welding specifications and "mill oil and lubricant requirements" simultaneously assigned the company's intellectual property ownership to Chrysler--all without mentioning intellectual property ownership at any point in the email. R.85 Ex. R. The PS-7000 standard itself also acknowledges that suppliers do not transfer IP ownership until Chrysler and the supplier execute a purchase order for the supplier's vehicle component. Multimatic and Chrysler never did so for the cross-car beam.

Faurecia persists that Multimatic assigned ownership of its 3D models to Chrysler by uploading them to Chrysler's Virtual Product Manager (VPM) system. [**13] By logging into VPM, Multimatic "acknowledg[ed]" that VPM and its data are valuable DaimlerChrysler assets and that it could use these assets only in authorized ways. R.91 Ex. LL. A "Confidentiality Agreement" on the VPM welcome screen also states, "All information and content on the [Chrysler] network is the confidential and proprietary property of" Chrysler, which VPM users cannot disclose to others. R.91 Ex. LL.

Yet these statements do not automatically assign ownership over information uploaded into VPM to Chrysler. To acknowledge that someone owns a book is not the same as acknowledging that they own the copyright in the book. By logging into VPM, Multimatic likewise acknowledged only that the data in VPM--not the intellectual property embodied in that data--belong to Chrysler.

Chrysler's PS-7000 process standard adds force to this conclusion. All 3D models for Chrysler vehicle components must be uploaded into VPM, so any promise under the PS-7000 standard that a supplier could retain IP ownership over its design would be a dead letter if uploading information into VPM automatically transferred ownership to Chrysler. Two acknowledgments on a login screen did not render Chrysler's [**14] carefully crafted contract [*650] terms meaningless and deceptive. In the end, Faurecia fails to offer any reason why the application of a carefully negotiated confidentiality agreement in this context would implicitly give up what it explicitly protects: intellectual property rights.

III.

Faurecia separately challenges the jury's $ 10 million damage award. Multimatic's principal evidence supporting its $ 10 million lost-profits claim came through the testimony of Lawrence Simon, one of its damages experts. Simon, a CPA for twenty-four years, testified that Multimatic lost roughly $ 9.4 million in profits when Brown, not Multimatic, supplied the cross-car beam for the JS-41 program. Simon calculated this figure by multiplying the number of cars Chrysler would produce under the JS41 program (according to publicly available automotive forecasting information) by Multimatic's estimated profits per cross-car beam. *See id.* at *28.* He then estimated the profits per beam based on a February 2005 Multimatic price quote, which included a pricing structure similar to the November 2004 letter of intent.

Simon also testified that Multimatic incurred an additional $ 600,515 in damages from unpaid purchase [**15] orders for cross-car beam prototypes. He arrived at this figure by adding up the invoice amount on each unpaid prototype invoice that he could tie to a Faurecia purchase order. This included purchase orders for prototypes that Multimatic produced but did not ship to Faurecia in May 2005.

A.

Faurecia claims the jury verdict cannot stand as a matter of law. [HN4]We give fresh review to this claim, apply the law of the forum state (Michigan) in assessing the sufficiency of the evidence, *see* *K & T Enters., Inc. v. Zurich Ins. Co.*, 97 F.3d 171, 175-76 (6th Cir. 1996), and view the evidence in the light most favorable to Multimatic, *see* *In re Brown*, 342 F.3d 620, 626-27 (6th Cir. 2003).

According to Faurecia, Multimatic cannot show that the parties contemplated lost-production profits for breaching the confidentiality agreement. [HN5]A plaintiff can recover only for damages "that arise naturally from the breach or those that were in the contemplation of the parties at the time the contract was made." *Kewin v. Mass. Mut. Life Ins. Co.*, 409 Mich. 401, 295 N.W.2d 50, 52-53 (Mich. 1980). While we agree that lost-production profits are not an inevitable consequence of breaching a confidentiality agreement, the jury had [**16] ample evidence to conclude that the parties contemplated such damages at the time of contracting.

Mark Sullivan, a Multimatic manager who oversaw the cross-car beam project, testified about the company's intention in signing the confidentiality agreement: Faurecia remained free to use any supplier it wished for the JS41 program, but if it used Multimatic's design, Faurecia had to permit Multimatic to supply the beam. He pointed to language in the agreement that reflected this intention. And he testified that he communicated this understanding to Faurecia on several occasions. Based on this evidence, a jury could reasonably infer that Faurecia understood that, if it used the Multimatic design protected by the confidentiality agreement, it would have to use Multimatic to supply the product.

Faurecia fares no better in arguing that the lost-profit award is unduly speculative. [HN6]Under Michigan law, sure enough, a plaintiff cannot recover damages "based on mere conjecture or speculation." *Sullivan Indus., Inc. v. Double Seal Glass Co., Inc.*, 192 Mich. App. 333, 480 N.W.2d 623, 632 (Mich. Ct. App. 1991). Yet damages calculations with a "reasonable basis of computation" clear [*651] this hurdle even though the results [**17] are "only approximate," *Waskin Dev. Co. v. Weyn*, 369 Mich. 121, 119 N.W.2d 662, 665 (Mich. 1963), and "speculative to some degree," *Lorenz Supply Co. v. Am. Standard, Inc.*, 100 Mich. App. 600, 300 N.W.2d 335, 340 (Mich. Ct. App. 1980).

The damages evidence satisfies this standard. Simon had a reasoned, non-speculative basis for projecting profits through 2012. His yearly vehicle production forecasts for the JS41 program came from a reliable industry forecaster upon whom the automakers themselves rely. Several witnesses testified that the automakers rarely, if ever, change production suppliers once production begins, so the jury had a reasoned basis for concluding that Multimatic would have been the cross-car beam supplier throughout the JS41 program's production run.

The jury also had a sound basis for concluding that Faurecia would have selected Multimatic as its supplier absent a breach of the confidentiality agreement. Sullivan, to repeat, testified that the confidentiality agreement obligated Faurecia to use Multimatic as its supplier if it used Multimatic's design. The jury also heard testimony that, "within a few months" of November 2004, Faurecia would have no choice but to use Multimatic's design. ROA Tr. Vol. [**18] V at 100. It takes years, according to Sullivan, to develop a production-ready cross-car beam, and Chrysler was

nearing its design-freeze deadline for the JS41 program, scheduled to hit showroom floors in July 2006. The jury had a reasonable basis for finding that, by May 2005, when Faurecia breached the confidentiality agreement and used Brown as its cross-car beam supplier, Faurecia had to use Multimatic's design.

Taking a different tack, Faurecia argues that a Multimatic quote, which Faurecia never accepted, cannot establish Multimatic's lost profits. No doubt, [HN7]unaccepted offers and preliminary negotiations generally do not establish the basis for a damages award. *See* *Wisconsin Bridge & Iron Co. v. City of Alpena*, 238 Mich. 164, 213 N.W. 93, 95 (Mich. 1927); *ATACS Corp. v. Trans World Commc'ns, Inc.*, 155 F.3d 659, 670 (3d Cir. 1998). *But cf.* *Pelton v. Pelton*, 167 Mich. App. 22, 421 N.W.2d 560, 562 (Mich. Ct. App. 1988) (using an unaccepted offer to value a business during divorce proceedings). And no doubt, in a mine-run case, this rule makes sense because it approaches conjecture, if not enters that forbidden territory, to assume that both parties would agree to one party's quote or even that both parties would [**19] reach a final agreement. *See* *ATACS Corp.*, 155 F.3d at 670.

But in this case, the jury had more to go on. The evidence showed that Faurecia had little choice by May 2005 but to agree to Multimatic's terms. It took no speculation for the jury to find that Faurecia and Multimatic would have reached agreement. For if they had not, Faurecia would have forgone the benefits of--and borne the consequences of breaching--its instrument-panel supply agreement with Chrysler. In this setting, where there was a reasonable likelihood that the parties would have consummated a supply agreement but for Faurecia's breach, Multimatic's February 2005 quote gives a contemporaneous, non-speculative indication of the price term Multimatic would have imposed from its superior bargaining position. That is particularly so where Faurecia did not even offer its own expert on damages.

Faurecia, lastly, challenges the sufficiency of the evidence to support the jury's award of $ 600,515 for unpaid prototype parts. Faurecia waived this argument, however, by not raising it in its Rule 50(b) motion. It makes no difference that Faurecia mentioned that it wished to preserve [*652] the issue for appeal in a footnote in its brief. [**20] [HN8]The point of a Rule 50(b) motion is not to tell the district court what the losing party might challenge on appeal but to give the district court a first shot at correcting the mistake--and to give the district court an explanation for doing so. *See* *Bldg. Serv. Local 47 Cleaning Contractors Pension Plan v. Grandview Raceway*, 46 F.3d 1392, 1398-99 (6th Cir. 1995).

B.

Faurecia argues in the alternative that the district court abused its discretion in making four evidentiary rulings. *See* *Barnes v. City of Cincinnati*, 401 F.3d 729, 741 (6th Cir. 2005). First, the district court did not exceed its authority in denying Faurecia's discovery motion to compel disclosure of Multimatic's costs and profit margins on all cross-car beam programs between 2000 and 2005. Faurecia claims that it could have presented "a substantially reduced lost profits computation" to the jury had Multimatic provided this information. Faurecia Br. at 59. A magistrate judge denied this motion for two reasons: The request was overly broad in time and scope given that Multimatic's damages experts had not relied on any of this financial information in preparing their reports, and it conflicted with a previous stipulated [**21] order withdrawing all of Faurecia's requests for historical pricing information. The district court agreed. [HN9]A district court has broad discretion to deny unduly broad discovery requests, *see* *Info-Hold, Inc. v. Sound Merchandising, Inc.*, 538 F.3d 448, 457 (6th Cir. 2008), and this trial judge did not abuse that discretion by denying Faurecia access to five years of tangential, sensitive financial information.

Second, the district court did not abuse its discretion by admitting Faurecia's November 2004 pre-production letter of intent. According to Faurecia, the letter ceased having any relevance once the district court deemed it unenforceable at the summary judgment stage. [HN10]Rule 401 sets a low threshold for relevance, however, which is to say, evidence "having any tendency to make the existence of any" relevant fact "more [or less] probable." Fed. R. Evid. 401. The November 2004 letter clears this threshold because it shows both parties contemplated using the pricing structure Simon relied upon when calculating lost-profits damages, thereby making the lost-profits calculation more plausible. Likewise unavailing is Faurecia's claim that the letter of intent would confuse the jury, which [**22] might treat it as an enforceable agreement. *See* Fed. R. Evid. 403. The district court instructed the jury that they could not treat the letter of intent as an enforceable agreement and

indicated it would give that instruction when it admitted the letter.

Third, Faurecia objects under Rule 702 to the admission of Simon's expert testimony. [HN11]To be admissible, expert testimony must be relevant and "have a reliable basis in the knowledge and experience of" the expert's "discipline." *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 592, 113 S. Ct. 2786, 125 L. Ed. 2d 469 (1993). Simon's testimony is relevant because it went to the only issue before the jury: the amount of damages suffered by Multimatic. No evidence shows that Simon's methodology, or the way he applied that methodology here, falls outside the range of accepted accounting principles. For the same reasons that Multimatic's unilateral price quote is not too speculative to support a jury verdict, neither is Simon's testimony based on that quote too speculative to be admissible under Rule 702. Faurecia separately attempts to incorporate by reference arguments it made in its motion *in limine* below seeking to exclude Simon's testimony. Because Faurecia does not develop [**23] these arguments on appeal, however, it waived them. *See Bickel v.* [*653] *Korean Air Lines Co., Ltd.*, 96 F.3d 151, 153 (6th Cir. 1996); *Bldg. Serv. Local 47*, 46 F.3d at 1398-99.

Fourth, Faurecia likewise failed to preserve its objection to Sullivan's testimony about his understanding of the confidentiality agreement by not objecting in the district court. *See Bowman v. Corrections Corp. of America*, 350 F.3d 537, 548 (6th Cir. 2003).

C.

Faurecia also claims that the district court abused its discretion by rejecting its Rule 60(b) motion to reduce the lost-profits damage award by roughly $ 2.2 million. Less than a month after the district court entered its final judgment in October 2007, Chrysler announced it would eliminate a shift at the plant producing the JS41 program vehicles, causing industry forecasters to reduce JS41 production estimates through 2012 by thirty-one percent. Faurecia moved for Rule 60(b)(2) and (b)(6) relief from the judgment based on this information, which the district court denied.

Faurecia does not qualify for Rule 60(b)(2) relief. [HN12]Under that rule, the district court "may relieve a party . . . from a judgment" if it uncovers "newly discovered evidence that, with reasonable [**24] diligence, could not have been discovered in time to move for a new trial." Fed. R. Civ. P. 60(b). The problem is, the newly discovered evidence must relate to facts existing at the time of trial. *See Davis v. Jellico Cmty. Hosp. Inc.*, 912 F.2d 129, 136 (6th Cir. 1990). Faurecia offers no evidence that this was so.

Faurecia's request for Rule 60(b)(6) relief fails as well. [HN13]District courts may grant relief under this provision only in "extraordinary circumstances." *See Agostini v. Felton*, 521 U.S. 203, 239, 117 S. Ct. 1997, 138 L. Ed. 2d 391 (1997). Events disproving a damages expert's forward-looking estimates are not such an extraordinary circumstance, as it is hardly unusual for future events to overtake the reasonable premises of an *estimate*. *See Davis*, 912 F.2d at 136 ("Death of a judgment plaintiff following so shortly after a jury award of damages based on an expected life span not realized . . . is not the sort of 'extraordinary circumstances' contemplated by Rule 60(b)(6).").

IV.

Multimatic cross-appeals the district court's decision to exclude testimony by its second damages expert, Dr. Michael Hartzmark. Hartzmark, a PhD economist, would have testified that Multimatic suffered roughly $ 28.7 million in additional [**25] damages beyond the $ 10 million Sullivan calculated. Hartzmark formed the opinion that Faurecia's breach of the confidentiality agreement caused three other sources of lost profits: (1) Lost profits from a revamped JS41 program extending from 2013 through 2018; (2) the loss of an "incumbency benefit[]" by not supplying the cross-car beam, which reduced Multimatic's likelihood of being a Chrysler supplier in the future by eighteen percent, R. 144 Ex. A at 4, 21-22; and (3) "price erosion"--requiring decreased profit margins--on future GM and Ford contracts through 2016 because competitors had access to Multimatic's designs, ROA Tr. Vol. VII at 117, 121.

The district court excluded this evidence under Fed. R. Evid. 702 and 403, finding that Hartzmark's expert opinion rested on speculation and his methodology had not been scientifically tested, had not been subject to peer review and was not generally accepted in the economic community. [HN14]We review this decision for an abuse of discretion. *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 138-39, 118 S. Ct. 512, 139 L. Ed. 2d 508 (1997). [HN15]In ensuring that expert [*654] testimony is "relevant and reliable" under Rule 702, *Kumho Tire Co. Ltd. v. Carmichael*, 526 U.S. 137, 141, 152, 119 S. Ct.

1167, 143 L. Ed. 2d 238 (1999), district [**26] courts must ensure that the testimony has a "basis in the knowledge and experience of" the expert's discipline and that the expert exhibits "the same level of intellectual rigor" expected of an expert outside the courtroom. *Id.* at 149, 152.

Consistent with this gatekeeping requirement, the district court properly excluded Hartzmark's testimony about lost JS41-related profits from 2013 through 2017. *See McLean v. 988011 Ontario, Ltd.*, 224 F.3d 797, 800-01 (6th Cir. 2000). Hartzmark assumed that Chrysler would follow standard automotive practice by revamping the JS41 program after five years and then extend its production run through 2017. He further assumed, without any supporting industry research, that Chrysler would continue producing JS41 vehicles at the same rate in 2017 as it did in 2007. Simon, in contrast, relied on industry research for his 2007-12 lost-profits calculations. The district court hit the nail on the head when it characterized this ten-year prediction about the fortunes of the American automotive industry as utterly speculative.

Hartzmark's opinion regarding Multimatic's loss of its "incumbency benefit[]" fares no better. R. 144 Ex. A at 21. His opinion rests on [**27] speculation about Multimatic's profit margins on yet-to-be-signed contracts years into the future, using Simon's per-beam profit estimates for the JS41 program without analyzing Multimatic's historical profit margins or typical industry profit margins. As mentioned, however, Simon's calculations rested on an unaccepted price quote. That quote did not rest on unacceptable speculation only because Multimatic had Faurecia in a position where it had no choice but to accept Multimatic's terms. Multimatic will not have similar bargaining strength for future Chrysler contracts, and in the absence of that reality we cannot fault the district court for excluding Hartzmark's testimony.

Hartzmark builds his "price erosion" opinion on an even shakier foundation. According to Hartzmark, Faurecia's breach of the confidentiality agreement eroded Multimatic's future profits on Ford and GM contracts by eight percent. He derived this number from the same Multimatic quote as his incumbency-benefit calculation as well as May 2005 quotes from Brown and other suppliers. His opinion also assumed, relying on Multimatic's say-so, that Multimatic provides 2.15 million cross-car beams annually to Ford and GM [**28] and that Multimatic would continue to do so through 2016. [HN16]Experts may not assume facts without some support for those assumptions in their expert report or elsewhere in the record. *See McLean*, 224 F.3d at 801.

Beyond being speculative, Hartzmark's lost profit calculations fall short of the level of rigor professional economists normally exercise. *See Kumho Tire Co.*, 526 U.S. at 152. We doubt--and Multimatic introduced no evidence to the contrary--that an economic projection ten years into the future would be well-received by professional economists if no historical data backed up the projection and the economist made no effort to test his model against historical data to confirm its predictive power. Hartzmark's price erosion calculation also never attempts to identify or control for factors beyond the disclosure of Multimatic's designs that might account for the possibility that competitors might submit lower bids. (Some of the bidders, for example, were able to obtain steel at lower prices.)

Multimatic bears some of the blame for Hartzmark's problematic analysis. He asked for historical data, but Multimatic [*655] refused to provide it, likely because the company did not want to disclose [**29] it during discovery. District courts do not abuse their discretion, however, when they exclude expert testimony whose flaws stem in part from the expert's efforts to do the best job he could with the limited data his client would provide.

Multimatic responds that price erosion is a well-accepted economic principle and that weaknesses in Hartzmark's opinion go to weight, not admissibility. But the question at hand is the reliability of Hartzmark's application of price erosion principles, not the reliability of price erosion as an economic principle. *See Kumho Tire Co.*, 526 U.S. at 152. [HN17]Perceived flaws in an expert's opinion go to weight only if they fall within the accepted norms of the discipline and have a non-speculative basis in fact. *See McLean*, 224 F.3d at 800-01. Not so here.

V.

For these reasons, we affirm.

DISSENT BY: CLAY

DISSENT

CLAY, Circuit Judge, dissenting. The record before this Court indicates that Defendant, Faurecia Interior Systems, Inc. ("Faurecia"), has raised genuine issues of material fact regarding Plaintiff's, Multimatic, Inc.'s ("Multimatic"), claim that Faurecia breached a confidentiality agreement between the parties. The record reflects both that the terms of the confidentiality [**30] agreement were sufficiently ambiguous that the district court should have considered extrinsic evidence in support of Faurecia's interpretation, and that Multimatic may not have had exclusive ownership of the intellectual property rights to the designs at issue. I would therefore vacate the district court's grant of summary judgment to Multimatic on Count I. Because the court's summary judgment ruling as to liability directly affected the scope of issues set down for trial, and thus improperly narrowed the evidence and questions put to the jury, I would also vacate district court's procedural rulings, including the procedural rulings that are the basis for Multimatic's cross-appeal, as well as the court's judgment awarding damages to Multimatic.

I.

Because this case turns primarily on whether there are genuine factual disputes and because the majority's recounting of the facts is lacking in some respects, the following factual summary is presented to frame the discussion. DaimlerChrysler ("DCX" or "Chrysler")--which is not a party in this action--contracted with Faurecia to develop and supply the instrument panel for its JS-41 product line, which included DCX's Sebring, Stratus, and [**31] Avenger vehicle lines. Faurecia subcontracted the design and manufacture of the frame component of the instrument panel assembly, known as the cross-car beam ("CCB"). One of the companies to which Faurecia considered subcontracting the design and manufacture of the CCB was Multimatic.

In February 2004, Faurecia and Multimatic executed a Confidentiality Agreement. (ROA at 236-37.) The confidentiality agreement recognizes that each of the parties

> possesses *proprietary confidential information* pertaining to its business and customers and possess technical information relating to its products, designs and services, including compositions, raw materials, formulations, additives, components, production processes, plant layout, *engineering concepts and designs*, analysis models and results, know-how, and other intellectual or industrial property, which is generally not available to the public (all of such information being herein referred to as "Sensitive Information").

[*656] (ROA at 236 (emphasis added).) The confidentiality agreement also provides that:

> Sensitive Information excludes any information that is in the public domain at the time of disclosure, any information that has been made available [**32] to the receiving party by third parties not acting on the disclosing party's behalf and not breaching a confidentiality obligation to the disclosing party and any information that the receiving party can establish by documentary evidence was in its possession at the time of disclosure by the disclosing party.

(ROA at 236.) In addition, the confidentiality agreement states that "[t]he receiving party agrees that it will use the Sensitive Information of the disclosing party only in connection with the Instrument Panel Structural Assembly Arrangement and that it will not directly or indirectly otherwise use or exploit the Sensitive Information of the disclosing party." (ROA at 236.)

After entering into this agreement, Multimatic worked to develop CCB designs and prototypes for Faurecia. In April 2004, Multimatic submitted its initial design for the CCB. Multimatic contends that this initial design iteration, as well as all other designs and prototypes submitted to Faurecia after the parties entered into the confidentiality agreement, constituted "Sensitive Information" as defined and protected by the confidentiality agreement. Along with its designs, Multimatic also submitted an initial [**33] price quote of approximately $ 25 per unit, plus approximately $ 2.8 million in tooling costs. As the negotiations progressed, Multimatic eventually increased its estimated per-unit production price from $ 25 to $ 41, and increased its estimated tooling costs to $ 5.2 million.

Apparently displeased with the price quotes it was

receiving from Multimatic, Faurecia conducted "market tests" to determine if Multimatic's competitors could manufacture the CCB more cheaply. As part of those market tests, Faurecia sent the CCB designs submitted by Multimatic to other prospective suppliers. Faurecia shared Multimatic's designs with multiple suppliers as part of multiple rounds of market tests. The parties agree that Faurecia conducted these market tests without Multimatic's knowledge or consent.

After several months of negotiations and after Multimatic had submitted at least two CCB designs to Faurecia, the parties executed a "Pre-Development Letter of Intent" ("LOI") addressing issues related to a potential supply agreement pertaining to the CCB. (ROA at 239-40.) The parties dispute their intent in entering into the LOI. For its part, Multimatic contends that it had developed an innovative new [**34] CCB design and insisted on a firm sourcing commitment before it submitted its design to Faurecia. Faurecia contends that the LOI was merely an agreement to negotiate in good faith. After the parties executed the LOI, Mutlimatic submitted its "Mass Savings Design" to Faurecia.

Although Faurecia approved Multimatic's Mass Saving Design "from an engineering perspective" in December 2004, the parties continued to disagree over pricing issues. Negotiations between Faurecia and Multimatic regarding manufacture and supply of the CCB continued until the end of April 2005. During this time, Faurecia continued to conduct market tests with other prospective suppliers, again circulating Multimatic's designs--including the Mass Savings Design--to at least three prospective suppliers.

After Faurecia obtained a lower price quote for the manufacture of the CCB from Brown Corporation ("Brown"), Faurecia sought price concessions from Multimatic. When negotiations with Multimatic failed, Faurecia awarded the JS-41 [*657] CCB supply contract to Brown. Faurecia subsequently provided Brown with additional information submitted to Faurecia by Multimatic, including "CAD designs, CAE models and analysis, Multimatic's [**35] Design Failure Mode and Effects Analysis, its Design Verification Plan & Report, and a prototype crossbeam manufactured by Multimatic." (ROA at 1508.)

Shortly thereafter, in May 2005, Multimatic filed this action alleging that Faurecia breached the confidentiality agreement by sharing Multimatic's designs and other purportedly proprietary information with other suppliers. Multimatic also alleged breach, anticipatory repudiation, and specific performance related to the supply "contract" reached between the parties, alleging that "Faurecia breached the contract by refusing to award the production contract to Multimatic and quoting or sourcing the part to an alternative supplier." (ROA at 230.) In response, Faurecia claims that the confidentiality agreement did not preclude Faurecia from sharing Multimatic's CCB designs and prototypes with other possible suppliers, despite Multimatic's demand for such assurances. Faurecia also denies that the parties ever reached a contractual agreement regarding the production and supply of the CCB.

II.

Faurecia claims that the district court erred by granting summary judgment in favor of Multimatic on Multimatic's claim that Faurecia breached the confidentiality [**36] agreement by sharing Multimatic's CCB design and prototypes with other potential suppliers. Faurecia acknowledges that the confidentiality agreement protects "proprietary" information that the parties possessed at the time they entered into it, but contends that the confidentiality agreement does not address designs and other information related to the JS-41 program that the parties generated after they executed it. Faurecia contends that Multimatic did not have exclusive ownership of the designs because Faurecia had contributed to the creation of the designs and had been billed by Multimatic for those designs. Faurecia also contends that Multimatic repeatedly uploaded iterations of the its designs to Chrysler's information-sharing computer system, and, consequently, Multimatic has disclaimed its "proprietary" rights to those designs.

As the majority also recognizes, the dispositive question is whether a "genuine fact as to any material issue" exists with respect to Multimatic's claim that Faurecia breached the confidentiality agreement by sharing Multimatic's designs and prototypes with other suppliers -- i.e., whether the district court properly granted summary judgment to Multimatic [**37] on liability. Certain facts are not in dispute. Most importantly, Faurecia does not dispute that it shared Multimatic's CCB design iterations and other information with other suppliers in a series of "market tests" in 2004 and 2005. Faurecia also does not dispute that Multimatic was unaware of these market tests. Instead, Faurecia

claims that summary judgment is improper because the terms of the confidentiality agreement do not preclude disclosure of these particular designs because the confidentiality agreement does not cover designs produced after the parties entered into the confidentiality agreement. Alternatively, Faurecia argues that the designs were not exclusively owned by Multimatic and so would not fall under the confidentiality agreement even if it did cover later-developed designs. The majority's conclusory findings in favor of Multimatic on both issues are ultimately unsatisfactory because the question of liability should have gone to trial.

Under Michigan law, where the terms of a contract are unambiguous, determining its meaning is a question of law to be [*658] resolved by the court. *See G & A, Inc v. Nahra*, 204 Mich. App. 329, 514 N.W.2d 255, 256 (Mich. Ct. App. 1994) ("If a contract's language [**38] is clear, its construction is a question of law for the court."). In construing the meaning and scope of contract terms, "[c]ontractual language is given its ordinary and plain meaning, and technical and constrained constructions are avoided." *Id.* Michigan law also makes clear, however, that "the main goal in the interpretation of contracts is to honor the intent of the parties." *Mahnick v. Bell Co.*, 256 Mich. App. 154, 662 N.W.2d 830, 832 (Mich. Ct. App. 2003). Therefore, "[i]f a contract is subject to two interpretations, factual development is necessary to determine the intent of the parties and summary disposition is inappropriate." *Id.* at 833.

There is no doubt that the confidentiality agreement precludes the parties from sharing "Sensitive Information," which expressly includes "engineering concepts and designs." Faurecia contends, however, that this provision is worded in the present tense inasmuch as it refers to proprietary information that each party "possesses" at the time and thus the confidentiality agreement, when properly construed, relates only to "background information," that is, information already possessed by the parties on the date that the parties executed the confidentiality agreement. [**39] On Faurecia's suggested reading, the confidentiality agreement does not preclude the parties from sharing "foreground information," that is, designs related to the JS-41 program that the parties created while operating under the agreement. Although Faurecia's suggestion that the confidentiality agreement *unambiguously* relates only to "background information" is not particularly convincing, the terms of the Confidentiality agreement are sufficiently ambiguous to preclude summary judgment in favor of Multimatic.

The confidentiality agreement does not expressly distinguish between "background" and "foreground" information. Rather, the confidentiality agreement protects the parties' "proprietary confidential information," including "engineering concepts and designs." Although the confidentiality agreement does not specifically include the limitation urged by Faurecia, neither does its terms specify that its protections relate to *all* engineering designs. Although Faurecia may not carry the day with its contention that the present-tense phrasing of the confidentiality agreement makes this limitation clear, the phrasing is ambiguous.

Additionally, while the confidentiality agreement unequivocally [**40] includes "engineering concepts and designs" within the reach of "Sensitive Information," the scope of that protection is limited to "proprietary" information. Therefore, if, as Faurecia contends, the JS-41 designs and engineering plans at issue here were not the "proprietary" property of Multimatic, then those designs would not be subject to the restrictions of the Confidentiality agreement.

The question then becomes whether the designs created by Multimatic for the JS-41 program constitute "proprietary" information owned by Multimatic. Faurecia contends that it provided substantial input to the designs, it was billed for the design work, and that Multimatic had no intention of claiming ownership over the designs after production had begun. Taking Faurecia's claims as true, as this Court must at the summary judgment stage, these factors create a genuine issue of material fact as to the "proprietary" status of Multimatic's designs. The terms of the confidentiality agreement simply do not address ownership of the CCB designs that were produced after execution of the confidentiality agreement. Absent any [*659] such language, this Court cannot simply read the answer to this question into the [**41] parties' agreement, no matter what the majority sees fit to do. *See Leon v. Detroit Harvester Co.*, 363 Mich. 366, 109 N.W.2d 804, 811 (Mich. 1961) ("This Court may not vary [a contract] nor read into it some provision that the parties did not see fit to incorporate.").

This ambiguity also can be seen in other aspects of the confidentiality agreement, including what Faurecia aptly describes as a "unilateral 'clawback' provision." That provision states:

> The receiving party shall immediately upon the request of the disclosing party return to the disclosing party the Sensitive Information of the disclosing party and all copies thereof that may have been or may be in the receiving party's possession upon the request of the disclosing party or upon termination of the agreement.

(ROA at 1085.) If the scope of the confidentiality agreement is given the broad reading that Multimatic, and the majority, ascribes to it, then this provision would seem to grant Multimatic the right to clawback *any* previously shared designs at any time, including information designed for Faurecia and for which Faurecia already had been billed. According to Faurecia, "[i]f this clause is read to apply to foreground technology, *i.e.*, [**42] the design being developed for the JS41 program, then the confidentiality agreement would be rendered illusory because either party could claw back the design under development at any time." (Faurecia Br. at 28 (citing *Floss v. Ryan's Family Steak Houses, Inc.*, 211 F.3d 306, 315 (6th Cir. 2000).)

This troubling implication of Multimatic's suggested reading, which also leads the majority astray, is heightened by the fact that the confidentiality agreement does not speak to whether the parties could share or disclose the JS-41 designs after a supply and production contract had been entered into. As a result, Multimatic's reading of the confidentiality agreement would permit it to withdraw its design plans at any time without regard for the fact that Faurecia already had paid Multimatic for its design expenses and regardless of any reliance costs. Multimatic does not respond to this particular argument, and the majority does not adequately address the concern. The clawback provision thus renders the confidentiality agreement susceptible to alternative interpretations that should have been resolved by a jury.

III.

Because the terms of the confidentiality agreement are ambiguous and susceptible [**43] to multiple reasonable interpretations, the courts are obliged to give effect to the parties intentions at the time. *See* *Mahnick*, 662 N.W.2d at 833 ("If the meaning of the language [of a contract] is unclear, the trier of fact must determine the intent of the parties."). "Where a contract provides little guidance in interpreting a disputed term," the courts "may properly look to . . . the standards and practices within the relevant industry and to how the parties' actions during the pendency of the agreement have reflected an understanding of the term." *City of Wyandotte v. Conrail*, 262 F.3d 581, 586 (6th Cir. 2001) (citing *Booth v. N. Am. Aluminum Corp.*, 423 F.2d 545, 547 (6th Cir.1970), and *William C. Roney & Co. v. Fed. Ins. Co.*, 674 F.2d 587, 590 (6th Cir. 1982)); see also *Meagher v. Wayne State Univ.*, 222 Mich. App. 700, 565 N.W.2d 401, 415 (Mich. Ct. App. 1997) ("Parol evidence . . . may be admissible to prove the existence of an ambiguity and to clarify the meaning of an ambiguous contract.") The district court should have considered relevant information related to the parties' understanding of whether Multimatic's designs in fact were proprietary [*660] given that Faurecia had input into the designs [**44] and the work performed by Multimatic's design team was billed to Faurecia. (*See* ROA at 1292, 1301-26.)

Under Michigan law, parol evidence is admissible not only to resolve an ambiguity, but also to prove that a latent ambiguity exists in the contract when the language of the contract may appear otherwise unambiguous. *See* *City of Grosse Pointe Park v. Michigan Municipal Liability and Property Pool*, 473 Mich. 188, 702 N.W.2d 106, 113 (Mich., 2005) ("Because 'the detection of a latent ambiguity requires a consideration of factors outside the instrument itself, extrinsic evidence is obviously admissible to prove the existence of the ambiguity, as well as to resolve any ambiguity proven to exist.'") (quoting *McCarty v. Mercury Metalcraft Co.*, 372 Mich. 567, 127 N.W.2d 340, 344 (Mich. 1964)); *see also* *In re Kramek Estate*, 268 Mich. App. 565, 710 N.W.2d 753, 758 (Mich.Ct. App. 2005). Extrinsic evidence has been used to show that common contract terms that appear unambiguous were latently ambiguous because they were intended to be given a slightly different meaning than they are typically given in the commercial context. *See* *Staniszewski v. Grand Rapids Packaging Corp.*, 125 Mich. App. 97, 336 N.W.2d 10, 11 (Mich. Ct. App. 1983) ("full back pay" typically unambiguously [**45] refers to the industry standard 40-hour work week but parol evidence indicated that the plaintiff's usual 52-hour work week was intended). In the instant case, the district court should have considered Faurecia's contention that the term "possesses" only referred to the present situation, a plausible use of the ordinary meaning of the word, rather than to the future, as Multimatic argued and the majority concluded. Faurecia

raises genuine issues of material fact as to whether the intent of the parties was for the confidentiality agreement to only cover background information, and whether the CCB designs were "proprietary" under the terms of the agreement, regardless of the temporal scope of the agreement.

The majority claims to be convinced that record unequivocally demonstrates that "Multimatic exclusively owned" the designs that Faurecia shared with Brown. (Maj. Op. at 8). From that conclusion, the majority argues that Multimatic did not lose its copyright ownership simply by uploading its designs to Chrysler's VPN. If the majority were correct that the record is so clear as to the ownership of the designs, then its dismissal of Faurecia's argument regarding Multimatic's use of the [**46] VPN would be potentially convincing. However, since Faurecia has raised a genuine issue of material fact as to the proprietary nature of the designs -- shared input into the designs and billing the costs of the designs to Faurecia are key pieces of evidence as to which company owned the intellectual property rights to those designs that weigh in favor of Faurecia's argument -- the majority seems to have missed the forest for the trees. Uploading the designs to the VPN would not impact Multimatic's copyright ownership if it were settled that Multimatic was indeed the copyright owner. Because the record is not so clear, the question of ownership -- i.e., whether the designs were "proprietary" -- should have gone to trial.

Because genuine issues of material fact exist, the district court should not have granted summary judgment and the majority should not have upheld that ruling. *See Mahnick*, 662 N.W.2d at 833 ("Because the contract is subject to more than one reasonable interpretation, factual development is necessary to determine the intent of the parties and summary disposition is inappropriate.").

I therefore respectfully dissent.

EXHIBIT 2

LEXSEE

Caution
As of: Sep 16, 2010

OLE K. NILSSEN, Plaintiff, v. MOTOROLA, INC., et al., Defendants.

No. 93 C 6333

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION

1998 U.S. Dist. LEXIS 12882

August 12, 1998, Decided
August 14, 1998, Docketed

DISPOSITION: [*1] All of Nilssen's motions in limine denied, while all save one of Motorola's granted except to its Motion 11 as to the Frenzel letter, on which this Court reserved judgment.

CASE SUMMARY:

PROCEDURAL POSTURE: Plaintiff product developer executed a non-disclosure agreement with defendant corporation, and pursuant to that agreement, the product developer provided confidential information to the corporation. The product developer later filed suit against the corporation for misappropriation of trade secrets. Both the product developer and the corporation filed motions in limine.

OVERVIEW: The product developer's motions in limine sought, inter alia, exclusion of evidence or argument that the corporation's key employees lacked access to his trade secrets. The corporation filed several motions in limine, one of which sought to bar references to statements attributable to two of the corporation's employees. The court held (1) the product developer's motion to exclude evidence regarding key employees' access to his trade secrets was a wholly unwarranted effort to substitute an irrebutable presumption for what was instead only a permissible inference that the factfinder might have drawn from the evidence, and (2) even if the statements attributed to the two employees in question were viewed as relevant and admissible under Fed. R. Evid. 401, their probative value would have been substantially outweighed by the danger of unfair prejudice, confusion of the issues, or misleading the jury.

OUTCOME: The court denied all of the product developer's motions in limine. However, the court granted all but one of the corporation's motions in limine. The court reserved judgment on the corporation's remaining motion.

CORE TERMS: trade secrets, patent, ballast, technology, limine, misappropriation, confidential, electronic, reexamination, disclosure, summary judgment, expert testimony, presentation, royalty, lighting, lawsuit, exclude evidence, royalty rate, negotiation, hypothetical, unjust enrichment, purported, pretrial, confirm, addenda, intend, owed, duty of confidentiality, reduced to writing, jury instructions

LexisNexis(R) Headnotes

Contracts Law > Defenses > Ambiguity & Mistake > General Overview

Contracts Law > Formation > Ambiguity & Mistake > General Overview
[HN1]The litigants' differing views as to the meaning of contractual language do not of themselves demonstrate the ambiguity of that language.

Contracts Law > Formation > Meeting of Minds
Contracts Law > Formation > Offers > General Overview
[HN2]An enforceable contract must include a meeting of the minds or mutual assent as to the terms of the contract.

Torts > Business Torts > Unfair Business Practices > General Overview
Trade Secrets Law > Civil Actions > Remedies > Damages > General Overview
[HN3]See 765 Ill. Comp. Stat. 1065/4(a).

Trade Secrets Law > Civil Actions > Remedies > Damages > Royalties
Trade Secrets Law > Civil Actions > Remedies > Damages > Unjust Enrichment
Trade Secrets Law > Misappropriation Actions > General Overview
[HN4]The proper test for awarding damages for misappropriation of trade secrets is a reasonable royalty where any evidence as to claimed lost profits or unjust enrichment is too imprecise and speculative to support an award in those terms.

Evidence > Privileges > Trade Secrets > General Overview
Trade Secrets Law > Factors > Ready Availability
Trade Secrets Law > Protected Information > Combinations & Compilations
[HN5]A trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design and operation of which, in unique combination, affords a competitive advantage and is a protectable secrets.

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For MOTOROLA INC, MOTOROLA LIGHTING, INC., defendants: Michael B. Allen, Laff, Whitesel, Conte & Saret, James M. Amend, Brian Douglas Sieve, S Jonathan Silverman, Paul Frederick Brown, Michael Anthony Parks, Douglas R. Cole, Jennifer Anderson Van Kirk, Geoffrey J. Moul, Kirkland & Ellis, Chicago, IL.

JUDGES: Milton I. Shadur, Senior United States District Judge.

OPINION BY: Milton I. Shadur

OPINION

MEMORANDUM OPINION AND ORDER

This long-in-the-tooth action between Ole Nilssen ("Nilssen") and defendants Motorola, Inc. and its subsidiary Motorola Lighting, Inc. ("Lighting")(the two defendants are collectively referred to as "Motorola," treated as a singular noun to avoid awkwardness)--the third oldest case on this Court's calendar [1]--has been stretched almost beyond belief by the litigants' successful efforts to deforest a substantial part of our nation's [*2] timber resources by the papers that they have filed in a host of areas. Most recently, with the case at long last having reached the final pretrial order ("FPTO") stage after this Court rejected each side's efforts to obtain total victory via summary judgment, [2] the litigants then favored (?) this Court with packages of motions in limine that, when the parties' memoranda were placed in a single stack, formed a pile substantially over a foot high.

1 Both of the even more ancient actions are also intellectual property disputes, each of which has followed a tortuous path having many of the same paper-intensive and time-consuming characteristics as this case. In the oldest case, this Court reached its dispositive conclusion as to the patent infringement claims some time ago, and the only remaining matter--the bench trial as to recoverable damages--has been tried recently, with this Court now awaiting the litigants' respective proposed findings of fact and conclusions of law. In the next oldest case, this Court has just completed and issued its most recent extensive written opinion, and it has met with counsel today to discuss what remains to bring the complex trademark-trade dress and patent disputes to trial.

[*3]

2 See the April 25, 1997 "Opinion I," reported at 963 F. Supp. 664, and the August 22, 1997

"Opinion II," found at 1997 U.S. Dist. LEXIS 12899. Citations to Opinion I will list only the page number but not the F. Supp. volume number, while citations to Opinion II will simply list the * page number. Some terms defined in the two Opinions will also be employed here without redefinition.

Both the press of other matters and, it must be confessed, the unpleasant prospect of wading through highly combative sets of materials for a third time, [3] prevented the motions from being addressed as promptly as this Court would have preferred. But after last week's generation of two lengthy opinions in other intellectual property cases, this Court has undertaken the task of scaling the peak of the mountain of accumulated papers. On examination, what had presented such a formidable appearance turned out in large part, with full apologies to the Bard of Avon, to be "full of sound and fury, signifying nothing." [4] Nonetheless, as will be seen, bulk tends to generate bulk, so that this [*4] opinion too has caused a tree to be felled.

3 It is surprising that counsel so often seem to be blissfully unaware of the fact that they are able to approach litigation on a team basis, marshaling their troops of lawyers and paralegals to concentrate on their one lawsuit, while by contrast the decisional responsibility funnels down to a single individual--the trial judge--whose calendar comprises cases numbering in the hundreds. And that disparity is enhanced when it comes to post-FPTO motions in limine, because most frequently those must be dealt with by the judge alone, without assistance from his or her able law clerks. At that point only the judge has full familiarity with the case, and the issues are unlikely to present the same kind of discrete questions of pure law as (say) the summary judgment motions that are more suitable for law clerk assistance.

4 William Shakespeare, Macbeth act 5, sc. 5, lines 27-28.

Before this opinion turns to the parties' lengthy written submissions, mention should [*5] be made of three motions that were referred to in the FPTO but have not been briefed, instead being made the subject of an exchange of letters (one dated January 16, 1998 from Motorola's counsel, and the other a February 9, 1998 response from Nilssen's counsel) [5]:

1. Motorola's Motion 2 asks to preclude any argument that Motorola owed Nilssen a duty of confidentiality beyond the terms of the 1987 and 1988 Agreements.

2. Motorola's Motion 3 seeks to preclude any reference to any information that Nilssen allegedly disclosed orally to Motorola, unless that information was later reduced to writing and stamped "Confidential" as required by the 1987 Agreement.

3. Motorola's Motion 5 seeks to preclude any evidence or argument that Nilssen is entitled to damages because he "educated" Motorola as to the electronic ballast industry as a result of his presentations regarding industry fundamentals.

Motorola says that those motions are controlled by the rulings in Opinions I and II, while Nilssen responds with arguments that smack of efforts to avoid--to take an end run around--those rulings.

5 Both letters are attached to this opinion.

[*6] From the outset this action was plagued in material part by the amorphousness of Nilssen's claims, especially his counsel's attempt to paint the notion of trade secrets with an impermissibly broad brush. What Nilssen will not be permitted to do at trial is to use concepts of "res gestae" or "background" as a backdoor vehicle for reintroducing the overly broad claims that this Court has curbed by its earlier rulings in Opinions I and II. Nor is this Court persuaded by Nilssen's repeated argument that appropriate jury instructions can protect against the mischief that his blunderbuss approach would create.

In short, this Court grants those three Motorola motions. If prior to or at the time of actual trial Nilssen is of the view that some limited and more narrowly focused background evidence is required to set the stage for independently admissible evidence regarding his claim as narrowed by this Court's Opinions, that subject will have to be fronted in advance of the actual questioning of witnesses, to avoid any tainting of the evidentiary

presentation before the factfinding jury.

Because Nilssen is plaintiff in this action, this Court would ordinarily have begun the substantive [*7] discussion here by first addressing his motions in limine rather than those three Motorola motions. In this instance, though, a partial reversal of sequence seemed appropriate because the Nilssen mindset just described here in ruling on those motions unfortunately marks a good deal of the current presentations by Nilssen's counsel, both in support of his motions and in opposition to Motorola's. With that having been said, this opinion now returns to the usual sequence by dealing with Nilssen's own motions.

All five of Nilssen's motions in limine must be denied, either on the merits or (in one respect) on mootness grounds. Little discussion is called for as to any of the five.

Nilssen Motion 1 seeks to preclude evidence or argument that Motorola's commercial electronic ballast launch designs did not use all four circuit elements that Nilssen now asserts are his technical trade secrets (Opinion I at 673, 683). That motion is denied for the reasons (which will not be repeated here) that have been amply and well stated in Motorola's responsive memorandum. Although the following thumbnail description should therefore not be mistaken as the total basis for this Court's ruling, here as [*8] elsewhere Nilssen has sought to misportray a subject as presenting a question of law, rather than as posing questions of fact that must be resolved by the jury.

Nilssen's Motion 2 seeks "to exclude evidence or argument that Motorola's key employees lacked access to Nilssen's trade secrets." That too is denied as a wholly unwarranted effort to substitute an irrebutable presumption for what is instead only a permissible inference that the factfinder might draw from the evidence. Some partial notion of Nilssen's flawed approach may be derived from this short quotation from his Mem. 4 in support of the motion:

> In sum, the undisputed facts prove that Motorola deliberately placed employees having knowledge of Nilssen's trade secrets in a position that would facilitate their misappropriation. The result of this deliberate action is clear under Illinois law: a fact finder may, as a matter of law, find a misappropriation of the trade secrets in issue.

To put it bluntly, that mischaracterizes both the evidence and the law, though Nilssen's counsel may perhaps wish to advance such a contention (except for the "as a matter of law") in his closing argument to the jury.

Nilssen's [*9] Motion 3 asks "to exclude evidence that Motorola had any good faith legal defense for avoiding exemplary damages." To the extent that motion focuses solely on a possible reliance-on-advice-of-counsel defense, it is denied as moot, for Motorola's response confirms that it does not intend to assert such a defense. But Motorola's response also correctly identifies the impermissibility of the further indications by Nilssen that at trial his counsel intends:

> 1. to propose a jury instruction that the jury can draw the inference, from Motorola's failure to produce a legal opinion during discovery, that Motorola had received such an opinion that was unfavorable to its position and
>
> 2. to ask Motorola's witnesses about whether they sought such a legal opinion.

Neither of those is at all appropriate, and to that extent Motion 3 is rejected outright.

Nilssen Motion 4 seeks "to exclude evidence or argument that Motorola used any of Stevens' electronic ballast designs." That motion mischaracterizes both the evidence and Motorola's position in that respect. As Motorola's response correctly points out, the question of whether and to what extent Motorola did use so-called "Super Ballast" [*10] design originated by Carlisle ("Steve") Stevens ("Stevens") (a subject dealt with at some length in Opinion I at 671, 682-83) poses disputed factual issues for jury resolution. And as for Nilssen's other asserted ground for the motion, here (as in a few other instances) his counsel attempts to turn a late-disclosure item into a purported justification for the harsh sanction of evidence preclusion. [6] That too is unpersuasive.

> 6 In this instance a late-discovered file was turned over to Nilssen voluntarily--something that is entirely at odds with any notion of an effort by Motorola to hide the ball. This Court disfavors

> such efforts by any litigant to take advantage of the other side's omissions that are so obviously not occasioned by bad faith or obstructionist motivations.

Finally on Nilssen's side, his Motion 5 is labeled as one "to exclude evidence that Motorola 'could have' properly obtained Nilssen's trade secrets." This time the motion's major vice is that it seriously casts a false light (not for the [*11] first time, it will be noted) on Motorola's position. Motorola's response explains the entirely permissible efforts that it anticipates making in an effort to demonstrate (1) that Nilssen's alleged trade secrets were publicly available and (2) that Motorola did in fact obtain and use such publicly-available information, negating any claimed misappropriation of information derived from Nilssen. This Court does not of course make or even suggest any findings in that respect--those things are for the jury to resolve--but it denies Nilssen's inappropriately-framed motion.

Thus all of Nilssen's motions in limine have proved to be totally unsuccessful. As the ensuing discussion reflects, he fares (or may potentially fare) a bit better on one of Motorola's remaining motions in limine, [7] although for the most part he is a loser there as well.

> 7 In addition to the three motions in limine already discussed (Motorola Motions 2, 3 and 5), it has withdrawn its Motions 7 through 9. What follows in this opinion therefore speaks to Motorola's other seven motions.

[*12] Motorola Motion 1 seeks to bar Nilssen's proposed use of certain documents that Nilssen sent to Motorola after the parties had executed the 1987 Agreement--for example, a September 2, 1987 multipage document that both set out some information relating to electronic ballasts and also purported to set different conditions on disclosure from those contained in the 1987 Agreement, including terms stated in an attached document dated May 28, 1986 captioned "ADDENDUM TO DISCLOSURE." Then again on October 13, 1987 Nilssen sent Motorola another disclosure (this one dated September 15, 1986) that contained some of the same attempted gloss on the notion of confidentiality but omitted the May 1986 document. Nilssen responds by identifying that May 1986 document (which he terms the "Nilssen Addendum") as the "key document" that is "plainly relevant here and admissible" (Mem. 1), on the theory that the document can somehow aid in resolving a claimed ambiguity in the term "evaluation purposes" used in the 1987 Agreement. [8]

> 8 Nilssen does not speak at all to the other documents targeted by Motorola's Motion 1. Whether on the basis of an absence of opposition by Nilssen to Motorola's motion, or because the same principles discussed in the text apply to those documents as well, or both, the motion is also granted to exclude those documents.

[*13] As is too often the case with Nilssen's submissions, his counsel overstates this Court's prior rulings: Opinion I at 682 n.20 had left for future consideration the question of Nilssen's September 23, 1988 transmittal of the same document (the Nilssen Addendum), while Opinion II at *24 stated that factual issues as to any claimed violation by Motorola would exist "whatever meaning might be ascribed to the term 'evaluation purposes.'" But that treatment was clearly not the same as a holding by this Court that "evaluation purposes" is an ambiguous term--on the contrary, the locution in Opinion II simply reflected that it was unnecessary to explore that term's meaning in order to find factual issues that would defeat summary judgment with "the record taken in a light most favorable to Nilssen" (id. at *26). This Court finds no ambiguity in the term "evaluation purposes" that is beyond the ken of a factfinding jury.

Suppose however that Nilssen were right in characterizing "evaluation purposes" as ambiguous. That does not mean that his unilateral effort to redefine the concept is rendered admissible. When Nilssen first transmitted the Nilssen Addendum to Motorola together [*14] with the other revisionist documents relating to disclosure, Bob Elliott ("Elliott") of Motorola immediately rejected the papers by sending a copy back with the handwritten legend "Rec'd under Sept. 4 Agreement for NonDisclosure," and the selfsame immediate rejection by Elliott also followed Nilssen's October 13, 1987 transmittal. [9] Then, as Motorola's Mem. 5 goes on to say:

> Nilssen never mentioned his addenda again, or took issue with Motorola's rejections. He continued to disclose information to Motorola pursuant to the terms of the 1987 Agreement. In fact, when Nilssen subsequently provided

information to Motorola, he acknowledged that Motorola had rejected the addenda. On both November 4, 1987 and November 27, 1987, Nilssen crossed out his own addenda, initialed his acknowledgment of their deletion and then sent Motorola his written disclosures. (PX 224, attached at Tab 8 and JX 2003, attached at Tab 9) Thereafter, Nilssen never again attached any of the three addenda to the allegedly confidential documents that he sent to Motorola pursuant to the 1987 Agreement. (See, e.g., PX 78, attached at Tab 10; JX 2042, attached at Tab 11; and JX 2070, attached at Tab 12)

[*15]

9 Nilssen's attempted argument that Elliott crossed out only the first page of each transmittal, adding his handwritten notation at the foot of that page, is--to be blunt--entirely bogus. That first page was the only one where Nilssen called for Motorola's signature to reflect its acknowledgment of the disclosure and acceptance of its terms, and that page was the one that Elliott rejected each time by putting both the disclaimer legend and his signature and date in the very space where Nilssen had called for the recipient to sign.

Nothing then supports any claimed reference to the challenged documents as evidencing the parties' understanding of "evaluation purposes"--if anything, Motorola's rejection would go to prove that the documents were not such evidence of its understanding. In that regard it is worth observing that [HN1]litigants' differing views as to the meaning of contractual language do not of themselves demonstrate the ambiguity of that language (FDIC v. W.R. Grace & Co., 877 F.2d 614, 621-22 (7th Cir. 1989) [*16] (applying Illinois law); Forest Preserve Dist. v. Brookwood Land Venture, 229 Ill. App. 3d 978, 982, 595 N.E.2d 136, 140 (2d Dist. 1992)). But if Nilssen were right in urging that the "evaluation purposes" term is ambiguous, he might have urged himself right out of court.

Why is that so? Because classic contract law analysis would then call for application of the doctrine succinctly put in such cases as Academy Chicago Publishers v. Cheever, 144 Ill. 2d 24, 30, 578 N.E.2d 981, 984, 161 Ill. Dec. 335 (1991)("An [HN2]enforceable contract must include a meeting of the minds or mutual assent as to the terms of the contract"), with the inexorable consequence that the nondisclosure undertaking by Motorola (the limitation confining use of Nilssen's disclosures to "evaluation purposes") "is not a valid and enforceable contract" (id.). And that being so, Nilssen's delivery of information to Motorola would be legally unconstrained, thus destroying its "trade secret" status. So if that notion of ambiguity were indeed Nilssen's position, he could not of course sue to claim that Motorola had violated his trade secret rights by its breach of an invalid and [*17] unenforceable undertaking--and this case would be at an end even before it got to trial.

Motorola has not advanced that position, for its contention is that the 1987 and 1988 Agreements are unambiguous. If however that really represents Nilssen's view, his counsel ought to let Motorola and this Court know about it promptly so that everyone can go on to other (if not better) things. In the meantime, however, Motorola Motion 1 is granted.

Motorola Motion 4 seeks to bar reference to asserted statements that Nilssen ascribes to two Motorola people:

1. Nilssen testified that Phil Gunderson ("Gunderson") had told him that Motorola wouldn't go into the electronic ballast business without Nilssen (Nilssen Dep. 284), a statement that Nilssen times as having been made probably toward the latter part of 1987 (after the 1987 Agreement had been signed) (id. 285). [10]

2. Nilssen also testified as to asserted representations by Gunderson and Elliott that Motorola "preferred a partnership-like arrangement" with Nilssen (Nilssen Dep. 316-18). On that score Nilssen disclaims any attempt on his part, by introducing that evidence, to create a de facto reinstatement of his original contentions--which [*18] were withdrawn by Nilssen's former counsel after this Court had rejected any contractual liability on Motorola's part in those respects.

Instead, Nilssen's current argument for the admissibility

of those purported Motorola statements is that they are relevant to the issue of the value of Nilssen's information conveyed to Motorola.

10 Once more Nilssen has misrepresented Motorola's version of the same event, apparently heedless of the effect that such repeated overstatements are likely to have on a judge who must review counsel's submissions for "evaluation purposes" (does the term sound familiar?). Nilssen Mem.1 in opposition to Motorola's motion says that Motorola's in-house counsel John Moore, in a December 14, 1988 letter, "freely admitted that Gunderson had told Nilssen that 'Motorola would not go into the business without him.'" But what Moore actually wrote (in the letter attached as an exhibit to Nilssen's memorandum) was this (emphasis added):

> It is true that Phil Gunderson told you, several months ago, that he did not expect Motorola to go into the electronic ballast business without you.

Even apart from Moore's follow-up sentence that "Phil's statement was based on his assumption that it would be possible to make a reasonable deal with you," Motorola's version referring only to Gunderson's expectation would not at all support Nilssen's extreme position that Gunderson meant "that Motorola could never enter into the business without you [Nilssen] no matter what your demands were" (Nilssen Dep. 291), so that if Nilssen were even to demand $ 100 million, it would necessarily follow that "Motorola was obligated to either give you a hundred million dollars or not go into the business" (id.). As Nilssen would have it (id. 292):

> If I had said stop it, they had nothing to do but to stop it. I had that authority of the project.
>
> * * *
>
> They have to either reach agreement with me or go out. Simply. No question.

Whatever may be said as to the believability of that position, it is clearly a distortion to label the position as shared by Motorola.

[*19] That sleight of hand won't work. Even apart from any claimed impact that Nilssen's account of the asserted Gunderson and Elliott statements might have had on the construction of the 1987 Agreement between the parties, it cannot be gainsaid that the parties reconfirmed by their entry into the 1988 Agreement the notion that Nilssen's transmittal of information to Motorola was for its "evaluation purposes" as to what if anything it wished to do in the electronic ballast business. Motorola Mem. 8 is entirely correct in asserting:

> This [sic] issues in this case are straightforward--did Nilssen have a protectible trade secret and did Motorola misappropriate any such trade secret by using the information for something other than "evaluation purposes."

And to that end, what Motorola's preferences might have been if it were able to strike a deal with Nilssen, even if that evidence were viewed as relevant and hence admissible under Fed. R. Evid. ("Rule") 401, would pose a situation in which any probative value would be "substantially outweighed by the danger of unfair prejudice, confusion of the issues, or misleading the jury" (Rule 403), or all three of those things. Importantly, [*20] the discussions and the possibilities to which Nilssen testified had to do with a total linkage between the parties--a linkage that would have embraced all of Nilssen's technology, including his patents--while the claim now at issue is limited to some specified items of claimed trade secrets. [11] Accordingly, Motorola's Motion 4 is granted as well.

11 Later aspects of this opinion will address some related issues as to the perils of setting a rudderless jury afloat on an uncharted sea of assessing damages, if it were to be presented with contentions based on a dramatically different putative transaction that the parties never entered into.

What has just been discussed bears a close relationship to Motorola's Motion 6, which seeks "to preclude Nilssen from arguing at trial that Motorola valued the alleged trade secrets at issue in this case at $ 50 million." In that respect there is a dispute between the

parties as to (1) whether that number represented Nilssen's view as stated in his March 14, 1983 letter to [*21] Gunderson (Jt. Ex. 2005, at M-57272) and then relayed by Gunderson to other Motorola people--which is Motorola's version--or (2) whether that number represented Gunderson's own evaluation as included in a written report that he prepared for Motorola's senior executives -- which is Nilssen's version. But there is no need to resolve that difference of views, for the evidence must be excluded in all events.

There are two closely linked reasons why it would be improper for Nilssen to be permitted to float the $ 50 million figure before the jury, even on the premise that his version of events would be accepted for that purpose. Those reasons will be discussed in turn.

To begin with, it was not until the parties and this Court were some years into this litigation that Nilssen finally limited his amorphous and global "trade secrets" rubric to a discrete smaller universe. By contrast, in the Gunderson document (a multipage visual presentation captioned "Electronic Ballast For Flourescent Lamps," P. Ex. 314) that used the $ 50 million figure now at issue, [12] the presentation card included in that representation that read "Electronic Ballast Technical Analysis--Key Elements of Nilssen Technology" [*22] listed these items:

1) Ground Fault Interruption

2) Internal Overload Protection

3) Open Load Protection

4) "Valley-Filling" Filter

5) Frequency Shifted Cathode Heating

12 This sentence appears in that presentation as part of page M-1147, captioned "Nilssen Technology Licensing Costs":

> The estimated value of the Nilssen technology in the next ten years has a net present value of approximately $ 50 million.

That same number appears as part of the presentation that was made to Motorola people on April 18, 1988 (Jt. Ex. 2027), where page M-20830, headed "Nilssen Technology Licensing Fee," contained this sentence:

> The estimated "value" of the Nilssen technology has a net present value of approximately $ 50 million.

It is really irrelevant whether (as Motorola contends) those five components comprised the "key elements" of Nilssen's technology according to Nilssen, or whether instead that represented Motorola's own characterization. What is critical is that in any event [*23] those five elements did not include the 57 categories of non-technical information that are currently at issue, nor did they include the four technical elements that Nilssen's technical expert Dr. John Clegg has identified as Nilssen's protectible trade secrets. Hence even if Motorola itself (rather than Nilssen, as Motorola contends) had valued Nilssen's entire technology at $ 50 million, Motorola unquestionably did not place that value, or any identifiable portion of that value, on the trade secrets that are at issue in this litigation. It would thus create a gross potential for unfair prejudice and jury confusion if the $ 50 million figure were to be placed before the jury in any guise. So even if the $ 50 million overall evaluation were somehow able to pass muster for admissibility under Rule 401 (a highly doubtful proposition at best), Rule 403 would still require its exclusion.

Relatedly, another document on which Nilssen places heavy reliance, the 54-page Bill Alling ("Alling") "Ballast Report" that was written to reflect his conclusions and recommendations that Motorola should seek an exclusive tie-up of the "Nilssen technology," with Nilssen being retained to assist in [*24] product development, characterized the term "Nilssen technology" as synonymous with Nilssen's patents (page M-95044). And Nilssen himself, in pitching for a royalty arrangement, employed the generic concept of licensing in an obvious way that encompassed the patents that he held (as stated later in this opinion, he had more than 100 patents either issued or pending).

Nilssen Mem. 3 attempts to downplay that factor by pointing to a phrase on the same page of Alling's report

that recommends that Motorola "go forward on the basis of getting the best product market in the shortest time frame using the Nilssen technology and know-how and to be not overly concerned at this point in time with trying to lock up a technology with patents." But again that mischaracterizes the real thrust of what Alling said (see the photocopy of page M-95044 attached to this opinion), which was (1) "that the Nilssen technology (Patents) contains some very clever and novel concepts which may be useful in developing a commercially viable ballast" and (2) that although Motorola might ultimately be successful in attacking the validity of one of the key patents, it would make more sense to get into the market quickly [*25] by striking a deal with Nilssen--a variant on the "if you can't lick 'em, join 'em" approach. What is most critical for present purposes is that it would be a total distortion to equate the term "Nilssen technology" (to which the $ 50 million figure was consistently ascribed) [13] with Nilssen's present limited universe of "trade secrets." And again that militates totally against permitting the $ 50 million number (which would be patently misleading in the current context) to get before the jury.

13 If there were any doubt as to the far broader scope of what was encompassed within the rights to which the $ 50 million figure was attached, they would be definitively dispelled by a document on which Nilssen lays heavy stress in his memorandum on the later-referred-to motion in limine regarding the testimony of Dr. Horace DePodwin ("DePodwin"). Gunderson prepared some handwritten notes regarding his November 10, 1988 meeting with then Motorola President Robert Galvan ("Galvan"), in which notes Gunderson reported Galvan's views that then favored an attempt to make a deal with Nilssen. Here is how Gunderson described the proposed deal that would result in the payment of a royalty to Nilssen (page M-48630):

> The Motorola license would be for exclusive use of Nilssen's technology portfolio in the area of ballasts for fluorescent lights including issued patents, pending applications, trade secrets and know-how.

Nothing in the entire record brought to this Court's attention assigns either absolute or comparative values to the several components referred to there, let alone to Nilssen's first-time identification of the "trade secrets" concept late in this litigation. In the absence of any predicate for translating the $ 50 million overall number into an aliquot share for the only-recently-defined "trade secrets," Nilssen is totally unpersuasive in urging that the figure should be placed before the jury to negate any notion that the trade secrets were without value. To that end Nilssen has obtained and plans to proffer DePodwin's expert testimony, and the dangers that would be inherent in introducing an unanchored number that would invite sheer speculation on the jury's part are too obvious to be compelled to repeat.

[*26] For any and all of the several reasons discussed here, Motorola Motion 6 is well taken. It too is granted.

Motorola Motion 10 seeks to exclude evidence of the reexamination of Nilssen's United States Patent No. 4,677,345 (" '345 Patent") by the Patent Office. As for the '345 Patent itself, Motorola has brought it into the case on the premise that the patent disclosed to the public, on its June 30, 1987 issue date, three of the four features that Nilssen now asserts as his "technical" trade secrets in this case. But Motorola urges that although the '345 Patent is relevant for that purpose, it is not relevant--and is indeed a source of potential confusion and prejudice--that the Patent Office later reexamined the validity of the '345 Patent's claims at Motorola's instance and, having done so, issued Nilssen a reexamination certificate.

Here is the Nilssen Mem. 1-2 summary statement in opposition to the Motorola motion:

> On the contrary, the '345 reexamination proceeding is highly relevant to two issues here. First, the reexamination proceeding is relevant in that it tends to show that Motorola placed little or no value on Nilssen's patents and, therefore, that Motorola's [*27] $ 50 million valuation of Nilssen's technology was based on Nilssen's trade secrets. Secondly, the reexamination proceeding, initiated by Motorola at a time when Motorola was supposedly negotiating with Nilssen in

> good faith to acquire his technology, is also relevant in that it tends to show that Motorola was not acting in good faith while it was negotiating with Nilssen. [14]

At the risk of repetition of what has been said in other respects earlier in this opinion, neither of those grounds is persuasive either.

> 14 [Footnote by this Court] Motorola R. Mem. 1 characterizes Nilssen as having "abandoned the argument made in his earlier summary judgment filings that Motorola tried to invalidate his '345 Patent in the reexamination, but failed." Whether or not such is the case, Nilssen's current arguments are limited to those just quoted in the text.

As to the first of those contentions, this Court has already rejected Nilssen's effort to attach and limit the $ 50 million figure to the trade secrets now [*28] in suit. But even beyond that, Motorola is right in characterizing as spurious the notion advanced by Nilssen that an attempted reexamination of a single Nilssen patent--one of more than 100 issued and pending patents that Nilssen himself referred to in a December 4, 1987 memorandum that he transmitted to Motorola (Jt. Ex. 2004)--somehow evidences Motorola's having placed "little or no value on Nilssen's patents," consequently causing the $ 50 million price tag to be assigned to Nilssen's trade secrets. That notion is untenable even if "trade secrets" were used in some generic sense, let alone in the more narrow universe that Nilssen finally adopted after several years of this lawsuit.

As for Nilssen's second contention, it is equally without merit for more than one reason. For one thing, it is difficult to understand how a statutorily-conferred right to request reexamination can constitute "improper means" (the pejorative label that Nilssen Mem. 5 seeks to attach to the claimed misappropriation of his trade secrets). For another, reexamination is a vehicle by which a patent's claims are considered, and there is no question that none of the alleged trade secrets at issue in this [*29] lawsuit were or are claimed in the '345 Patent. And finally and conclusively, there is no way in which a reexamination petition that was filed in December 1989--more than a year after the Nilssen-Motorola negotiations had been terminated by a letter from president Galvan to Nilssen--can conceivably be said to evidence a lack of good faith while Motorola was engaged in those earlier negotiations.

Any effort to bring the patent reexamination before the jury would be so tangential as to be highly questionable for admissibility under Rule 401. And given what has been said here, any such highly attenuated probative force would be overwhelmed by Rule 403 considerations in any event. This Motorola motion is granted as well.

Motorola Motion 11 asks to preclude all evidence or reference to a June 2, 1995 letter written by E. Renee Frenzel ("Frenzel," who was then a legal assistant at Motorola's law firm of Kirkland & Ellis) to Nilssen's former counsel Joseph Greer, in which Motorola says that Frenzel mistakenly identified some documents that were then being produced by Motorola as having come from the archive files of former Motorola Vice President Levy Katzir ("Katzir"). Both Motorola and [*30] Nilssen confirm that Nilssen intends to rely on the Frenzel letter (a copy of which is attached to this opinion) as establishing that certain Nilssen documents (which Nilssen characterizes as "key Nilssen confidential documents") were found in Katzir's files, thus tending to support Nilssen's argument that Motorola made use of Nilssen's trade secrets. Indeed, Opinion I at 683 included this statement:

> Motorola admits that Katzir was centrally involved in the design of Lighting's ballast, and discovery has uncovered several of Nilssen's confidential disclosures in Katzir's files.

As that last quotation indicates, Motorola has not previously filed anything to challenge the accuracy of Frenzel's listing in that respect. Instead Motorola says that after the issuance of Opinion I it conducted an extensive investigation that was first triggered by Nilssen's reliance on that letter and this Court's reference to it in Opinion I. According to Motorola R. Mem. 6:

> It proved a difficult process to retrace the steps which led to the Frenzel letter and the error in it. This process was even more difficult after Ms. Frenzel left Kirkland's employ. By the time the investigation [*31] was complete,

> summary judgment as to Nilssen's trade secret claim had already been denied. Because the Frenzel letter was not the only basis for the Court's ruling, it appeared unlikely that pointing out the error to the Court would result in a change of its decision on the summary judgment motion. When the Frenzel letter appeared on Nilssen's proposed trial exhibit list, Motorola objected and listed this motion in limine in the event that Nilssen persisted in his intent to use the erroneous letter. After Motorola's counsel explained the error to Nilssen's counsel in January 1998, and Nilssen nevertheless persisted in his attempts to use Frenzel's letter, Motorola filed this motion.

Motorola's motion is supported by a battery of affidavits--by Frenzel herself, by Katzir's administrative assistant who maintained his files (and who in that capacity delivered the files to Frenzel for her review and collation, who then received the files back from Frenzel, and who has maintained control over them since that time) and from Katzir himself. Those affidavits, if they are credited, confirm what Motorola is now asserting: that the documents actually came from sources other than Katzir's [*32] files.

In response Nilssen attacks those affidavits as "conclusory and vague," as "illogical, not credible, riddled with unexplained gaps, and, in the case of Mr. Katzir, contrary to sworn deposition testimony" and as presenting an "incredible story." Nilssen's other challenge, which is based on the asserted untimeliness of the current motion, in part raises a red herring (contrary to what Nilssen argues, Motorola is not advancing the motion as part of a claim that it returned all of Nilssen's documents), but in principal part Nilssen complains that Motorola's delay is "inexcusable," that the time involved in the investigation is "unexplained" and that Motorola did not raise the issue in spite of having had multiple opportunities to do so.

All of those objections are extraordinarily troublesome, where the goal of both sides ought to be for this lawsuit to go forward as a matter of seeking the truth. Suppose for a moment that Motorola is right and that Katzir never did have those confidential documents (though this Court makes no findings on that score at this time, it should be said that this Court does not find the same flaws in the supporting affidavits that Nilssen's memorandum [*33] scornfully ascribes to them). Does Nilssen really say that he should still be put into a position where he might recover millions of dollars on the false premise that Katzir's knowledge of Nilssen's trade secrets demonstrated Motorola's misappropriation of those trade secrets? If so, that would be truly appalling.

No, if Motorola is right, the jury that is being asked to decide the case should not be misinformed as to the documents in question having been located in Katzir's files. And on the other hand, if Motorola is wrong about those documents, its motion should be denied, with the jury being able to consider Katzir's access to the documents as part of the total mix.

As said a bit earlier, it appears that the affidavits tendered in support of the motion have surface plausibility as well as credibility, but this Court has not so ruled and maintains an open mind. If Nilssen and his counsel wish to have an evidentiary hearing on the subject, this Court is prepared to do so expeditiously. Even though the case should be ready for trial in all other respects upon issuance of this opinion, this matter is too important to let any further brief delay in the conduct of the trial stand in [*34] the way of resolution of the issue. For the present, Motorola Motion 11 is taken under advisement pending further word from the parties.

Motorola Motion 12 asks to preclude any argument, evidence or testimony regarding a 1984 case brought in a California state court by Motorola witnesses Alling and Stevens against Universal Manufacturing Corp. (the "Universal litigation"). With neither Nilssen nor Motorola having been a party to that litigation, with Nilssen's technology not having been at issue there, and with no other direct linkage between the Universal litigation and this action, Motorola asks on what theory it may be shoehorned into the trial here.

Some hint as to Nilssen's motivation may stem from the huge jury verdicts that were awarded in that other litigation (which claimed fraud and breach of contract, rather than misappropriation of trade secrets, and which did not concern the value of Nilssen's technology). But for the most part Nilssen's problem is that there is no conceivable justification for permitting to be introduced into evidence in this lawsuit the two California appellate court decisions, the damages study conducted for the

plaintiffs in that lawsuit and a portion [*35] of Stevens' trial testimony in that action (all of which Nilssen has listed as trial exhibits). All of Nilssen's arguments to the contrary really distort the matter, deflecting attention from the only legitimate basis for introduction of any aspect of the Universal litigation.

To be sure, if and to the extent that earlier sworn statements by either or both of Alling and Stevens in that case were to be inconsistent with testimony that they will be offering in this action, the ordinary evidentiary rules regarding impeachment by such prior statements will apply. But to avoid juror confusion, no substantive reference to the earlier litigation will be permitted in that respect--instead any cross-examination that seeks to use the prior testimony by way of impeachment will simply inquire of the witness whether he gave certain prior testimony under oath, including the date of that testimony. Subject only to that possible limitation (which properly understood is not really a limitation on the motion as such), this motion by Motorola is granted as well.

Finally, Motorola Motion 13 seeks to bar some aspects of the damages testimony anticipated to be proffered by Nilssen's expert witness DePodwin. [*36] Because that motion obviously deals with a particularly critical aspect of Nilssen's claim--the quantification of his recovery if he persuades the jury as to Motorola's liability--it merits special attention.

As chance would have it, this Court's most recent assignment as a member of the Advisory Committee on Evidence Rules, appointed by the Chief Justice, has been to chair a special subcommittee that earlier this year drafted a set of proposed revisions to Rules 701 through 703, together with totally new Advisory Committee Notes to those Rules, in response to Daubert v. Merrell Dow Pharmaceuticals, Inc., 509 U.S. 579, 125 L. Ed. 2d 469, 113 S. Ct. 2786 (1993) and the many cases that have applied Daubert since then. In that capacity this Court worked closely with the Advisory Committee's outstanding reporter, Fordham Law School Professor Daniel Capra, [15] in drafting the proposed Rules and Notes. That subcommittee's work product was approved by the Advisory Committee at its April 1998 meeting and has since then been approved by the Standing Committee on Rules of Practice and Procedure, so that it has now been officially published to provide an opportunity for [*37] public comment (we are now in the midst of the time period for such comment).

15 Professor Capra is also the co-author with Professors Stephen Saltzburg and Michael Martin of what this Court views as the best work on federal evidence extant today, the multivolume Federal Rules of Evidence Manual (7th ed. 1998).

For present purposes what is most critical, as the proposed Advisory Committee Notes reflect (with material reliance on law from the Seventh Circuit), is that the trial court's "gatekeeping" function that set out in Daubert with particular reference to "scientific" evidence also applies with full force as to all expert testimony, even though many of the specific Daubert factors cannot readily be applied outside of the hard sciences. As the Advisory Committee Note on Rule 702 has said of the proposed amendment to that Rule (which is intended to explicate rather than to change the law as exemplified by the principles announced in Daubert):

> The amendment does not distinguish between [*38] scientific and other forms of expert testimony. The trial court's gatekeeper function applies to testimony by any expert. While the relevant factors for determining reliability will vary from expertise to expertise, the amendment rejects the premise that an expert's testimony should be treated more permissibly simply because it is outside the realm of science. Put in a positive sense, an opinion from an expert who is not a scientist should receive the same degree of scrutiny for reliability as an opinion from an expert who purports to be a scientist. See Watkins v. Telsmith, Inc., 121 F.3d 984, 991 (5th Cir. 1997)("It seems exactly backwards that experts who purport to rely on general engineering principles and practical experience might escape screening by the district court simply by stating that their conclusions were not reached by any particular method or technique."). Some expert testimony will be more objectively verifiable, and subject to the expectations of falsifiability, peer review, and publication. Other types of expert testimony will not rely on anything like a scientific method, and so

> will have to be evaluated by reference to other standard principles [*39] attendant to the particular area of expertise. The trial judge in all cases of expert testimony must find that it is properly grounded, well-reasoned, and not speculative before it can be admitted. If there is a well-accepted body of learning and experience in the field, then the expert's testimony must be grounded in that learning and experience to be reliable, and the expert must explain how her conclusion is so grounded.

That approach, which our Court of Appeals has employed in applying Daubert to non-scientific "expert" testimony in Target Market Publ'g, Inc. v. Advo, Inc., 136 F.3d 1139, 1142-45 (7th Cir. 1998) and Minasian v. Standard Chartered Bank, PLC, 109 F.3d 1212, 1216-17 (7th Cir. 1997), and which this Court has also applied in other cases in the past, will be followed here as well.

What Motorola complains of is that DePodwin has opined that if Motorola did make improper use of Nilssen's trade secrets, that would entitle Nilssen to recover not only a "reasonable royalty for his technology" but also "a partner's share in the business"--the latter amounting to 25% of the equity in Lighting as calculated on the basis of 1988 [*40] projections. That latter "equity" component is said by DePodwin to be recoverable on the theory that Nilssen provided Motorola a "workable business concept" concerning electronic ballasts.

Because the current motion does not address DePodwin's opinion as to a reasonable royalty entitlement as a legal matter, this opinion will accept that as a permissible type of recovery. This Court will therefore evaluate the "equity" notion independently (though it might also be subject to question as an adjunct--an addition--to a potential award of reasonable royalties).

Though this is not itself fatal to DePodwin's approach, it is worth noting that he has never before been asked to review a trade secret statutory claim and to formulate damage opinions in those terms. [16] It is also worth observing that DePodwin's original report evaluated Nilssen's then undefined, undifferentiated and amorphous notion of "trade secrets in the form of non-technical information," placing a value tag of $ 24 to $ 31 million on that unsatisfactorily-defined (or undefined) package. Yet after this Court's Opinion I had forced Nilssen to provide a far more specific and focused identification of 10 specific Nilssen documents [*41] as the claimed trade secrets, DePodwin still came up with the identical damages figure. [17]

16 As set out a bit later, either that lack of prior experience or a basic lack of understanding has led DePodwin to apply an impermissibly flawed analysis in at least one respect.

17 What has just been said seemingly does not raise only an issue of credibility to be evaluated by the jury--it would also appear to cast a cloud on DePodwin's methodology.

But to turn to the substance of DePodwin's "equity" theory, that theory as he has expressed it is inconsistent with this Court's earlier holding (Opinion I at 674) that Nilssen's supposed provision of a "workable business concept" to Motorola (DePodwin Dep. 76) cannot serve as the foundation for a claim under the Illinois Trade Secrets Act. Moreover, that statute itself defines the recoverable damages for a statutory violation (a "misappropriation") in these terms [HN3](765 ILCS 1065/4(a)):

> Damages can include both the actual loss caused by misappropriation and [*42] the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. If neither damages nor unjust enrichment caused by the misappropriation are proved by a preponderance of the evidence, the court may award damages caused by misappropriation measured in terms of a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

DePodwin does not speak in terms of either "actual loss" or "unjust enrichment." [18] And nothing in the statute or in any prior case law supports DePodwin's newly-forged "equity-share" notion, even apart from the several ways in which his attempt to formulate a calculation in that regard is chock-full of methodological flaws.

18 If Nilssen were to contend that DePodwin's

general loss-of-opportunity discussion (his Supp. Report Part VII) should be equated to either or both of those concepts, his total evaluation would fly in the face of the unambiguous statutory directive that a reasonable royalty may be awarded only if the other types of damages have not been proved.

[*43] Suppose however that none of those defects existed--that DePodwin's "equity" approach were otherwise supportable. It would still be necessary to grant Motorola's motion. DePodwin has impermissibly used a hypothetical calculation as of a date when Lighting was not even in existence as the springboard for his evaluation (he used a pro forma business prediction that turned out to differ dramatically from Lighting's actual experience). Because Nilssen's counsel purport to find justification for that approach in the caselaw (citing Unisplay S.A. v. American Elec. Sign Co., 69 F.3d 512, 518 (Fed. Cir. 1995), State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1580-81 (Fed. Cir. 1989) and Hanson v. Alpine Valley Ski Area, 718 F.2d 1075, 1081 (Fed. Cir. 1983)), and because that reliance is so misguided and is fatal to this vital component of DePodwin's calculations, it is important to pursue the analysis in some detail.

What the cases cited by Nilssen stand for (and hold) is the obviously valid principle that whenever a hypothetical arms-length negotiation forms the predicate for (say) a presumed license transaction between a [*44] patentee and an infringer (thus establishing the basis for calculating a damage award), that hypothetical negotiation must be looked at in light of the facts then known (at the time the putative license would have been entered into). Just so, as well, if the hypothetical negotiation were for a piece of the action in equity terms: If each of two parties were to bring different elements to a venture, their respective shares would be negotiated in terms of what was then known, not determined on the basis of what could have been learned only at a later date.

But that would go only to the establishment of the respective equity shares, just as the circumstances known at the time of the hypothetical license negotiation would go to the establishment of one percentage of sales rather than another as a reasonable royalty rate. When it comes to converting that percentage into an actual damages award, however, the reasonable royalty rate is of course applied to the actual sales or use of the infringing product, not to what might have been projected when the hypothetical negotiations were taking place. In other words, the variable (the rate of payment) is a function of the parties' [*45] reasonable beliefs when they were negotiating the deal--but then that rate, once arrived at, is applied to the actual experience in determining the aggrieved party's actual damages.

Indeed, both DePodwin and Nilssen's counsel should unquestionably have known better. Nilssen's own cited case Unisplay, 69 F.3d at 518 upheld the rejection of the testimony of another "expert" who had applied a hypothetically derived royalty rate to projected (rather than actual) sales. And the court, id. at 519 went on to determine, as an aid to remittitur, that the "maximum recovery rule" (the highest amount of damages that the jury could properly have awarded based on the relevant evidence) would allow for an award based on an arguable reasonable royalty rate times actual (not anticipated) sales. Similarly, State Indus., 883 F.2d at 1580-81 upheld a jury award based on a reasonable royalty rate applied to actual net sales. [19] And just so, even if DePodwin were arguably right in saying that the parties' 1988 beliefs in the future of the industry, coupled with what each brought to the table, called for a 25% equity share to be given [*46] to Nilssen, the proper damage calculation would have to be in terms of what then actually transpired, and not in terms of what the prognostications (whether they later proved to have been unduly pessimistic or unduly optimistic) may have been when the parties were hypothetically going into the venture together.

19 Nilssen's third-cited Hanson case applied the identical concept of actual experience in a different context. There the infringer ski resort saved money in its snowmaking operation through the use of an infringing snowmaking machine, and the court upheld an award of damages based on cost savings--a reasonable royalty rate times what the factfinding magistrate found to be the actual number of hours that such machines were used during the average ski season.

Whatever DePodwin's asserted area of expertise may encompass, then, it is surely not that of a logician or a student of the established principles governing such awards. Even if it were somehow valid to consider Nilssen as entitled to [*47] a 25% equity in the company,

[20] it was wholly irrational for DePodwin to use a pie-in-the-sky projection rather than calculating what revenues that 25% interest would have turned out to generate in real-world terms.

20 That premise is assumed only for the sake of argument. But in fact the 25% share appears to represent a number plucked out of the air. And quite apart from that possible problem, the whole partnership notion has previously been rejected by this Court and cannot fairly be reintroduced into the lawsuit via indirection.

It must be concluded that the just-discussed fatal flaw in DePodwin's damages opinion independently--with or without reference to the other matters discussed earlier--calls for the exclusion of the "equity" component of that opinion. And as the ensuing discussion also confirms, no attempted salvage efforts can succeed either.

Fully 2-1/2 inches of thickness (including the bulky exhibits to Nilssen's 20-page memorandum), out of the total bulk of paper referred to at the outset of [*48] this opinion, has been devoted to Nilssen's opposition to this Motorola Motion 12. But quantity will not serve either as a substitute or as a proxy for quality. It is quite true, as Nilssen urges, that Opinion II at *10-*21 rejected Motorola's effort to obtain summary judgment on the issue of "value" by looking at various aspects of the revised DePodwin report. But that represented a really different kind of surface examination, from a pro-Nilssen perspective, of a number of elements of that report that bear on the establishment of some "economic value" of the trade secrets as such--a question as to which there are clearly genuine issues of material fact. Nothing said in Opinion II was uttered on the basis of the kind of focus required to resolve the present issue as to the arguable amount of value. It requires a impermissible quantum leap to move from the premise that a legitimate opinion may be provided to the jury that the trade secrets allegedly misappropriated by Motorola had some "value" (or even "great value," whatever that may mean in dollar terms) to the unacceptable notion that Nilssen as the injured party was entitled to the claimed equity position in the entire [*49] business.

Only two further references to caselaw authority need be added. For one thing, a district court decision on which Nilssen has placed heavy reliance in purported support of DePodwin's (and hence Nilssen's) damages theory is no authority at all--it was actually vacated by our Court of Appeals, with pungent criticism that is equally applicable to what is at issue here (Schiller & Schmidt, Inc. v. Nordisco Corp., 969 F.2d 410, 415-16 (7th Cir. 1992)(citations omitted)):

> For years we have been saying, without much visible effect, that people who want damages have to prove them, using methodologies that need not be intellectually sophisticated but must not insult the intelligence. Post hoc ergo propter hoc will not do; nor the enduing of simplistic extrapolation and childish arithmetic with the appearance of authority by hiring a professor to mouth damages theories that make a joke of the concept of expert knowledge. The expert should have tried to separate the damages that resulted from the lawful entry of a powerful competitor-- Nordisco--from the damages that resulted from particular forms of misconduct allegedly committed by that competitor, [*50] of which the theft of the mailing list, however morally reprehensible, was the slightest. No such effort was made. [21]

21 [Footnote by this Court] In an extraordinary demonstration of irony, Nilssen Mem. 8 cites Mid-State Fertilizer Co. v. Exchange Nat'l Bank, 877 F.2d 1333, 1339 (7th Cir. 1989) to criticize Motorola's expert for having used what Nilssen's counsel calls "hindsight reconstruction"--the use of actual experience, rather than projections that proved to have been unsound, to calculate damages based on a reasonable royalty rate. Quite apart from the already-demonstrated fact that such criticism is just dead-bang wrong, Mid-State Fertilizer, id. at 1339-40 is really noteworthy for its pointed trashing of a purported "expert" who "offered the court his CV rather than his economic skills" (id. at 1340). Both Schiller & Schmidt and Mid-State Fertilizer antedated Daubert, but each exemplified the kind of gatekeeper function that Daubert has committed to the district courts, and that this Court has exercised to DePodwin's (and hence Nilssen's)

richly-deserved detriment here.

[*51] In addition (and persuasively), the Second Circuit has twice dealt with a claim of misappropriation of trade secrets much akin to Nilssen's claim here: Vermont Microsystems, Inc. v. Autodesk, Inc., 88 F.3d 142 (2d Cir. 1996) ("Vermont Microsystems I") and 138 F.3d 449 (2d Cir. 1998)("Vermont Microsystems II"). Both decisions confirm that [HN4]the proper test for awarding damages for such a tort is a "reasonable royalty" (Vermont Microsystems I at 151-52, Vermont Microsystems II at 450) where any evidence as to claimed lost profits or unjust enrichment was too imprecise and speculative to support an award in those terms. That of course applies a fortiori in the absence of proof of such lost profits and unjust enrichment. And Vermont Microsystems I at 152 also rejected an award that was based on what the injured party "would have charged" (which really mirrors what DePodwin has sought to draw upon to justify his "equity" concept) and that was additionally based on more than the trade secret at issue (something that Nilssen similarly seeks here via his attempt to get the $ 50 million figure into evidence). It is worth reading the Second [*52] Circuit's treatment of the subject to observe the several striking similarities between that litigation and this one.

In summary, Motorola's attack on the "equity" aspect of the DePodwin opinion is sound in a number of respects. Here too its motion is granted.

Conclusion

Whether or not these results disclose anything about the ultimate validity of Nilssen's claim (a subject that this Court does not address), the fact remains that he has batted close to .000 on the multiple motions in limine that have been advanced by each side. All of his motions have been denied, while all save one of Motorola's have been granted--and the sole exception to that is its Motion 11 as to the Frenzel letter, on which this Court has reserved judgment and expects a response from the parties to see about the conduct of an evidentiary hearing. Both for that purpose and to discuss briefly the plans for and the hoped-for timing of the ensuing trial, a status hearing is set for 9 a.m. August 31, 1998.

Milton I. Shadur

Senior United States District Judge

Date: August 12, 1998

ATTACHMENT I

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January 16, 1998

VIA MESSENGER

Hon. Milton I. Shadur

Dirksen Federal Building

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Chicago, IL 60604

Re: *Nilssen v. Motorola, Inc., et al.*

Case No. 93 C 6333 - RECEIVED JAN 19 1998

Dear Judge Shadur:

In accordance with your instructions at the Final Pretrial Conference, Motorola is today filing memoranda in support of the following motions *in limine*, which were identified on the Final Pretrial Order ("PTO"):

. motion to preclude admission of Nilssen's "Addenda to Disclosure" (identified as Motorola's motion No. 1 in the PTO).

. motion to exclude references to alleged statements by Motorola employees Phil Gunderson and Robert Elliott to the effect that Motorola would not enter the business without Nilssen or that Motorola "preferred a partnership-like arrangement" with Nilssen (PTO motion No. 4).

. motion to exclude evidence that Motorola supposedly valued Nilssen's technology at $ 50 million (PTO motion No. 6).

. motion to exclude evidence of the United States Patent and Trademark Office's [*54] reexamination of U.S. Patent No. 4,677,345 (PTO motion No. 10).

. motion to preclude evidence pertaining to a June 2, 1995 letter written by Renee Frenzel (PTO motion No. 11).

. motion to preclude evidence pertaining to the *Universal* lawsuit (PTO motion No. 12).

. motion to preclude Nilssen's expert Horace DePodwin from opining that Nilssen is entitled to damages in the form of an "equity" share in Motorola Lighting, Inc. (PTO motion No. 13).

Because the Court indicated at the Pretrial Conference that it would treat the listing of the motions in the PTO as the motions themselves, Motorola has not filed separate motions.

At the Pretrial Conference, the Court requested that the parties identify those motions that the parties contend have already been resolved by this Court's prior rulings, and thus need not be briefed. Motorola contends that the following motions it identified in the PTO have been resolved by this Court's prior rulings:

. Motorola motion No. 2 (to preclude argument that Motorola owned Nilssen a duty of confidentiality beyond the terms of the 1987 and 1988 Agreements) and motion No. 3 (to preclude reference to any information that [*55] Nilssen allegedly disclosed orally to Motorola, unless that information was subsequently reduced to writing and stamped "confidential," as required by the 1987 Agreement) are controlled entirely by this Court's previous Orders ruling on the summary judgment motions. This Court has already ruled that "the terms of the 1987 and 1988 Agreements preclude a finding of any implied duty of confidentiality." (963 F. Supp. at 680) Similarly, this Court ruled that "the 1987 Agreement established the exclusive mechanism by which Nilssen might establish his disclosures as confidential: He had to memorialize and transmit them in writing and mark them 'confidential' or 'proprietary'." (*Id.*) Accordingly, this Court should issue an order precluding Nilssen from offering any evidence or argument that Motorola owed any duty of confidentiality outside the terms of the 1987 and 1988 Agreements, and any evidence or argument that Motorola owed Nilssen any duty for information not reduced to writing and stamped confidential.

. Motorola motion No. 5 (to preclude any evidence or argument that Nilssen is entitled to damages because he "educated" Motorola) is also resolved by this Court's [*56] previous rulings on the summary judgment motions. This Court has ruled that Nilssen cannot recover from Motorola for making it "'smarter' about the electronic ballast industry as a result of [his] presentations regarding industry fundamentals. . . ." (963 F. Supp. at 674). Accordingly, this Court should issue an Order precluding Nilssen from offering any evidence or arguing that he can recover for making Motorola smarter about the electronic ballast industry through generalized confidential business information relating to the industry.

Finally, Motorola is withdrawing motion Nos. 7 - 9. Accordingly, Motorola is not filing any memoranda in support of those motions.

If this Court has any questions regarding Motorola's motions *in limine*, please contact me.

Very truly yours,

Brian D. Sieve

cc: George S. Bosy (w/encl.)

ATTACHMENT II

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Of Counsel

February 9, 1998

VIA HAND DELIVERY

The Honorable Milton I. Shadur

Senior United States District Judge

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Chicago, Illinois 60604

Re: Nilssen v. Motorola, C.A. No. 93 C 6333

Dear Judge Shadur:

Enclosed are courtesy copies of Nilssen's response to Motorola's seven motions *in limine*, filed January 16, 1998.

In its letter to you of January 16, 1998, Motorola asked that its motion No. 2 and motion No. 5, which were not briefed by Motorola, be granted. Nilssen objects to the grant of those motions.

. Motorola's motion No. 2 asks this Court to enter [*58] an order precluding any evidence or argument that Motorola owed Nilssen any duty of confidentially outside the terms of the 1987-88 agreements, and any evidence or argument that Motorola owed Nilssen any duty for information not reduced to writing and stamped confidential. This request is excessively broad, confusing,

and unjustified. At trial, Nilssen intends to thoroughly cover the pertinent events bearing on the contacts between Motorola and Nilssen as relevant to the res gestae between the parties. United States v. Jerez, 108 F.3d 684, 695 (7th Cir. 1997); Drake v. Clark, 14 F.3d 351, 357 (7th Cir. 1994); Martinez v. McCaughtry, 951 F.2d 130, 132 n.2 (7th Cir. 1991). See also Spillers v. Tri-State Glass Lined Storage, Inc., 325 F.2d 322, 325 (7th Cir. 1963). In the absence of this presentation, the jury could easily become confused by not understanding the context of the dealings between the parties. Moreover, as shown in Nilssen's response to Motorola's motion to preclude Nilssen's Addendum to Disclosure, and in Nilssen's response to Motorola's attempt to exclude statements by Motorola's employees that Motorola [*59] desired a "partnership-like" arrangement with Nilssen, these facts are relevant to the interpretation of the term "evaluation purposes" as that term is used in 1987 agreement, and also to the issue as to whether Nilssen is entitled to exemplary damages under the Act. Certainly, the issue as to whether Motorola is guilty of willful misappropriation of Nilssen's trade secrets is a fact issue that will require the jury to evaluate Motorola's behavior and intent in all aspects of its dealings with Nilssen. Telex Corp. v. IBM, 510 F.2d 894, 933 (10th Cir. 1975). Willful misappropriation of trade secrets occurs where all of the facts taken together show that the trade secrets were acquired or used in the absence of good faith. McCormack & Dodge Corp. v. ABC Mat. Sys., 222 U.S.P.Q. (BNA) 432, 445 (Wash. Super. Ct. 1983). For example, willfulness has been found where the defendant abused the confidence of the trade secret holder in a manner indicating "connivance, misrepresentation of intent and underhanded dealing," Tri-Tron Int'l v. Velto, 525 F.2d 432, 437-38 (9th Cir. 1975), or where the defendant's acts "were committed with the knowledge [*60] that they were unlawful...." Sperry Rand Corp. v. A-T-O, Inc., 447 F.2d 1387, 1394 (4th Cir. 1971). Motorola's apparent attempt to exclude all of the pertinent events surrounding Nilssen's contacts with Motorola should be denied. Certainly, any legitimate concern of Motorola can be effectively covered by an appropriate jury instruction.

. Motorola's motion No. 5 asks this Court to enter an order precluding Nilssen from offering any evidence that Nilssen disclosed "confidential business information" to Motorola. This request is entirely baseless and is not at all supported by this Court's two decisions on the summary judgment motions. As this Court held, one issue for the jury to decide is whether Nilssen's confidential information had "value" under the Act. Nilssen intends here to show that his package of trade secrets had value in that they were not readily discernable from public information. This Court specifically held that:

> Decisions such as Roton Barrier, Inc. v. Stanley Works, 79 F.3d 1112, 1117-18 (Fed.Cir. 1996) (applying the Illinois Act) provide generally that a "trade secret" under that statute may include a compilation of confidential [*61] business and financial information.

Nilssen v. Motorola, Inc., 963 F. Supp. 664, 673 (N.D.Ill. 1997). This Court also held, quoting from Syntex Ophthalmics, Inc. v. Tsuetaki, 701 F.2d 677, 684 (7th Cir. 1993) (itself quoting from Imperial Chem. Indus., Ltd. v. National Distillers & Chem. Corp., 342 F.2d 737, 742 (2d Cir. 1965)):

> [HN5][A] trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design and operation of which, in unique combination, affords a competitive advantage and is a protectable secrets.

Nilssen v. Motorola, Inc., 1997 U.S. Dist. LEXIS 12899, at *21 (N.D.Ill. Aug. 22, 1997) ("Opinion 2"). Plainly, Motorola's motion *in limine* is a baseless and improper attempt to usurp the function of the jury. If Motorola believes that Nilssen's trade secrets are not protectable by the Act, it is free to offer any evidence it can muster on that issue. Certainly, a motion *in limine* is not appropriate for resolution of disputed issues of fact prior to trial. Orr v. Indiana Harbor Belt R.R., 1997 U.S. Dist. LEXIS 13792, [*62] at *4 (N.D.Ill. Sept. 9, 1997). Finally, as this Court has already held, any legitimate concern by Motorola can be covered by an appropriate jury instruction. (Opinion 2 at *22).

If this Court has any questions concerning Nilssen's filings, please contact me.

Very truly yours,

ROPER & QUIGG

By: George S. Bosy

GSB/rlu

Enclosure

cc: Brian D. Sieve (via hand delivery)

Harry J. Roper

ATTACHMENT III

SOLID STATE BALLAST REPORT

EXECUTIVE SUMMARY

The ballast was tested to assure conformance with industry standards and practices to determine if it would be an acceptable product for the commercial and industrial lighting market. The Nilssen ballast meets or can be made to meet all known standards and is one of the most efficient ballasts tested to date. The particular ballast tested was a technology demonstrator and not a finished unit. While considerable engineering and design work needs to be done, we believe that the basic technical concepts demonstrated can be validated in a reliable product and mass produced at very competitive prices.

The ballast uses a series resonant circuit as opposed to a parallel resonant technique. It is our opinion that in order [*63] to capture a large share of the ballast market the ballast must be constructed using a series resonant circuit because the product will be more efficient, lower in cost, more reliable and can be dimmed. Dimming is a key feature and is one of the ways the company can distinguish their product from the others in the marketplace.

While our patent analysis is not complete just yet, a preliminary analysis indicates that the Nilssen technology (Patents) contains some very clever and novel concepts which may be useful in developing a commercially viable ballast. One particular patent (4,677,345) seems very strong in terms of claiming the right to build a dimming ballast using any resonant circuit techniques. While we cannot give an opinion as to whether or not a particular patent will stand up to a challenge, our opinion is that this particular patent would not survive a challenge. Of course the patent may in fact survive a challenge in which case a royalty would be due anyway. We recommend that the Company go forward on the basis of getting the best product to market in the shortest time frame using the Nilssen technology and know how and to be not overly concerned at this point in [*64] time with trying to lock up a technology with patents. Patent evaluations should be performed at this point in time with the intent of looking for those patents which Motorola might infringe on. A recent computer search of U.S.A. Patents on a search field of "Electronic or Solid State Ballast" revealed 263 patents. Out of that 263 entries we have determined that 110 patents ought to be looked at further in evaluating the situation. The Company's patent counsel has identified additional patents on ballastry which should be evaluated also. Because of the magnitude of the task it is recommended that a team be assembled to conduct a thorough analysis of the patents.

Manufacturing the ballast should not be attempted without a major design effort to simplify the circuit, reduce costs, and increase its potential reliability. We believe that the ballast can be cost reduced to the point where it can be manufactured at the same price or within an acceptable premium range as the efficient core and coil ballast.

ATTACHMENT IV

KIRKLAND & ELLIS

PARTNERSHIPS INCLUDING PROFESSIONAL CORPORATIONS

200 East Randolph Drive

Chicago, Illinois 60601

312 861-2000

To Call Writer Direct:

(312) [*65] 616-2961

Facsimile:

312 861-2200

June 2, 1995

VIA MESSENGER

Joseph A. Grear

The Law Offices of Rolf Stadheim, LTD.

Wrigley Building Tower

400 North Michigan Avenue

Chicago, Illinois 60611-4102

Re: Nilssen v. Motorola

Dear Mr. Grear:

Enclosed are documents bearing bates nos. M57729-M62343 being produced by Motorola. For your information, I have broken down the production by source:

Phil Gundersen - M57844-M57864, M57923-M57960, M58033-M58081, M62319-M62343, and M58172-M58425.

Jim Pristelski - M57729-M57843.

Levi Katzir - M57865-M5702, M58454-M62318, and M58152-M58171.

Ray Wood - M57903-M57922, M57961-M58032, and M58082-M58151.

Very truly yours,

E. Renee Frenzel

Legal Assistant

cc: Brian Sieve (w/o encl.)

Michael Allen (w/o encl.)

EXHIBIT 3

LexisNexis®

FOCUS - 3 of 4 DOCUMENTS

DAX PIERSON, Plaintiff, v. FORD MOTOR COMPANY, Defendant.

No. C 06-6503 PJH

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA

2008 U.S. Dist. LEXIS 111791

August 1, 2008, Decided
August 1, 2008, Filed

SUBSEQUENT HISTORY: Motion granted by *Pierson v. Ford Motor Co., 2009 U.S. Dist. LEXIS 65297 (N.D. Cal., Apr. 16, 2009)*

PRIOR HISTORY: *Pierson v. Scott, 2007 U.S. Dist. LEXIS 8498 (N.D. Cal., Jan. 17, 2007)*

COUNSEL: [*1] For Dax Pierson, Plaintiff: Daniel Dell'Osso, Terrance D. Edwards, Brian J. Malloy, The Brandi Law Firm, San Francisco, CA; James E. Doyle, PRO HAC VICE, Houston, TX; Kevin Frederick Quinn, San Diego, CA.

For On the Move Inc., Digby Adler Group LLC, Bandago Van Rental, Defendants: Todd L. Peterson, LEAD ATTORNEY, Chernay Peterson, San Francisco, CA.

For Digby Adler Group LLC, doing business as Bandago Van Rental, doing business as On the Move Inc., Cross-claimant: Todd L. Peterson, LEAD ATTORNEY, Chernay Peterson, San Francisco, CA.

For Ford Motor Company, Cross-defendant: H. Grant Law, LEAD ATTORNEY, Amir M Nassihi, Anthony J. Capozzola, Frank P. Kelly, Sara Tropea, Shook Hardy & Bacon L.L.P., San Francisco, CA; Vaughn A. Crawford, LEAD ATTORNEY, PRO HAC VICE, Snell & Wilmer LLP, Phoenix, AZ.

JUDGES: PHYLLIS J. HAMILTON, United States District Judge.

OPINION BY: PHYLLIS J. HAMILTON

OPINION

FINAL PRETRIAL ORDER

Pursuant to *Rule 16(e) of the Federal Rules of Civil Procedure*, this final pretrial order is hereby entered and shall control the course of the trial unless modified by a subsequent order. The joint pretrial statement of the parties is incorporated herein except as modified by the court's ruling on the pretrial [*2] motions and objections.

I. *PRETRIAL MOTIONS*

A. *Daubert* Motions

Federal Rule of Evidence 702 permits experts qualified by "knowledge, experience, skill, expertise, training, or education" to testify "in the form of an opinion or otherwise" based on "scientific, technical, or other specialized knowledge" if that knowledge will "assist the trier of fact to understand the evidence or to determine a fact in issue." *Fed. R. Evid. 702*.

The proponent of expert testimony bears the burden of establishing by a preponderance of the evidence that the admissibility requirements are met. *See Fed. R. Evid.*

702, Advisory Committee Notes. Although there is a presumption of admissibility, *Daubert v. Merrell Dow Pharms., Inc., 509 U.S. 579, 588, 113 S. Ct. 2786, 125 L. Ed. 2d 469 (1993)*, the trial court is obliged to act as a "gatekeeper" with regard to the admission of expert scientific testimony under *Rule 702*. *Id. at 597*.

Daubert requires a two-part analysis. First, the court must determine whether an expert's testimony reflects "scientific knowledge," whether the findings are "derived by the scientific method," and whether the work product is "good science" - in other words, whether the testimony is reliable and trustworthy. *Id. at 590 & n.9, 593* [*3] . Second, the court must determine whether the testimony is "relevant to the task at hand." *Id. at 597*.

Defendant Ford Motor Company ("Ford") seeks an order excluding the causation opinions of plaintiff's biomechanics expert Dr. Martha Bidez, and an order excluding the "warning" opinions of plaintiff's seat design expert Alan Cantor. It appears that expert reports were not provided for any of the designated expert witnesses, or at any rate, none were provided for plaintiff's experts. [1] Thus, Ford's challenges to plaintiff's experts are based in large part on snippets from the experts' depositions.

1 Plaintiff provided only a summary of each expert's proposed testimony. The absence of expert reports is odd and somewhat problematic, in view of the fact that proof in this product liability case will depend almost entirely on expert testimony.

1. Defendant's Motion to Exclude Testimony of Dr. Bidez

Ford seeks an order excluding plaintiff's expert Dr. Martha Bidez from testifying as to the cause of plaintiff's injuries. Dr. Bidez is a biomechanical engineer, with training and experience in the fields of injury causation and biomechanics, and has been so recognized by the courts in 32 [*4] state and Federal jurisdictions since 1990. She received a B.S. in Biology in 1979, a B.S. in Mechanical Engineering in 1985, an M.S. in Biomedical Engineering in 1983, and a Ph.D. in Biomedical Engineering in 1987.

Dr. Bidez is also an expert in the fields of injury prevention; occupant kinematics; restraint system design, testing, performance, and crashworthiness; human anatomical response to crash and restraint forces; and the performance, testing, and limitations of vehicular restraints in adults, children, and infants. Since 1990, she has been the owner and president of Bidez and Associates, Inc., a biomedical engineering professional service firm. She has held various academic appointments (primarily at the University of Alabama at Birmingham) for over 20 years; has received numerous professional and academic honors; and has authored numerous articles and other published works.

In his expert witness disclosure, plaintiff stated that he planned on calling Dr. Bidez to testify regarding the movement of the occupants of the Ford E-350 van during the roll-over collision, and the mechanism of injury for the plaintiff; regarding the relationship between roof crush, the release of the [*5] bench seat, and injury. Plaintiff added, "The specifics of her opinions will be detailed at her deposition."

At her deposition, Dr. Bidez testified that plaintiff's neck fractured when the crown of his head was struck by the collapsing roof of the van. Although the van rolled 2 1/2 times, Dr. Bidez testified that the injury-causing roof collapse occurred during the first 45 to 135 degrees of roll-over. Dr. Bidez identified three components of the van's design that she believed combined together to cause plaintiff's injury - the roof, the seat belts, and the bench seat - and asserted that these three independent mechanical systems were interrelated in their effect on plaintiff and his injury.

Dr. Bidez stated that in her opinion, during the point of the crash when plaintiff was injured, he was upside-down falling toward the roof, and the roof was collapsing and intruding toward plaintiff. The resulting impact between the collapsing roof and plaintiff's falling body was sufficient to fracture his neck. In Dr. Bidez's opinion, absent the force generated by the collapsing roof, plaintiff would not have received the neck injury simply from falling head-first into the roof.

Dr. Bidez also stated [*6] that plaintiff's seat belt was inadequate because it didn't keep him from violently contacting the roof. In addition, she testified that the unlatched bench seat could have contributed to the force of the impact if the seat were in contact with plaintiff, thereby adding to his falling velocity. Dr. Bidez concluded that if the roof had not deformed, the seat latch had not disengaged, and the seat belt had properly coupled plaintiff's body to the seat, plaintiff would not

have been severely injured.

Ford argues that Dr. Bidez's theory that the interplay between the van's roof, seat belt, and seat latch caused the injury cannot be admitted because it is based on "unknown" and "unknowable" facts, and is therefore entirely "speculative." Ford asserts that Dr. Bidez does not know - and that it is not knowable - when plaintiff's head was in contact with the roof; the extent to which the seat belt was restraining plaintiff when his head was in the vicinity of the roof; or what interaction, if any, there was between plaintiff and the bench seat when his head was in the vicinity of the roof.

Ford asserts that Dr. Bidez is speculating that because plaintiff was injured during the course of the [*7] accident, these three vehicle components must have caused the injury. Ford contends, however, that this speculation is not sufficient under *Federal Rule of Evidence 702* and *Daubert*, because the factual contentions that underlie Dr. Bidez's opinions are not supported by physical evidence, percipient witness testimony, or any reliable scientific or technological methodology or analysis.

Ford makes two main arguments - plaintiff cannot meet his burden of showing that the van's defective design was a substantial factor in causing the injury, and that plaintiff cannot meet his burden of showing that Dr. Bidez's causation opinions are based on a scientific and reliable foundation.

The motion is DENIED. First, the ultimate issue of causation is not appropriate for determination in a motion to exclude evidence. Second, because plaintiff provided no expert report, the court is unable to ascertain the exact substance of Dr. Bidez's opinions regarding causation, based solely on the snippets of deposition testimony cited by Ford. Moreover, Dr. Bidez testified that she relied in part on other experts, for whom the court also has seen no reports. The court lacks sufficient information regarding the [*8] proposed opinion testimony to determine whether it is reliable and trustworthy, or whether it should be excluded. Third, to the extent that the court understands Ford's arguments, they appear to challenge the weight, more so than the reliability of this evidence, and a vigorous cross-examination and rebuttal expert testimony are the appropriate answers.

2. Defendant's Motion to Exclude Testimony of Alan Cantor

Ford seeks an order excluding the "warning" opinions of plaintiff's expert Alan Cantor. Mr. Cantor is an engineer, with training and experience in the areas of motor vehicle seat design and performance, occupant restraint, and occupant kinetics as it relates to occupant crash protection in all types of vehicle accidents. He received a B.S. in Aerospace Engineering in 1972, and has published numerous peer-reviewed articles and treatises in his area of expertise. He also holds several patents for seating and restraint designs and is a nationally-recognized expert in the field.

In his expert witness disclosure, plaintiff stated that he planned on calling Mr. Cantor to testify regarding the performance of the second-row bench seat (where plaintiff was sitting) and its latching mechanism, [*9] and the inability of those systems to prevent injurious impact between the occupant and the vehicle's interior during roll-over collisions. Plaintiff also stated that Mr. Cantor will testify regarding how the system could have been improved to prevent the propelling of plaintiff into the roof during the accident. Plaintiff added, "The specifics of those opinions will be detailed at his deposition."

At his deposition, Mr. Cantor testified that when engineers cannot design a particular hazard out of a product, they determine that the product requires a warning. He asserted that because Ford could not design out the risks posed by the unlatched bench seats, a warning was necessary. While Ford did place a warning in the owner's manual regarding the hazards of traveling with the bench seats unlatched, Mr. Cantor was of the opinion that that type of warning was not adequate, based on his experience in seat design. He suggested alternative warnings - a sticker on the bench seat depicting a figure being launched by an unlatched seat; the placement of the words "latched" and "unlatched" at each side of the lever that attaches the seat to the floor; and the installation of a red light on the [*10] dash to indicate that the seat is properly latched.

Ford now seeks an order excluding the Mr. Cantor's "warning" opinions. Ford asserts that these "warning" opinions do not meet the reliability standard under *Rule 702* and *Daubert* because plaintiff has failed to address Mr. Cantor's lack of qualifications in the science of "warnings design," known more formally as the study of "human factors."

According to Ford, human factors experts specialize

in the study of the ways in which the human mind receives and interprets information, and are used in product liability actions to testify that products should be designed to provide the human operator with as much safety as is technologically possible. Thus, Ford contends, human factors experts may testify not only that a product was defective for lack of needed warnings or instructions, but also that the warnings that were provided with a product were inadequate for not using the correct words, symbols, or colors, or because they were not placed on the product at a location where they could provide effective notice to the user.

In addition, Ford asserts, when an analysis confirms that a product hazard poses an unreasonable risk of harm to the [*11] user, the human factors expert can propose ameliorative or prophylactic safety measures to eliminate the hazard in the design stages or to provide adequate safeguarding to avoid or reduce the risk related to the hazard. Ford contends that human factors experts are commonly used in product liability cases to testify that a warning is inadequate, that persons who encounter hazards that cannot be "designed out" do not have sufficient "hazard awareness," and that chances of averting danger would be increased through the institution of an alternative proposed of "candidate" warning.

Ford seems to accept that Mr. Cantor is qualified to offer opinions about seat design, but claims that he is not qualified to offer opinions about the ways a warning should be designed, or about whether the E-350's warnings were adequate or inadequate. Ford argues that in order for plaintiff to explore the adequacy of the E-350's warning, and whether a warning would help passengers avoid similar hazards in the future, he would need to retain and disclose a human factors expert.

Ford asserts that even though Mr. Cantor has stated that he limited the scope of his opinion to testifying to the need for a warning - [*12] as opposed to the adequacy of the warning that Ford did provide in the operator's manual - it is clear (according to Ford) that Mr. Cantor will be offering an opinion about how the E-350's warning should have been designed. Ford argues that there is no evidence that Mr. Cantor is qualified by experience, education, or training to offer human factors opinions.

There appears to be no dispute that Mr. Cantor is not a human factors expert, and also no dispute that he is qualified by experience, education, and training to offer engineering opinions regarding the need for warnings. Thus, Ford's motion is DENIED to the extent that plaintiff intends to offer Mr. Cantor to testify that the design of the bench seat was such that a warning was needed. The motion is GRANTED to the extent that plaintiff seeks to offer Mr. Cantor to testify regarding the adequacy of Ford's warnings.

B. Plaintiff's Motions in Limine

1. Plaintiff's Motion in Limine No. 4, to exclude personal experiences, beliefs, or assertions of personal knowledge by attorneys; and Motion in Limine No. 9, to exclude evidence of prior settlement, were conditionally GRANTED on July 3, 2008, pursuant to agreement by Ford. Plaintiff's Motion [*13] in Limine No. 2, to preclude evidence of collateral sources payments, and Motion in Limine No. 8, to exclude evidence of plaintiff's past marijuana use, were GRANTED as unopposed on July 3, 2008.

2. Plaintiff's Motion in Limine No. 1, to exclude evidence of industry custom or practice, is GRANTED in part and DENIED in part. The motion is DENIED as to evidence that Ford met or exceeded Federal Motor Vehicle Safety Standards ("FMVSS"). The motion is DENIED as to evidence of industry custom, if the court determines that liability is to be determined under the risk-benefit test, but GRANTED to the extent that the consumer expectation test may apply.

3. Plaintiff's Motion in Limine No. 3, to preclude evidence or argument regarding the Malibu and CRIS (Controlled Roll-Over Impact System) testing, is DENIED.

4. Plaintiff's Motion in Limine No. 5, to exclude evidence from or reference to *Wiley v. General Motors*, is GRANTED, except that Ford may of course use Cantor's prior recorded testimony for impeachment purposes should his testimony in this rial be different than his previous testimony. The transcript will not be admitted as evidence nor will prior judicial findings or rulings be admitted.

5. [*14] Plaintiff's Motion in Limine No. 6, to exclude evidence of driver negligence and the complaint as evidence, is DEFERRED pending further briefing (see below).

6. Plaintiff's Motion in Limine No. 7, to exclude evidence that Ford expert Dennis H. Schafer owned a Ford E-350, is DENIED.

7. Plaintiff's Motion in Limine No. 10, to exclude testimony from Ford's witness Joseph Long regarding the cost of annuities in the amount of plaintiff's damages, is DENIED.

C. Ford's Motions in Limine

1. Ford's Motion in Limine No. 1, to exclude evidence of "drop testing" that is not substantially similar to the subject crash, including related testimony of Stephen Forest, is DENIED. The parties may proffer limiting instructions.

2. Ford's Motion in Limine No. 2, to exclude evidence of the "spit test" conducted by plaintiff's expert Alan Cantor, is DENIED. The parties may proffer limiting instructions.

3. Ford's Motion in Limine No. 3, to exclude evidence of or references to an alleged bench seat defect claim, is DEFERRED, pending further briefing. Even with further briefing, however, a ruling on this motion will likely not dispose of any substantive claim. This motion appears to constitute another attempt to [*15] obtain a ruling on the issue of causation, an issue that should have been raised in a motion for summary judgment. Nevertheless, further briefing will assist the court in understanding the parties' positions, and such understanding will be of assistance at the trial in the event of a Rule 50 motion on ths issue (see below).

4. Ford's Motion in Limine No. 4, to exclude evidence of other accidents that are not substantially similar to the subject crash, is GRANTED except as to the accident giving rise to the *Cox v. Ford Motor Company* case.

5. Ford's Motion in Limine No. 5, to exclude evidence of or references to the proposed changes to FMVSS No. 216, is GRANTED.

6. Ford's Motion in Limine No. 6, to exclude evidence of seat-integrated restraints, is DENIED without prejudice to raising it at trial.

7. Ford's Motion in Limine No. 7, to exclude expert opinion testimony from plaintiff's treating physician Dr. Jeffrey Weider, is GRANTED as to testimony regarding causation or liability, but DENIED as to testimony regarding Dr. Weider's treatment of plaintiff.

8. Ford's Motion in Limine No. 8, to exclude evidence concerning Volvo Corporation and concerning any Volvo vehicle, is DEFERRED pending further [*16] briefing (see below).

D. Further Pretrial Briefing

As the court indicated at the pretrial conference, additional briefing is required so that essential questions can be answered before commencement of trial. It is impossible to determine the scope of the relevant evidence and the applicable jury instructions without knowing what legal standards apply to this product liability action, yet neither party directly briefed the issue nor requested the court to decide it. To that end the court orders further briefing on whether the risk-benefits test or the consumer expectations test applies to determining strict liability in this case. Along with this issue the parties must also address the burdens with respect to production and proof on the feasibility of alternative design issue. Additionally, the court requires further briefing on the availability of comparative fault in this case where the allegedly negligent joint tortfeasor is no longer a party. And third, the parties shall provide further briefing on the issue raised by Ford's motion in limine number 3 above regarding the bench seat defect claim. Ford's supplemental motion in limine is due two weeks from the date of the pretrial conference. [*17] All issues shall be addressed in one brief not exceeding 25 pages. The opposition is due two weeks thereafter; the reply one week thereafter. It is the court's intention to decide the motion on the papers and issue a written ruling. If, however, a hearing is necessary, counsel will be contacted.

II. *WITNESSES*

The parties should work together to avoid calling witnesses twice where possible. For witnesses appearing by deposition only, the parties are directed to the July 24, 2008 Trial Rules and Procedures.

III. *EXHIBITS*

As there are voluminous exhibits and given the time limitations that will be imposed, the parties are required to meet and confer and attempt to arrive at a stipulation regarding the authenticity and admissibility of

documentary exhibits. The parties will be required during trial to bring objections to particular documents or categories of documents to the court's attention either before the start of the trial day or after conclusion of the trial day.

IV. *VOIR DIRE*

As described at the pretrial conference, the court will conduct the voir dire of the panel and each party will be permitted 30 minutes followup voir dire of the entire panel. Eight jurors will be seated. The questionnaire [*18] submitted by the parties will be used, but needs some revision. First, it must be shortened to no more than 45 questions. Second, the court disapproves or finds unnecessary in view of the oral questions that will be put to the panel, the following questions which should be eliminated: 14, 15, 16, 17, 18, 23, 24, 25, 28, 29, 30, 32, 33, 34, 35, 36, 37, 41, 42, 59, 60, 61-71. A revised questionnaire must be submitted no later than three weeks before trial.

V. *JURY INSTRUCTIONS*

The court approves the joint instructions with the exception of nos. 10 and 35. Any of these instructions that need revision in view of the court's ruling on the motions in limine must be submitted no later than three weeks before trial. The parties need not re-submit those joint instructions that do not need revision.

The separately proposed instructions will need revision following the court's ruling on the motions in limine. The parties shall meet and confer and attempt to jointly agree on instructions and to reduce the number of separately prosed instructions in contention to no more than ten. Revised jury instructions must be submitted no later than three weeks before trial. The parties shall submit a joint instruction [*19] describing each party's claims and defenses. The court will not approve argumentative instructions based on case law, such as those proposed by Ford.

VI. *VERDICT FORM*

The parties shall meet and confer and prepare a joint verdict form in view of the court's ruling on the motions in limine and submit it no later than three weeks before trial.

VII. *TRIAL SCHEDULE AND TIME LIMITS*

The trial is scheduled for two weeks. The trial week is Monday, Tuesday, Thursday Friday, from 8:30 - 1:30 with two fifteen minute breaks each day. Jury selection and opening statements will occur on the first day. Each side will be permitted 13 1/2; for direct and cross examination of witnesses. Closing arguments will occur on the last day of trial but will not be counted against the 13 1/2; hours.

IT IS SO ORDERED.

Dated: August 1, 2008

/s/ Phyllis J. Hamilton

PHYLLIS J. HAMILTON

United States District Judge

EXHIBIT 4

Only the Westlaw citation is currently available.

United States District Court,
N.D. Illinois, Eastern Division.
SUNSTAR, INC., Plaintiff,
v.
ALBERTO-CULVER COMPANY, INC. and Bank One Corporation f/k/a First National Bank of Chicago, Defendants.
ALBERTO-CULVER COMPANY, a Delaware Corporation, Plaintiff,
v.
SUNSTAR, INC., a Japanese corporation, Sunstar Group Company (f/k/a Alberto-Sunstar Co., Ltd.), a Japanese corporation, Kaneda, Kasan, Kabushiki Kaisha, a Japanese corporation, and Bank One, National Association, as Trustee under Trust Agreement No. 22-81196, dated February 27, 1980, a national banking association, Defendants.
No. 01 C 0736, 01 C 5825.

Aug. 23, 2004.

Craig S. Fochler, Charles Robert Mandly, Jr., John Sheldon Letchinger, Mike M Yaghmai, Wildman, Harrold, Allen & Dixon, Chicago, IL, for Plaintiff.

Paul Ethan Slater, Sperling & Slater, Timothy Todd Patula, Charles Thomas Riggs, Jr., Carolyn C Andrepont, Paige J Thomson, Patula & Associates, Chicago, IL, Robert A Schwinger, Marvin R Lange, Scott Sonny Balber, Janice A Payne, Melissa Jayne Larocca, Chadbourne & Parke LLP, William S D'Amico, Chadbourne & Parke LLP, New York, NY, Daniel A. Dupre, Patricia Susan Smart, John Bostjancich, Smart & Bostjancich, Chicago, IL, for Defendant.

MEMORANDUM OPINION AND ORDER

NOLAN, Magistrate J.

***1** These two consolidated cases arises from a dispute between Sunstar, Alberto-Culver, and Bank One regarding Sunstar's use in Japan starting in 1999 of a certain "VO5" mark on women's hair care products that Sunstar manufactures and sells in Japan.[FN1] The parties have filed their Final Pretrial Order and are proceeding to trial. District Judge Ronald A. Guzman referred the case for resolution of pretrial matters. This opinion resolves the nineteen motions in limine.

FN1. The factual background of this case has been set forth in previous decisions in this matter including, *Sunstar, Inc. v. Alberto-Culver Co., Inc.*, 2003 WL 22287380 (N.D.Ill. Sept.30, 2003); *Sunstar, Inc. v. Alberto-Culver Co., Inc.*, 2003 WL 21801428 (N.D.Ill. Aug.1, 2003); and *Alberto-Culver, Co. v. Sunstar, Inc.*, 2001 WL 124905 (N.D.Ill. Oct. 17, 2001). The Court assumes familiarity with those facts.

BACKGROUND

On November 7, 2002, the Honorable George W. Lindberg denied Alberto's summary judgment motion on its breach of contract claim regarding the issue of whether Sunstar's use of the 1999 Mark exceeds the scope of the License Agreement. The district court concluded that several genuine issues of material fact exist, including "whether the 1999 Mark falls within the range of marks defined by Japanese trademark law as being encompassed within the use-rights under those registrations" and "what the parties intended in the License Agreement-whether the full range of use-rights inherent in the listed trademark registrations were licensed to Sunstar, or the specific marks only (as Alberto attests) ." 11/7/02 Memo. & Order at 10.

On November 14, 2002, these cases were reassigned to the Honorable Ronald A. Guzman. In denying Alberto and Bank One's request that the

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court exclude experts on Japanese trademark law from testifying before the jury, Judge Guzman found that the term *senyo-shiyoken* renders the License Agreement ambiguous. FN2 9/30/03 Memo. Opinion & Order at 8. Judge Guzman held that "the jury in this case may consider extrinsic evidence as to the scope of rights under Japanese law that a party may have intended to convey by inclusion of the term *senyo-shiyoken* in the License Agreement ." *Id.* Judge Guzman further ruled that "[t]estimony by experts in Japanese trademark law will constitute one piece of evidence as to what the parties may have intended by inclusion of the term *senyo-shiyoken* as a parenthetical to the phrase 'exclusive license' in the License Agreement." *Id.* at 9.

FN2. "It is undisputed that *senyo-shiyoken* is the Japanese term for an exclusive license registered with the Japanese Patent Office ("JPO")." 9/30/03 Memo. Opinion & Order at 3.

DISCUSSION

A. *Alberto-Culver's Motions in Limine*

1. *Conduct of the Trustee*

Alberto Culver's first motion in limine seeks to exclude argument and evidence related to Bank One's conduct in suspending the License Agreement and any alleged bias that Bank One supposedly has because of its relationship with Alberto. Alberto's motion is granted.

Alberto argues that the evidence that Sunstar seeks to introduce (i.e. the existence of an indemnification agreement and the contacts and relationships between Alberto and Bank One representatives) only relates to Sunstar's breach of fiduciary duty and breach of contract claims against Bank One and a claim against Alberto for tortious interference which have been dismissed. Alberto states that this evidence should be excluded because Judge Lindberg ruled on summary judgment that Bank One acted reasonably in deciding whether to suspend the License Agreement.

***2** Sunstar responds that § 5 of the License Agreement sets forth certain conditions precedent to the effectiveness of any suspension of Sunstar's license rights by Bank One. The License provides that Bank One may suspend the rights of Sunstar to use the licensed marks if "in the opinion of [Bank One] based upon reasonable ground," any act of Sunstar presents "a danger to the value or validity of [Bank One's] ownership and title" in the licensed marks. Sunstar wants to show that Bank One failed to act as an impartial, independent, detached neutral decisionmaker in suspending Sunstar's right to use the licensed marks under the License Agreement. Specifically, Sunstar seeks to present evidence at trial showing that prior to Bank One issuing the suspension, "Alberto undertook to ply Bank One decisionmakers with memoranda, private conferences, food, drink and a valuable indemnification, and indeed provided drafts of the very words that Alberto wanted Bank One to issue as its own." Sunstar's Memo. at 8. Sunstar contends that this evidence is relevant to a determination of whether the circumstances here truly evidence an "opinion" by Bank One that was "based upon reasonable ground" and its defense of Alberto's breach of contract claim based upon Sunstar's continued use of the marks after Bank One's suspension of the License Agreement.

The Court agrees with Alberto that the reasonableness of Bank One's actions with respect to the suspension are no longer an issue for trial. Sunstar's breach of contract claim against Bank One was based on Bank One's alleged failure to provide reasonable grounds for suspending the License Agreement. Sunstar Am. Cmplt. ¶¶ 20, 22, 24, 26, 31, 38, 40. Sunstar alleged that the suspension resulted from undisclosed private communications between Bank One and Alberto. *Id.* ¶ 23. Judgment as a matter of law has been granted in favor of Bank One and against Sunstar on Sunstar's breach

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of contract claim. Judge Lindberg based his dismissal of Sunstar's breach of contract claim as well as its claims for breach of fiduciary duty and waste of trust assets against Bank One on § 4.09 of the Illinois Trust and Trustees Act, 760 ILCS §§ 5/1 *et seq.* As Judge Lindberg noted, when a trustee like Bank One "uses reasonable care, skill, and caution in the selection of the agent, the trustee may rely upon the advice or recommendation of the agent without further investigation and ... shall have no responsibility for action taken or omitted upon the advice or recommendation of the agent." 11/7/02 Memo. & Order at 17. In dismissing Sunstar's claims at summary judgment, Judge Lindberg specifically held that the fact that Bank One selected outside counsel based upon the recommendation by Alberto's outside counsel "does not warrant a conclusion that Bank One did not exercise the appropriate level of 'care, skill and caution' in selecting its counsel." 11/7/02 Memo. & Order at 17. Judge Lindberg thus held that Bank One used reasonable care, skill, and caution in the selection of outside counsel.

***3** Sunstar seeks to argue at trial that the indemnification agreement "tempted and permitted Bank One to side with Alberto without fear of liability or litigation expense in a way that the 1980 Agreements did not contemplate as being appropriate." Sunstar Memo. at 9. Judge Lindberg ruled against Sunstar as to this issue. Judge Lindberg held that a reasonable jury could not find in favor of Sunstar on its argument that Bank One made its suspension decision by relying on the indemnification agreement from Alberto rather than the advice of counsel. *Id.* at 18. The district court has ruled that Bank One did not in fact rely upon the indemnification in deciding to suspend the License Agreement.

Sunstar emphasizes that the district court held on summary judgment that Bank One could not be held liable for alleged breaches of its obligations and that Alberto could not be held liable for inducing those alleged breaches based on the statutory protections from legal liability granted to trustees under the Trustees Act but that the district court did not rule that the suspension was reasonable or proper. The district court did discuss Bank One's conduct in connection with the suspension in its opinion. In granting summary judgment, the district court specifically held that no genuine dispute of material fact existed as to whether Bank One used "reasonable care, skill, and caution in the selection" of outside counsel and whether Bank One actually relied on the advice of outside counsel in deciding whether to suspend the License Agreement. 11/7/02 Memo. & Order at 17-18. Sunstar does not adequately explain how Bank One could have used reasonable care, skill, and caution in the selection of outside counsel, a specialist in trademark law at the firm of Michael Best and Fredreich, and actually relied on the advice of outside counsel in making the decision to suspend the License Agreement but failed to form an "opinion ... based upon reasonable ground" that a danger to the value or validity of the licensed marks existed. To grant summary judgment against Sunstar on its breach of contract claim because Bank One used reasonable care, skill, and caution in the selection of outside counsel and actually relied on counsel's advice is the practical equivalent of holding that Bank One formed an "opinion ... based upon reasonable ground," even if Judge Lindberg's opinion did not explicitly state that the suspension was "based upon reasonable ground." Because the reasonableness of Bank One's conduct in connection with the suspension is no longer an issue for trial, the evidence Sunstar wants to admit is irrelevant and is excluded.

2. *Reason or Justification for Adopting the 1999 Mark*

Alberto seeks to exclude at trial argument or evidence concerning any reason or justification for Sunstar's adoption and use of the 1999 Mark. Alberto's motion is granted.

Sunstar wants to tell that jury that it adopted the 1999 Mark "to help revitalize the declining VO5 brand in Japan in direct response to consumer mar-

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ket research results and recommendations regarding the VO5 logo received from outside consultants, and not as an attempt to palm off its VO5 products as the products of someone else." Sunstar Memo. at 2. Alberto contends that evidence concerning any reason or justification for Sunstar's adoption and use of the 1999 Mark is irrelevant. Alternatively, Alberto argues that such evidence should be barred under Federal Rule of Evidence 403 because it could confuse the jury by creating the false impression that Sunstar's business reasons for adopting the 1999 Mark constitute a valid defense to Alberto's breach of contract claim and cause the jury to prejudicially perceive Alberto as an unreasonable business partner that ignored Sunstar's marketing studies and efforts.

***4** Sunstar responds that evidence of how and why it adopted the 1999 Mark for use in Japan is critical to the jury's evaluation of the infringement issues raised by both sides in this case. Sunstar states that one of the most important factors in evaluating infringement is the intent of the party alleged to have infringed. Sunstar additionally argues that evidence of the reasons why Sunstar adopted the 1999 Mark is admissible as background evidence to give the jury a complete story.

The parties appear to agree that the contractual prohibition in § IV of the License Agreement against acts by Sunstar that "infringe" the licensed marks contractualizes what would otherwise be statutory claims for trademark infringement. Sunstar states, and Alberto does not dispute, that both sides in this case have looked to U.S. federal trademark law to define the nature, elements, and relevant proof for trademark infringement. The Seventh Circuit has noted that "[t]he linchpin of both common law and federal statutory trademark infringement claims is whether consumers in the relevant market confuse the alleged infringer's mark with the complainant's mark." *AHP Subsidiary Holding Co. v. Stuart Hale Co.,* 1 F.3d 611, 614 (7th Cir.1993). The Seventh Circuit has found seven factors, including "defendant's intent to palm off its goods as those of the plaintiffs," relevant to the "likelihood of confusion" analysis. *Ty. Inc. v. Jones Group, Inc.,* 237 F.3d 891, 897 (7th Cir.2001). Bad faith or wrongful intent to "palm off" or lack of intent to confuse customers is not required to establish likelihood of confusion, but when present, it is an important factor in the likelihood-of-confusion analysis. *Eli Lilly & Co. v. Natural Ans., Inc.,* 233 F.3d 456, 465 (7th Cir.2000); *Henri's Food Products Co., Inc. v. Kraft, Inc.,* 717 F.2d 352, 359 (7th Cir.1983). The issue here is whether Sunstar's adoption of the 1999 Mark breached the 1980 Agreements by infringing, i.e. causing a likelihood of confusion.

"[T]he only kind of intent that is relevant to the issue of likelihood of confusion is the intent to confuse." 3 McCarthy on Trademarks and Unfair Competition § 23:110 (4th ed.2004); *Eli Lilly & Co.* 233 F.3d at 465 (stating "the fact that one actively pursues an objective greatly increases the chances that the objective will be achieved."). Presence of good faith or good intent is not a valid defense to a claim of trademark infringement. 3 McCarthy on Trademarks and Unfair Competition § 23:106 (4th ed.2004) (stating "good faith intentions of an infringer are no defense to a finding of liability"); *see also Daddy's Junky Music Stores, Inc. v. Big Daddy's Family Music Ctr.,* 109 F.3d 275, 287 (6th Cir.1997 (stating "the *presence* of intent can constitute strong evidence of confusion.... The converse of this proposition, however, is not true; *lack* of intent by a defendant is 'largely irrelevant in determining if consumers likely will be confused as to source." '); *Polaroid Corp. v. Polaroid Inc. .,* 319 F.2d 830, 836 (7th Cir.1963); *Playboy Enterprises v. Frena,* 839 F.Supp. 1552, 1561 (M.D.Fla.1993) (stating "[e]ven though a guilty state of mind is relevant evidence of trademark infringement, an innocent state of mind is irrelevant on the issue of likelihood of confusion since the lack of intent to deceive does nothing to alleviate the confusion precipitate by similarity of trademarks.").

***5** Whether Sunstar had a good business reason for adopting the 1999 Mark is not relevant to the likeli-

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hood of confusion issue.[FN3] It does not matter whether Sunstar acted prudently or sensibly by introducing the 1999 Mark. The fact that Sunstar may have adopted the 1999 Mark for legitimate business reasons does not make it more or less probable that Sunstar intended to confuse consumers or negate any wrongful intent to confuse. *Daddy's Junky Music,* 109 F.3d at 287 (stating "lack of intent neither reduces nor increases the probability of consumer confusion."); 3 McCarthy on Trademarks and Unfair Competition § 23:106 (4th ed.2004) (stating "while evidence of intent is probative of likelihood of confusion of customers, the absence of such evidence does not prove that confusion is unlikely."). Sunstar's alleged good faith or business reasons for adopting the 1999 Mark is not probative as to the likelihood of confusion issue and not information the jury needs to determine whether there was a breach of the 1980 Agreements by infringement.

FN3. "Relevant evidence" is "evidence having any tendency to make the evidence of any fact that is of consequence to the determination of the action more probable or less probable than it would be without the evidence." Fed.R.Evid. 401.

Finally, even if the reasons why Sunstar adopted the 1999 Mark could be considered useful or permissible "background" information, the potential for unfair prejudice outweighs its slight probative value. *See* Fed.R.Evid. 403.[FN4] Evidence of Sunstar's business reasons for adopting the 1999 Mark-allegedly "to help revitalize the declining VO5 brand in Japan in direct response to the information and recommendation received from the DGA consulting firm"-may cause jury confusion regarding the relevant infringement standard or suggest a decision on an improper bias and unfairly prejudice Alberto by suggesting that business reasons or lack of improper intent constitute a valid defense to infringement. The jury may improperly infer that Sunstar was entitled to use the 1999 Mark if it was justified by business conditions. The jury may also infer from such evidence that Alberto was an unreasonable business partner that improperly ignored Sunstar's marketing studies and efforts. The problem with that inference is that Alberto's reasonableness is irrelevant to the issue of likelihood of confusion.

FN4. Under Rule 403, even relevant evidence may be excluded if its "probative value is substantially outweighed by the danger of unfair prejudice." The phrase "unfair prejudice" used in Rule 403 "means an undue tendency to suggest decision on an improper basis, commonly, though not necessarily, an emotional one." Notes of the Advisory Committee of the Proposed Rules.

For these reasons, Alberto's motion is granted with the understanding that Alberto will not be allowed to argue at trial that the absence of evidence regarding why Sunstar adopted the 1999 Mark indicates Sunstar intended to confuse consumers.

3. *Unexpressed Intent for Including the Phrase* Senyo-Shiyoken *in the Agreements*

Alberto's third motion in limine seeks to bar argument, evidence or testimony concerning any unexpressed or uncommunicated intent for including the phrase *Senyo-Shiyoken* in the agreements. Alberto's motion is denied without prejudice.

The License Agreement granted Sunstar an "exclusive license to manufacture, use, sell and offer for sale within the territorial limits of Japan, Licensed Products bearing Licensed Trademarks.... [Sunstar] agrees to cause said exclusive license (*Senyo-Shiyoken*) to be registered at the Japanese Patent Office...." Judge Lindberg has ruled that a genuine dispute of fact exists regarding "what the parties intended [by including the phrase *Senyo-Shiyoken*] in the License Agreement-whether the full range of use-rights inherent in the listed trademark registrations were licensed to Sunstar, or the

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specific marks only (as Alberto attests).” 11/7/02 Memo. and Order at 10.

***6** Sunstar seems to concede that it will not offer any evidence of unexpressed intent at trial. Sunstar claims that Alberto's motion is based on an “utterly false premise.” Sunstar Memo. at 10. Sunstar states that Alberto's motion “assumes that nothing was ever communicated during negotiations about the purpose behind *‘senyo-shiyoken’* when in fact the opposite is true.” *Id.* at 10-11. According to Sunstar, the term *“senyo-shiyoken”* was put into the 1980 Agreements to make clear that Sunstar had the right to use a certain range of variations on the originally-filed trademark designs that is defined by principles of Japanese law. Sunstar asserts that “[t]his understanding was clearly communicated and agreed upon in the course of substantive business negotiations for the 1980 Agreements.” *Id.* at 2. Since Sunstar does not appear to intend to offer evidence relating to unexpressed intent behind the inclusion of the phrase *senyo-shiyoken* into the agreements, Alberto's motion is denied without prejudice.

4. *Agreements and Negotiations that Preceded the 1980 Agreements*

Alberto seeks to exclude argument, evidence, or testimony concerning alleged agreements, understandings or conversations that pre-date the execution of the 1980 Agreements to which Bank One was not a party. Alberto's motion is granted in part and denied in part.

Sunstar “plans to offer evidence concerning the history of the negotiation of the deal which led to the 1980 Agreements, including predecessor documents, to show that the parties' intent was for Sunstar as *senyo-shiyoken* licensee to enjoy the full range of use-rights inherent in the licensed trademark registrations under Japanese law for *senyo-shiyoken* licensees.” Sunstar Memo. at 4. Alberto argues that this evidence should be excluded for three reasons: (1) it is irrelevant and being offered for an improper purpose; (2) its introduction is barred by the integration clause of the 1980 Agreements; and (3) such evidence is not probative of the parties' intent in including *senyo-shiyoken* into the 1980 Agreements because Bank One did not participate in the pre-1980 agreements, negotiations and understandings. The Court addresses each argument in turn.

Alberto contends that neither the Memorandum of Discussion” (“MOD”) nor the Agreement in Principle (“AIP”), both pre-1980 agreements between Alberto and Sunstar, is relevant to determining the meaning of *senyo-shiyoken* in the 1980 Agreements. The MOD set forth Alberto's and Sunstar's intentions with respect to a proposed transaction involving Sunstar's purchase and ownership of all of the rights in the licensed marks. Alberto argues that because Sunstar did not become the owner of the licensed marks and the MOD deals only with a possible assignment it “has no relevance to the meaning of the term *Senyo-Shiyoken* used in a provision dealing exclusively with the registration of a license agreement....” Alberto Reply, at 5. With respect to the AIP, Alberto argues that its single use of *senyo-shiyoken* is “substantively and virtually literally the same as the use made of *Senyo-Shiyoken* in the License Agreement, which Judge Lindberg found to be ambiguous .” Alberto's Reply at 5. Therefore, Alberto contends that the sole reference to *Senyo-Shiyoken* in the AIP sheds no light on the meaning of that term as it is used in the License Agreement. Finally, Alberto argues that Sunstar's attempt to tie the “philosophy of the assignment of the Trademarks” provisions of the AIP to the meaning of *senyo-shiyoken* fails because: (1) the references to a *senyo-shiyoken* registration and “philosophy of assignment” are in two separate provisions of the AIP that are separated by almost four pages of numerous other, diverse provisions and make no reference to one another; (2) by its literal terms, the “philosophy of assignment” provision deals with Sunstar's desire to get the benefits of an assignment “to the extent practicably possible” and it is not “practicably possible” to give the benefits

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of an assignment through the grant of a license; and (3) the "philosophy of assignment" provision expressly anticipated other "detailed agreements" and the simultaneous assignment that was accomplished when all of the 1980 Agreements were executed sufficiently placated Sunstar's unfulfilled desire to become the owner of the Licensed Marks.

***7** Alberto's arguments regarding the relevancy of the pre-1980 Agreements go to their weight, not their admissibility. In denying Alberto summary judgment on its breach of contract claim, Judge Lindberg ruled that:

> "[S]enyo-shiyoken" is in the License Agreement for a reason. However, a question of fact still exists as to whether the 1999 mark falls within the range of marks defined by Japanese trademark law as being encompassed within the use-rights under those registrations. A question of fact also exists as to what the parties intended in the License Agreement-whether the full range of use-rights inherent in the listed trademark registrations were licensed to Sunstar, or the specific marks only (as Alberto attests).

11/7/02 Memo. & Order at 10. Judge Guzman expressly ruled that "the jury in this case may consider extrinsic evidence as to the scope of rights under Japanese law that a party may have intended to convey by inclusion of the term *senyo-shiyoken* in the License Agreement. 9/29/03 Memo. Opinion & Order at 8.

The pre-1980 extrinsic evidence Sunstar seeks to admit is not clearly inadmissible. *Marlow v. Winston & Strawn,,* 1994 WL 424124, *1 (N.D.Ill. Aug.11, 1994) (stating evidence should be excluded on a motion in limine only if it "clearly is not admissible for any purpose."). Evidence of the negotiations and agreements that preceded the execution of the 1980 Agreements may be relevant to resolving the ambiguity in the parties' use of the term *senyo-shiyoken* in the License Agreement. As one Illinois court has explained:

> " '... In the construction of an ambiguous or uncertain writing which is intended to state the entire agreement, preliminary negotiations between the parties may be considered in order to determine their meaning and intention and to ascertain in what sense the parties themselves used the ambiguous terms in the writing which sets forth their contract. * * * In the determination of the meaning of an ambiguous or uncertain contact and as an aid to its construction, the court must have recourse, not only to the working and context of the agreement, but also to the circumstances and correspondence between the parties pending the negotiation of the final agreement." '

Rybicki v. Anesthesia & Analgesia Assoc., 246 Ill.App.3d 290, 186 Ill.Dec. 179, 615 N.E.2d 1236, 1243 (Ill.App.1993) (quoting 17A Am.Jur.2d *Contracts* § 403, at 429-30 (1991)). Alberto takes too narrow a view of relevance with respect to admissibility of the pre-1980 evidence at trial. The prior proposed agreements need not define *senyo-shiyoken* or expressly state why it was used in the 1980 Agreements to be relevant to the question of the parties' intent in including the term *senyo-shiyoken* in the License Agreement.

In making its relevancy argument, Alberto assumes that no part of the prior proposed agreements sheds light on the meaning of *senyo-shiyoken* in the 1980 Agreements. In contrast, Sunstar contends that evidence concerning the history of the negotiations, including portions of the prior proposed agreements, will show that the intent behind the grant of the *senyo-shiyoken* license was to give Sunstar use-rights that were as close as possible to the use-rights that Sunstar would have enjoyed as the owner under the original sale version of the transaction. The reasonableness of Sunstar's version is an issue for the jury to determine at trial. Alberto's objections, including its arguments about why Sunstar's attempts to tie the "philosophy of the assignment" provision of the AIP to the meaning of *senyo-shiyoken* fail, implicate the weight that should be afforded this evidence rather than its admissibility.

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The Court declines to find, as Alberto urges, that the "philosophy of assignment" provision, the *senyo-shiyoken* registration provision of the AIP, or the assignment provisions of the MOD are irrelevant as a matter of law in determining the parties' intent in using the term *senyo-shiyoken.* How much weight to be accorded this evidence is an issue for the jury to resolve.

***8** Alberto next argues that Article II of the License Agreement and the integration clause in Article XII of the License Agreement prevent Sunstar from introducing pre-1980 agreements. Article II provides in relevant part: Sunstar "shall not represent in any way that legal title in or legal right to the ownership of Licensed Trademarks rests in [Sunstar]...." Alberto claims that by offering pre-1980 agreements to explain the parties' intent in inserting *senyo-shiyoken* in the 1980 License Agreement, Sunstar is "in effect, taking the position that it should be treated as an owner of the Licensed Trademarks...." Alberto's argument amounts to an untimely request for summary judgment. Under the guise of a motion in limine, Alberto seeks to eliminate Sunstar's position regarding the scope of rights granted by the License Agreement. Judge Lindberg set a September 11, 2002 deadline for summary judgment motions. Alberto filed a motion for summary judgment which included numerous arguments but there was no argument that as a matter of law Article II precluded Sunstar's position regarding the breath of the license. The Court rejects Alberto's current request.

Alberto also argues that the integration clause in Article XII of the License Agreement prevents Sunstar from introducing pre-1980 agreements. Article XII provides in relevant part: "This Agreement (and the Basic Sale Agreement and the Trust as described herein) represents the entire understanding of the parties respecting its subject matter and all previous trademark agreements executed by the parties are hereby superseded." The integration clause contained in the 1980 Agreements does not prevent Sunstar from presenting pre-1980 conversations, negotiations, and agreements for the purpose of determining the parties' intent as to the meaning of the term *senyo-shiyoken* as used in the License Agreement. *See Rybicki,* 186 Ill.Dec. 179, 615 N.E.2d at 1243 (indicating that preliminary negotiations between the parties may be considered when construing an ambiguous term in an integrated agreement); *Fox v. The Montell Corp.,* 2001 WL 293632 at *2 (N.D.Ill. March 19, 2001) (holding that "extrinsic evidence may be used to clarify the meaning of ambiguous contract terms" even though the "contract contains an integration clause."). Sunstar will not offer any pre-1980 evidence to vary or contradict the unambiguously expressed terms of the 1980 Agreements. Instead, pre-1980 conversations, negotiations, and agreements will be presented solely to assist the jury in understanding the parties' intent in inserting *senyo-shiyoken* into the 1980 Agreements.

Without citation to any authority, Alberto next contends that the AIP and the other pre-1980 Agreements should not be admitted because Bank One was not involved in the negotiations leading up to the AIP signed between Alberto and Sunstar. According to Alberto, that negotiation history has "no bearing on the meeting of the minds of all parties with the respect to the subsequently executed 1980 Agreements" Alberto Memo. at 9.

***9** The Court rejects Alberto's argument as a basis for excluding Alberto and Sunstar's pre-1980 negotiation history. The 1980 Agreements cannot be viewed in isolation from the history that led to the 1980 Agreements. Rather, the 1980 Agreements are more properly analyzed in the context of Alberto and Sunstar's relationship as a whole. As shown in the November 6, 1979 MOD signed by Alberto and Sunstar, they originally intended that Alberto would sell to Sunstar the Japanese VO5 trademarks as well as Alberto's 49% interest in their joint venture company. Then, in January 1980, Alberto and Sunstar agreed in the AIP after "re-negotiation" regarding "the basic structure of the transactions contemplated" to "change the form of the transaction from assignment of the Trademarks to [a] trust arrange-

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ment with the trustee holding for the benefit of Sunstar." The AIP contemplated "detail agreements to be prepared in connection with the" AIP. Finally, in February 1980, Sunstar, Alberto, and Bank One entered into a group of agreements, referred to collectively as the 1980 Agreements regarding the sale of Japanese VO5 trademarks. The preliminary negotiations between Alberto and Sunstar are not irrelevant to resolving the ambiguity as to what Alberto and Sunstar may have intended by using *senyo-shiyoken* simply because Bank One was not involved in the negotiations.

Finally, Alberto argues that Sunstar should not be allowed to introduce to the jury any pre-1980 negotiations, conversations, or agreements for the purpose of showing whether or not the Trustee's suspension of the License Agreement was justified. Because this Court has already determined in ruling on Alberto's first motion in limine that the reasonableness of Bank One's actions with respect to the suspension are no longer an issue for trial, Alberto's motion is granted in this regard.

5. *Actions Taken By Alberto or Its Subsidiary Licensee*

Alberto next seeks to bar argument or evidence that conduct of Alberto or by related entities relating to marks other than the 1999 Mark constitutes acquiescence by Alberto to use of the 1999 Mark by Sunstar or is otherwise a defense to Alberto's claims for breach of contract. Alberto's motion in limine raises the following arguments: (1) Sunstar's acquiescence defense is equitable and inapplicable to Alberto's legal claim for breach of contract; (2) even if the defense were to apply, the evidence that Sunstar relies on is irrelevant to that defense because it only matters whether Alberto consented to Sunstar's use and not what Alberto knew or should have know; and (3) conduct outside of Japan is irrelevant as a matter of law to a defense of acquiescence because that defense is only applicable within the geographic scope of the consent. Alberto's motion is denied because it is really an untimely motion for summary judgment on Sunstar's fifth affirmative defense.[FN5]

FN5. Sunstar's fifth affirmative defense states:

> To the extent that any of Alberto's claims rest upon an allegation that Sunstar's use of the Modernized VO5 logo would impair, lessen the value of or infringe rights with respect to VO5 marks, or prevent the protection of the rights in VO5 marks intended by the 1980 Agreements, Alberto is estopped from asserting such claims by virtue, *inter alia*, of its July 20, 1993 and July 28, 1993 letters to Sunstar authorizing Sunstar to depart (at Sunstar's sole option) from using the same major worldwide logotypes as being employed by Alberto's various Units worldwide, and, on information and belief, by Alberto's own deviations from its guidelines for VO5 trademarks on products marketed in Hong Kong and England and its knowing acquiescence to deviating VO5 trademark uses.

Alberto's summary judgment motion argued, in relevant part, that Sunstar's use of the 1999 Mark impairs and lessens the value of the licensed VO5 marks. Alberto's Memo. in Support of its Motion for SJ at 12-13. In response to Alberto's request for summary judgment on the impairment and lessening of value claim, Sunstar relied on its expert's opinion that in light of numerous factors, including (a) lack of consistency between the Licensed VO5 Trademarks and VO5 trademarks used by Alberto outside Japan and (b) Alberto's past willingness to have Sunstar use in Japan new unregistered VO5 marks that were created long after the 1980 Agreements were signed, "it is impossible reasonably to conclude that Sunstar's use of the 1999 Mark has lessened, impaired or created a danger to the value of the Japanese VO5 Trademarks or the Trustee's interest therein." Sunstar's Memo. in Opposition to Alberto's SJ at 15-16. Sunstar additionally argued

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in opposition to Alberto's summary judgment motion that Alberto's conduct as alleged in Sunstar's fifth affirmative defense raised issues of fact as to whether Alberto is subject to an estoppel or waiver barring its claim that Sunstar's use of the 1999 Mark lessens the value of the Trademarks. *Id.* at 22.

***10** Judge Lindberg denied summary judgment on Alberto's claim that the 1999 Mark infringes, impairs and lessens the value of the licensed trademarks in breach of § IV of the License Agreement. Judge Lindberg ruled as follows:

> After reviewing the evidence, the Court concludes that whether the 1999 mark infringes the License Agreement and whether Sunstar has diminished the value of the "Licensed Trademarks" depends on genuine issues of material fact that should be determined by the trier of fact. Sunstar's fifth affirmative defense raises genuine issues of material fact: in this defense Sunstar states that Alberto's basic position in this action against Sunstar's use of the 1999 Mark is inconsistent with Alberto's willingness to have Sunstar switch in Japan from using the Licensed Trademarks to using the "global logo" developed in 1993 that has never been registered as a trademark in Japan and that Alberto's claims of injury from the use of the 1999 Marks are inconsistent with the fact that Alberto knowingly acquiesces in the use of various VO5 trademarks around the world that deviate from Alberto's own worldwide trademark guidelines.

11/7/02 Memo. and Order at 11.

Alberto's motion in limine amounts to request for the entry of summary judgment on Sunstar's fifth affirmative defense because a ruling favorable to Alberto would be dispositive of Sunstar's fifth affirmative defense. Alberto raised numerous arguments in its summary judgment motion but did not move for summary judgment on Sunstar's fifth affirmative defense. In response to Sunstar's argument that its fifth affirmative defense raised genuine issues of fact precluding summary judgment on Alberto's claim that use of the 1999 Mark lessens the value of the Trademarks, Alberto's reply brief in support of summary judgment did not raise the main arguments raised in its current motion. Rather, Alberto characterized the fifth affirmative defense as one of waiver and argued only that the 1980 Basic Sale Agreement forbids an unwritten waiver. *See* Alberto's SJ Reply Memo, at 14. Alberto could have moved for summary judgment on Sunstar's fifth affirmative defense arguing that it failed as a matter of law for all of the reasons it now asserts. Alberto has offered no justification, such as an intervening change in the law or the availability of new evidence, for this Court to consider the merits of an untimely dispositive motion.

The Court also rejects Alberto's argument that if in denying Alberto's summary judgment motion on its breach of contract claims under section IV of the License Agreement, Judge Lindberg ruled that Sunstar's acquiescence defense was valid and presented triable issues of fact, the ruling is either clearly erroneous or will work a manifest injustice. This Court cannot find that Judge Lindberg's ruling on summary judgment was clearly erroneous where Alberto did not raise its current arguments in its summary judgment pleadings. Alberto's fifth motion in limine is denied.[FN6]

> FN6. The Court expresses no opinion at this time on whether the trial court or the jury should ultimately resolve Sunstar's acquiescence defense.

6. *Expert Testimony on Foreign Law. Japanese Courts Decisions, and Credibility of Witnesses*

***11** In its sixth motion in limine, Alberto seeks to bar Japanese law experts from testifying at trial because such testimony relates to the determination of foreign law which is a question for the Court, not the jury; such testimony will rely in part on Japanese case law which has no precedential effect; and such testimony cannot be used to bolster the credibility of witnesses. In response, Sunstar argues that

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Alberto is foreclosed from relitigating the issue of whether Japanese law experts should be allowed to testify before the jury. Alberto's reply argues that its present motion is directed to issues "arising for the first time out of [Judge Guzman's] decision to allow Japanese law experts to testify to the jury." Alberto's Reply at 3. According to Alberto, the "new issues" raised by Judge Guzman's prior decision to allow law expert testimony before the jury are: (1) whether the expert legal testimony should be permitted to determine if a party is "believable" (i.e.credible); (2) whether the jury can make such an evaluation without reaching a decision as to what the correct construction of the relevant Japanese law in 1980; and (3) whether the jury should be charged with making evaluations as to the intent of an individual party, rather than the parties' joint intent. Alberto's motion is denied without prejudice.

In their Motion for Determination of Responsive Expert Report Dates and Exclusion of Law Expert Testimony from Trial, Alberto and Bank One requested the district court to "exclude experts on Japanese trademark law from testifying before the jury." 9/29/03 Memo. and Order at 7. They argued, as Alberto argues in its current motion, that foreign law experts may not properly testify before the jury under Fed.R.Civ.P. 44.1 and *Pittway Corp. v. U.S.,* 88 F.3d 501, 504 (7th Cir.1996). *See* Alberto and Bank 1 Memo. for Exclusion of Law Expt. Testim. from Trial, p. 7; Alberto's 6th Motion in Limine at 4. Judge Guzman denied Alberto/Bank One's Motion for Exclusion of Law Expert Testimony from Trial. Judge Guzman held that "the jury in this case may consider extrinsic evidence as to the scope of rights under Japanese law that a party may have intended to convey by inclusion of the term *senyo-shiyoken* in the License Agreement" and that "[t]estimony by experts in Japanese trademark law will constitute but one piece of evidence as to what the parties may have intended by inclusion of the term *senyo-shiyoken* ...." 9/23/03 Memo. and Order at 8, 9. Judge Guzman explained that "expert testimony as to the different available constructions of the foreign legal terminology [will be] used solely to aid the trier of fact in determining the reasonableness of the positions of the parties as to their true intent." *Id.* at 10.

By requesting an order barring expert testimony on foreign law, Alberto now seeks the exact same relief in its sixth motion in limine as it did in its prior motion. Alberto acknowledges that Judge Guzman has ruled that the Japanese law experts may testify on the law of *senyo-shiyoken* trademark licenses as it was in 1980. Alberto contends, however, that Judge Guzman's prior ruling in that regard was "clearly erroneous." The only way this Court could grant Alberto's requested relief would be to overrule Judge Guzman's ruling that Japanese trademark law experts will be allowed to testify before the jury. This Court declines to reconsider Judge Guzman's ruling and expresses no opinion on the merits of Alberto's current arguments.[FN7] Any request for an order barring testimony by experts in Japanese trademark law should be made to Judge Guzman in the form of a motion for reconsideration.

FN7. The Court also declines to address Alberto's argument that Sunstar should be precluded from presenting testimony regarding Section 50.1 on the Japanese Trademark Act on relevancy grounds because this argument was raised for the first time in its reply brief and Sunstar has not had an opportunity to respond. *Wagner v. Magellan Health Services, Inc.,* 121 F.Supp.2d 673, 680 (N.D.Ill.2000).

7. *Interlocutory Orders*

***12** Alberto's seventh motion in limine seeks an order barring argument, evidence or testimony which would be inconsistent with various prior rulings by Judge Lindberg in this case. Alberto's motion is granted in part and denied in part.

a. Alberto first argues that argument or evidence indicating that Sunstar's adoption of the 1999 Mark was necessary due to the Japanese market condi-

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tions and the economic pressures it was facing would be inconsistent with Judge Lindberg's ruling that "the fundamental purpose of the Trust is to secure the performance and observance of undertakings and covenants made by the parties to the Trust Agreement, and not to allow Sunstar to maximize the full inherent value of the Japanese V05 Trademarks." 1/15/02 Memo. and Order at 10. In granting Alberto's second motion in limine, this Court ruled that the circumstances and reasons behind Sunstar's adoption of the 1999 Mark is excluded. Accordingly, Alberto's request that such evidence be excluded as inconsistent with an interlocutory order is denied as moot.

b. Alberto next seeks to exclude any evidence or argument regarding Alberto's purported wrongful acts and intent in influencing the Trustee as inconsistent with Judge Lindberg's ruling that Alberto has a beneficial interest in the Trust and such interest is not negligible. *See* 1/15/02 Memo. and Order. Alberto's motion is granted because any evidence regarding Alberto's purported wrongful efforts to influence the Trustee to suspend the License, including alleged improper secret dealings between Alberto and Bank One, is irrelevant given Judge Lindberg's grant of summary judgment in favor of Alberto on Sunstar's tortious interference with contract claim and inducement of breach of fiduciary duty claim. Any evidence of purported wrongful conduct by Alberto to influence the Trustee is also irrelevant given this Court's ruling in connection with Alberto's first motion in limine that the reasonableness of the Trustee's conduct in suspending the License is no longer an issue for trial.

c. Alberto also argues that any testimony or argument suggesting that Sunstar has complied with the requirements of the 1980 Agreements for it to use the Licensed Trademarks because it complied with the statutory requirements for use under Japanese law should be excluded as inconsistent with Judge Lindberg's ruling that Sunstar is contractually obligated to make continuous use of each of the Licensed Trademarks. Alberto's argument is sustained. Sunstar argues that Judge Lindberg did not hold that Sunstar is contractually obligated to use each of the Licensed Trademarks continuously. In ruling on Sunstar's claim that Alberto is not entitled to have the License Agreement and the Trust structure terminated and the trademarks transferred to itself, Judge Lindberg stated that "[i]t is a factual dispute as to whether Sunstar has complied with the obligation to keep the Licensed VO5 Mark in continuous use." 11/7/02 Memo. and Order at 5. This Court interprets Judge Lindberg's opinion as necessarily holding that the Trust Agreement creates a continuous use obligation, not just an obligation to satisfy Japanese statutory use requirements.

***13** d. Alberto further seeks to exclude evidence of Alberto's contacts with Bank One, including correspondence between Alberto and Bank One, business dealings between them, a meeting they had regarding this dispute, Alberto's indemnification agreement with Bank One, and the joint defense of this matter because such evidence is inconsistent with Judge Lindberg's ruling that Alberto's actions related to this dispute did not constitute tortious interference with the contract between Sunstar and Bank One. Sunstar responds that such evidence is relevant to the jury's determination of whether the "based upon reasonable ground" condition of § V of the License Agreement was satisfied. Because this Court has ruled in connection with Alberto's first motion in limine that the reasonableness of Bank One's actions with respect to the suspension are not an issue for trial, Alberto's motion is granted in this regard.

e. Alberto next argues that evidence suggesting that Alberto's actions related to this dispute are a mere pretext for it to re-enter the Japanese market should be barred as inconsistent with Judge Lindberg's grant of summary judgment in favor of Alberto on Sunstar's claim for inducement of breach of fiduciary duty. Sunstar asserts that evidence of Alberto allegedly "seeking to re-enter the Japanese market and regain control of the Japanese VO5 trademarks back from Sunstar" is relevant for two reasons.

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First, such evidence is pertinent to the jury's determination of whether the "based upon reasonable ground" condition precedent was satisfied. Second, such evidence is relevant and admissible for the purpose of impeaching Alberto's executives by establishing that they are not disinterested. Alberto's argument is sustained in part and overruled in part.

Sunstar's first argument for admissibility of evidence and argument that Alberto's actions related to this dispute are a mere pretext to re-enter the Japanese market is rejected because the issue of whether Bank One's suspension of Sunstar's license rights was "based upon reasonable ground" is not an issue for trial. Sunstar is allowed, however, to introduce evidence of Alberto's desire to re-enter the Japanese market to show potential bias of Alberto's testifying executives.

The Court rejects Alberto's assertion that in granting summary judgment on Sunstar's tortious inducement of breach of fiduciary duty, Judge Lindberg rejected evidence regarding Alberto's purported wrongful intent for all purposes. Judge Lindberg ruled:

> Sunstar claims Alberto's claimed good faith is a fact issue, that a fact-finder can reasonably infer from the evidence that Alberto was not in fact acting to protect a contingent interest in the Trademarks but rather was raising a supposed concern about the Trademarks as a pretext for its real interest of engineering a return to the Japanese market that it gave up 22 years ago. However, this seems conjecture, and does not rise to the level of evidence on which a reasonable jury could find for [Sunstar].

***14** 11/7/02 Memo. and Order at 13. Judge Lindberg's ruling must be considered in the context of the issue before him at the time. He held that evidence that Alberto's actions related to this dispute are "a pretext for its real interest of engineering a return to the Japanese market that it gave up 22 years ago" did not rise to a level of evidence on which a reasonable jury could find for Sunstar on its inducement of breach of fiduciary duty claim. Nothing in Judge Lindberg's ruling prevents Sunstar from using evidence of Alberto's alleged desire to re-enter the Japanese market as a basis for impeachment of Alberto's executives at trial.

f. Alberto next seeks to bar argument, testimony, and trial exhibits to suggest that Sunstar's use of the 1999 Mark was permitted under Section 9.3 of the Basic Sales Agreement. Alberto argues that Sunstar's evidence is irrelevant under Judge Lindberg's ruling on Count V of Sunstar's Amended Complaint. Alberto also requests that the Court rule that Section 9.3 is inconsistent with Sunstar's *senyoshiyoken* arguments. Sunstar responds that it will not argue that its use in Japan of the 1999 Mark was authorized by § 9.3 of the Basic Sale Agreement. Rather, with regard to § 9.3 of the Basic Sale Agreement, Sunstar intends to argue that the wording of this provision "circumstantially corroborates" Sunstar's position as to the intended scope of the license grant. Alberto's request is denied.

In Count V of its Amended Complaint, Sunstar sought a declaration that under Section 9.3 of the Basic Sale Agreement, it can "freely use 'any variation' of the Japanese VO5 Trademarks in Japan." Section 9.3 of the Basic Sale Agreement states that: "[Sunstar] shall not, except for purpose of defending the Trademarks in Japan, register any new trademarks containing the names Alberto, Alberto VO5 or VO5 or any of the names or marks set forth in Appendices I or II, or any variation of any of the foregoing, in Japan and [Sunstar] shall not attempt to use or register any of the Trademarks anywhere else in the world, except with the written consent of Alberto." Sunstar points out that this language specifically prohibits both "use" and "regist[ration]" of VO5 trademarks by Sunstar outside of Japan, but within Japan this section only prohibits Sunstar from "register[ing] any new trademarks containing the names Alberto, Alberto VO5 or VO5 or any of the names or marks set forth in Appendices I or II, or any variations of any of the foregoing." According to Sunstar, the "drafting of § 9.3 in this way re-

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flects the parties' understanding that under Sunstar's *senyo-shiyoken* license grant Sunstar would be able to use in Japan certain new VO5 marks or certain variations on existing VO5 marks, because it was necessary that § 9.3 not conflict with or seem to contradict Sunstar's contractual *senyo-shiyoken* license right to *use* such marks in *Japan"* Sunstar's Memo. at 9.

Judge Lindberg granted summary judgment in favor of Alberto on Count V of Sunstar's Amended Complaint and ruled as follows:

> ***15** The scope of the grant allows Sunstar, the Licensee, to use only the specific VO5 Marks identified in the Appendices. The absence of an express 'negative covenant' in the License barring Sunstar from using other marks does not expand this grant to modified versions of the Licensed Trademarks. The license is a limited grant of authority to use the trademark in a defined way. Another use is not authorized by the grant and is a breach.... Sunstar's interpretation would render meaningless all references to the "Licensed Trademarks" and the specific identification of the 13 Licensed VO5 Marks in the License. The law will not construe contractual provisions as meaningless.... Therefore, the Court grants Alberto's motion for summary judgment on Sunstar's Count V.

11/7/02 Memo. and Order at 15. Judge Lindberg rejected Sunstar's claim regarding § 9.3 as pled in Count V of the Sunstar's Amended Complaint. He did not address § 9.3 in regard to any other claim or issue raised by Sunstar. Judge Lindberg did not hold that § 9.3 had no relevance to the remaining issue of what the parties intended by inclusion of *senyo-shiyoken* in the License Agreement.

g. Alberto next argues that any argument or testimony suggesting that the 1999 Mark is a Licensed Trademark or that use of the 1999 Mark satisfies the use requirement of the Licensed Trademarks should be excluded as irrelevant and inconsistent with Judge Lindberg's findings. Alberto's argument is sustained. Sunstar has stated that it will not seek to argue at trial that the 1999 Mark is a Licensed Trademark. Judge Lindberg has ruled that Section 3 of the Trust Agreement requires Sunstar to keep the Licensed VO5 Trademarks in continuous use. *See* 11/7/02 Memo. and Order at 5. Judge Lindberg therefore rejected any argument that Section 3 of the Trust Agreement only contained a statutory compliance obligation. As Alberto correctly argues, it necessarily follows that use of the 1999 Mark cannot constitute use of the Licensed Trademarks under § 3 of the Trust Agreement. Any argument that use of the 1999 Mark satisfies Sunstar's "continuous use" obligation under § 3 of the Trust Agreement is barred.

h. Alberto also argues that Sunstar should be barred from arguing and offering evidence suggesting that its use of the 1999 Mark constitutes use of the Licensed Trademarks and therefore, inures to the benefit of the Trustee. Alberto's argument is sustained. Sunstar concedes that Judge Lindberg rejected Sunstar's argument that use of the 1999 Mark insures to the benefit of the Trustee because the 1999 Mark is not a Licensed Trademark and the License provides that "all use of Licensed Trademarks by Licensee shall inure to the benefit of Licensor." 11/7/02 Memo. and Order at 15-16.

i. Alberto further seeks to exclude any argument or evidence that in connection with this dispute, the Trustee engaged in actions which constitute breach of contract, breach of fiduciary duty, or waste of assets. Alberto's request is granted because Judge Lindberg granted summary judgment in favor of Bank One on Sunstar's claims of breach of contract, breach of fiduciary duty, and waste of trust assets. 11/7/02 Memo. and Order at 17-18.

***16** j. Lastly, Alberto argues that argument and evidence regarding use of VO5 Marks by Alberto outside of Japan should be barred from trial. Alberto's argument is overruled. Alberto contends that Sunstar intends to offer evidence regarding Alberto's worldwide trademark usage guidelines and specimens and to argue that use of the 1999 Mark

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does not damage Alberto outside of Japan. Sunstar makes clear in its opposition that it will not argue at trial that Alberto's use in Japan of the 1999 Mark does not damage Alberto outside of Japan. Alberto's assertion that its trademark practices and usage outside of Japan are irrelevant to the remaining issues in this case is not accurate. Judge Lindberg ruled that Sunstar's fifth affirmative defense raised genuine issues for trial, including the issue of whether "Alberto's claims of injury from the use of the 1999 Marks are inconsistent with the fact that Alberto knowingly acquiesces in the use of various VO5 trademarks around the world that deviate from Alberto's own worldwide trademark guidelines." 11/7/02 Memo. and Order at 11.

8. *"Naked License Defense"*

Alberto's eighth motion in limine seeks an order barring argument, evidence, or testimony that the license agreement constitutes a "naked license" or that the licensed marks are otherwise invalid. Alberto insists that the doctrine of "licensee estoppel" prevents Sunstar from raising a naked licensing defense at trial. Sunstar contends that Alberto's licensee estoppel argument was considered and rejected by Judge Lindberg in the summary judgment ruling. Sunstar alternatively argues that even if the licensee estoppel doctrine is applicable here, "that doctrine does not eliminate the 'naked license' defense as a matter of law so as to warrant exclusion of all 'naked license' evidence." Sunstar's Memo. in Opp. at 13. Alberto's motion is granted.

Sunstar maintains that the 1980 Agreements are a naked license, meaning that they licensed marks to Sunstar without control over the quality of products offered by Sunstar. A licensor who issues a naked license abandons the trademark. *TMT North America, Inc. v. Magic Touch GmbH,* 124 F.3d 876, 885 (7th Cir.1997). According to Sunstar, "the 1980 Agreements do not contain any provisions dictating or controlling the specific hair car products that Sunstar can sell in Japan under the VO5 brand pursuant to its trademark license, or the quality, ingredients or formulations of any such products, or the manufacturing processes to be used in manufacturing such products." Sunstar Memo. in Opp. at 4. Alberto responds that under the doctrine of licensee estoppel, Sunstar is estopped to deny the validity of Alberto's trademark rights by claiming lack of quality control during the terms of the license. The doctrine of licensee estoppel "stops a licensee from contesting 'the validity of the licensor's title during the course of the licensing arrangement." ' *Westco Group. Inc. v. K.B. & Associates, Inc.,* 128 F.Supp.2d 1082, 1088 (N.D.Ohio Jan.24, 2001) (*quoting Professional Golfers Ass'n of America v. Bankers Life & Casualty Co.,* 514 F.2d 665, 670 (5th Cir.1975)).

***17** Both sides briefed and argued the issue of whether licensee estoppel barred Sunstar's naked license defense to infringement during the summary judgment briefing. Sunstar moved for summary judgment on its declaratory claim that it could not have infringed under § IV of the License Agreement in part by relying on the naked license defense raised in its fourth affirmative defense. Sunstar SJ Memo. at 17-20. Alberto responded by arguing that Sunstar was estopped as a matter of law under the doctrine of licensee estoppel from attacking the License as a naked license. Alberto Memo. in Opp. at 17-18. In reply, Sunstar argued that only a licensor may assert a licensee estoppel defense to fend off a naked license challenge. Sunstar Reply at 11. Sunstar similarly opposed Alberto's summary judgment motion against Sunstar on Alberto's infringement claim by arguing that the agreements here amounted to a prohibited naked license. Sunstar Memo. in Opp. at 12, 13, 22. Alberto argued in its reply brief that Sunstar's naked license argument was barred as a matter of law by licensee estoppel.

In denying Alberto's summary judgment motion on its infringement claims, Judge Lindberg held that there was not enough evidence to conclude as a matter of law that Sunstar's use of the 1999 Mark was likely to cause confusion. 11/7/02 Memo. and Order at 11-12. In reaching this conclusion, Judge

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Lindberg made no reference to Sunstar's naked licensing defense or the doctrine of licensee estoppel. In denying Sunstar's motion for summary judgment on Alberto's trademark infringement claims, Judge Lindberg rejected Sunstar's argument that it could not be found guilty of infringement as a matter of law because the agreements were naked license agreements. Judge Lindberg held that Alberto presented sufficient evidence to raise a genuine issue of material fact regarding whether Alberto "had the necessary quality control"11/7/02 Memo, and Order at 6-8.

Sunstar argues that in holding that issues of fact existed with respect to Sunstar's naked license defense, the Court necessarily considered and rejected Alberto's claim that such defense was precluded as a matter of law by the licensee estoppel doctrine. It is clear that if Judge Lindberg had found that the licensee estoppel doctrine precluded Sunstar's naked license defense as a matter of law, he would not have had to reach the issue of whether a genuine issue of fact existed with respect to Sunstar's naked license defense. It may have been more efficienT to address the legal issues before sending a case to trial. This does not mean, however, that by holding that genuine issues of material fact exist with respect to whether Alberto had the necessary quality control, Judge Lindberg necessarily rejected Alberto's licensee estoppel argument. In the absence of a single reference to the licensee estoppel doctrine in Judge Lindberg's opinion, this Court is unwilling to assume that Judge Lindberg rejected Alberto's licensee estoppel argument.

***18** Moreover, Sunstar's naked license defense is barred as a matter of law. Illinois law recognizes that a trademark licensee is estopped from disputing the validity of the licensor's trademarks. *Lums Restaurant Corp. v. Bloomington Restaurant Investments, Inc.,* 92 Ill.App.3d 1143, 48 Ill.Dec. 478, 416 N.E.2d 751, 753 (Ill.App.1981) (citing *Smith v. Dental Products Co.,* 140 F.2d 140 (7th Cir.1944)). "The basis for this rule is that a licensee who freely enters into a license and pays royalties or agrees to the limitations imposed by a licensor effectively recognizes that the licensor possesses a valid trademark." *Chrysler Motors Corp. v. Ally Automotive Co., Inc.,* 661 F.Supp. 191, 192-92 (N.D.Ill.1987) (*citing Smith,* 140 F.2d at 148). In addition, "[t]he majority of courts ... have found that the doctrine of licensee estoppel bars a licensee from asserting a naked licensing defense." *Westco Group,* 128 F.Supp.2d at 1089 (*citing Creative Gifts, Inc. v. UFO,* 235 F.3d 540, 547-48 (10th Cir.2000)) (Hon. Milton I. Shadur, U.S.D.J ., sitting by designation); *see also Big Boy Restaurants v. Cadillac Coffee Co.,* 238 F.Supp.2d 866, 873-74 (E.D.Mich.2002); *Bunn-O-Matic Corp. v. Bunn Coffee Service, Inc.,* 88 F.Supp.2d 914, 927 (C.D.Ill.2000); *STX, Inc. v. Bauer USA, Inc.,* 1997 WL 337578, at *11 (N.D.Cal. June 5, 1997). "The leading commentators have likewise found the doctrine of licensee estoppel applicable to naked licensing claims." *Id.* Accordingly, Sunstar is precluded from challenging the validity of the trademarks licensed to Sunstar, including raising its naked license contentions.[FN8]

FN8. Sunstar's argument, mentioned only in passing and without citation to any supporting authority, that Alberto lacks standing to assert the licensee estoppel doctrine because it is not the licensee is also rejected. Alberto is entitled to assert licensee estoppel. Alberto is a party to the 1980 Agreements and has a contractually agreed right to enforce the license.

Finally, Sunstar argues that even if this Court concludes that the licensee estoppel doctrine is applicable here, "that doctrine does not eliminate the 'naked license' defense as a matter of law so as to warrant exclusion of all 'naked license' evidence." Sunstar Memo. in Opp. at 13. Sunstar points out that "licensee estoppel is an equitable doctrine, and a court remains free to consider the particular circumstances of the case, including the nature of the licensee's claim and the terms of the license." Restatement (Third) of Unfair Competition § 33, cmt. d (1995). Sunstar contends that the Court has dis-

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cretion to decline to apply licensee estoppel but has failed to offer any specific reason why the Court should exercise its discretion not to apply licensee estoppel to the circumstances of this case. Accordingly, Alberto's motion is granted.

B. *Bank One's Motions in Limine*

1. *The Trustee's Suspension*

Bank One moves to bar evidence and argument on the issue of the correctness, reasonableness, alleged motivation and any other consideration of the propriety of Bank One's suspension of Sunstar's license to use the Licensed Trademarks. Because this Court has already held in ruling on Alberto's first motion in limine that Judge Lindberg's ruling granting summary judgment in favor of Bank One on Sunstar's breach of contract, breach of fiduciary duty, and waste of trust assets claims necessarily included a finding that Bank One acted reasonably in deciding whether to suspend the License Agreement, Bank One's first motion in limine is granted.

2. *Indemnification Agreement; Choice of Counsel; and Bank One-Alberto Relationships*

***19** In its second motion in limine, Bank One seeks an order barring the introduction of evidence or argument by Sunstar regarding: (a) an indemnification given by Alberto to Bank One and any payments pursuant thereto; (b) any alleged failure by Bank One to use reasonable care, skill and caution in selection of a trademark law expert to advise it concerning suspension of Sunstar's license; and (c) business relationships (other than the Trust at issue in this case) between Bank One and Alberto or certain Alberto employees. The admission of this evidence is barred to the extent Sunstar intends to use it to challenge the correctness or propriety of Bank One's suspension of Sunstar's license, which is not an issue for trial. Bank One's motion is granted.

3. *Joint Defense*

Bank One seeks an order barring evidence and argument concerning an assertion of a “joint defense” privilege by Alberto with respect to a memorandum prepared by Alberto's counsel and revealed to Bank One's in-house counsel. Sunstar responds that evidence of a joint defense relationship is relevant to the jury's “determination of whether Bank One's purported suspension was based upon the contractually required ‘reasonable ground.” ’ Sunstar Memo. in Opp. at 2. Bank One's motion is granted as the reasonableness of Bank One's actions with respect to the suspension is not an issue for trial.

4. *Licensee Estoppel*

Bank One's fourth motion in limine seeks an order barring evidence and argument on Sunstar's theory of naked licensing. Bank One's motion is granted. As discussed above, Sunstar is barred as a matter of law by the doctrine of licensee estoppel from asserting a defense of naked licensing.

5. *Sunstar's Motivations for Adopting the 1999 Mark*

Bank One moves to bar evidence and argument at trial relating to Sunstar's alleged motivation for adoption of the 1999 Mark as irrelevant to the remaining issue of whether Sunstar's use of the 1999 Mark constitutes a breach of the 1980 Agreements. Bank One's motion is granted. In granting Alberto's second motion in limine, this Court held that evidence of Sunstar's reason or justification for adopting the 1999 is irrelevant and even if minimally relevant as “background” information, the potential for unfair prejudice outweighs its slight probative value.

6. *Japanese Law*

Bank One seeks an order barring evidence and argument concerning certain matters of Japanese law, namely: (1) that Article 50(1) of the Japanese Trademark Law (“JTL”), as amended in 1996, sup-

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ports the opinion that a *senyo-shiyoken* licensee of a registered trademark has the right to use a range of trademarks; and (2) that Japanese court decisions support the opinion that a *senyo-shiyoken* licensee of a registered trademark has the right to use a range of trademarks. Sunstar responds in part that Judge Guzman has already rejected Bank One's current arguments in denying Alberto and Bank One's Motion for Determination of Japanese Law. Bank One's motion is denied.

***20** In their Motion for a Determination of Japanese Law, Alberto and Bank One sought a ruling as a matter of law that Japanese trademark law does not expand the scope of the license grant in the License Agreement and thus, an order holding that Sunstar's use of the 1999 Mark breaches the 1980 Agreements. Alberto and Bank One argued that: (1) under Article 30(2) of the JTA, the licensee acquires only a right to use a "registered trademark" limited by the contract granting the license; (2) Article 50(1) of the JTA has no applicability to construing a license under Article 30(2); and (3) Article 70(1) of the JTA confirms that "registered trademark" is to be narrowly construed. Alberto/Bank One's Memo. in Support of Their Mo. for Determination of Japanese Law at 7-14. Bank One makes these same exact arguments in its sixth motion in limine. Bank 1 Memo. in Support of its Sixth Motion in Limine at 4-8.

Judge Guzman denied the Alberto/Bank One motion and declined to determine as a matter law what a *senyo-shiyoken* license is under Japanese trademark law and what rights, if any, registration of an exclusive license as a *senyo-shiyoken* with the JPO gives the licensee beyond those stated in the License Agreement. Judge Guzman ruled:

> In an attempt to affix meaning to the term *senyo-shiyoken,* the parties point the Court to the Japanese Trademark Act and thrust upon the Court numerous expert reports, declarations, and deposition transcripts purporting to clarify the term's meaning. Yet, even the experts disagree on the scope of the rights granted by a *senyo-shiyoken* license under Japanese law, *i.e.,* whether the term conveys to a licensee the full range of use rights inherent in the registered trademarks under Japanese law or whether a licensee's rights are limited to exclusive use of specific, registered marks only. Clearly, then, the term is ambiguous and reasonably susceptible to different constructions. Therefore, the parties' intent as to the meaning of the term *senyo-shiyoken* as used in the License Agreement is an issue to be determined by the jury at trial.

9/30/03 Memo. Opinion and Order at 7.

By requesting an order barring evidence and argument indicating that Article 50(1) supports Sunstar's position that a *senyo-shiyoken* licensee of a registered trademark has the right to use a range of trademarks, Bank One seeks the same relief it did in its prior motion-namely, that as a matter of law Sunstar's position regarding the scope of the license is contrary to Japanese law. Judge Guzman has declined to decide as a matter of law whether Sunstar's position regarding the substance of Japanese law is correct or incorrect. Any request for reconsideration of that decision should be directed to Judge Guzman.

Bank One also seeks to bar evidence and argument concerning three Japanese court decisions, one dated 1978 and two dated 1990, which Sunstar contends support its position that a *senyo-shiyoken* licensee of a registered trademark has the right to use a range of trademarks. Bank One's request is denied. Bank One first argues that Japan is a civil law county and that court decisions in Japan do not constitute binding precedent. For the reasons stated in Sunstar's memorandum, the Court is not persuaded that Japanese court decisions are irrelevant to analyzing issues of Japanese law even if they do not constitute binding precedent. Bank One next argues that the three Japanese court decisions should be excluded because none relate to the rights of a *senyo-shiyoken* licensee but rather deal with cancellation issues. Bank One concludes that for the same reasons that testimony and argument regarding the

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definition of "registered trademark" used in the context of cancellation proceedings is improper, testimony and argument about cases discussing cancellation issues likewise is improper. Again, Judge Guzman has refused to determine as a matter of law whether Sunstar's position regarding Japanese law and specifically, the applicability of Article 50(1) is incorrect. This Court declines to reconsider Judge Guzman's decision.

***21** Bank One further contends that two of three court decisions Sunstar seeks to introduce in evidence were decided after 1980. Judge Guzman has ruled that "the rights inherent in a trademark registered as *senyo-shiyoken* under Japanese trademark law at the time the parties entered into the License Agreement [in 1980] is relevant to, but not determinative of, the parties' intent." 9/29/03 Memo. Opinion and Order at 9. Judge Guzman further ruled that reference to or interpretation of the Japanese Trademark Act by the parties' experts is relevant to determining what the parties could reasonably have intended by inclusion of the term *senyo-shiyoken* in the License Agreement. *Id.* Pursuant to Judge Guzman's ruling, Sunstar's experts are allowed to rely on post-1980 case law to the extent it is helpful in determining the rights inherent in a trademark registered as *senyo-shiyoken* under Japanese trademark law in 1980. Finally, Bank One argues that the court decisions Sunstar relies on are factually distinguishable and introducing testimony as to marks in other cases and showing depictions of them will confuse the jury. The Court is not convinced that the threat of confusion envisioned by Bank One justifies exclusion of evidence Judge Guzman has previously deemed relevant.

C. *Sunstar's Motions in Limine*

1. *1989 Agreements*

Sunstar's first motion in limine involves Rule 408 of the Federal Rules of Evidence.[FN9] Sunstar seeks to exclude all evidence relating to certain 1989 agreements between Sunstar and Alberto as settlement material inadmissible under Fed.R.Evid. 408 and for similar reasons also under Fed.R.Evid. 401, 402, and 403. Alberto responds that none of the subject evidence constitutes settlement materials under Rule 408 and, even if it did, it would be admissible under exceptions to Rule 408. Bank One also opposes Sunstar's motion. Bank One contends that it intends to offer evidence relating to Sunstar's and Alberto's dispute over the 1989 Marks and the 1989 Letter Amendment to show that Sunstar expressed no belief in 1989 when the issue arose, that *senyo-shiyoken* would expand its right to use trademarks beyond the Licensed Trademarks. Sunstar's motion is granted in part and denied in part.

FN9. Federal Rule of Evidence 408 provides, in relevant part:

> Evidence of ... accepting or offering or promising to accept, a valuable consideration in compromising or attempting to compromise a claim which was disputed as to either validity or amount, is not admissible to provide liability for invalidity of the claim or its amount. Evidence of conduct or statements made in compromise negotiations is likewise not admissible.

Sunstar states that in or around 1988, it began using one or more new VO5 designs (the "1989 Marks") on some of its products in Japan. Alberto objected. According to Sunstar, the situation "rapidly escalated into an intense exchange of letters between counsel for the two companies" in July and August of 1988. Sunstar's Motion at 3. In early September 1988, "cooler heads began to prevail, and the parties moved from arguing the legal merits of the situation to working amicably toward a negotiated resolution of the dispute." *Id.* at 4. On September 7, 1988, Sunstar's counsel wrote to the trustee stating, "Whereas one alternative is to refer the disagreement as to the interpretation of the License Agreement to court for decision, the top executives of Sunstar would like to settle this matter amicably to maintain good relationship between Sunstar and Al-

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berto-Culver Company." *Id.*, Ex. 20. Sunstar's counsel proposed a "face-to-face meeting" to discuss their dispute and other subjects toward the end of September 1988. *Id.* On that same day, Sunstar's counsel also wrote to Alberto's general counsel and similarly stated: "While it is one alternative to refer the dispute to judgment by court, the top executives of Sunstar prefer solving the subject issue in a businesslike manner, if feasible, to maintain good relationship with your esteemed company." *Id.*, Ex. 21. Sunstar's president then had several days of meetings with Alberto's chairman and then-president at Alberto's offices in Chicago at the end of September 1988. *Id.* at 5. "Thereafter, over a period of months, the parties had a series of meetings and communications to draft and negotiate the details of the formal agreement that would implement the agreed-upon framework for resolving the dispute." *Id.* The parties finalized two written agreements on February 8, 1989: (1) the 1989 License and Know-How Agreement and (2) the 1989 Side Letter Agreement.

***22** Sunstar argues that all communications between the lawyers relating to the 1989 Marks, through the initial meetings of the company leaders in Chicago, through the execution of the 1989 Agreements are protected by Rule 408, as are the substantive terms of those Agreements. Rule 408 excludes evidence of "conduct or statements made in compromise negotiations." Conduct or statements not a part of compromise discussions are not subject to Rule 408. Sunstar must show that the discussions in question were made in compromise negotiations. *New Burnham Prairie Homes. Inc. v. Village of Burnham,* 910 F.2d 1474, 1482 (7th Cir.1990) (holding letter properly excluded under Rule 408 where "[t]here was a substantial showing that the letter was part of a settlement attempt.").

The statements made in the pre-September 7, 1988 correspondence between Alberto and Sunstar were not part of settlement negotiations nor were they offers to compromise. On their face, these letters do not offer to compromise Alberto's claim that Sunstar's use of new VO5 designs violated the 1980 Agreements. These letters also fail to contain any suggestion of compromise. The letters from Alberto as well as Bank One's August 10, 1988 letter (Exh. 18 to Sunstar's Motion) consist of cease and desist demands and set forth Alberto's and Bank One's positions regarding whether the use of the 1989 Marks was prohibited or allowed by the 1980 Agreements. *See Winchester Packaging, Inc. v. Mobil Chemical Co.,* 14 F.3d 316, 319-20 (7th Cir.1994) (stating a demand for payment accompanied by a threat of legal action is not a settlement offer or a part of settlement negotiations excludable under Rule 408); *Hanson v. Waller,* 888 F.2d 806, 813-14 (11th Cir.1989). Sunstar's responses asked what provisions of the 1980 Agreements Sunstar's actions violated and set forth its position regarding the proper interpretation of the 1980 Agreements. There are no offers to settle nor any indication that any party is willing to settle in the pre-September 7, 1988 correspondence. The first indication of a willingness to settle came in Sunstar's counsel's September 7, 1988 letters to the trustee and Alberto's general counsel.

The cases cited by Sunstar do not compel a different result. *Pierce v. F.R. Tripler & Co.,* 955 F.2d 820, 827 (2d Cir.1972), indicates only that attorney threats of litigation accompanied by an offer to compromise is presumably inadmissible under Rule 408. The excluded attorney communication in *Pierce* included a job offer "conditioned on the release of Pierce's claims, which is another way of saying that the job offer was an attempt to compromise a claim." *Id.* The *Pierce* court held that the plain language of Rule 408 barred evidence of the job offer. Here, the pre-negotiation correspondence as well as Bank One's August 10, 1988 letter do not contain any attempt to compromise Alberto's claim that Sunstar's use of new VO5 designs violated the 1980 Agreements.

***23** In *Davis v. Rowe,* 1993 WL 34867 (N.D.Ill. Feb.10, 1993), also cited by Sunstar, the Court granted defendants' motion in limine to exclude

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three items under Rule 408. The first two items were a letter from defendant to its insurer after a fire setting forth the value of the art collection, including projected sales, and a sworn statement from the defendant providing the projected sales figures. The district court found that the communications were part of a negotiation effort because "[t]he relationship between a claimant and its insurer is inherently adversarial and can generally be assumed to be clothed in continual negotiation and conciliation efforts." *Id.* at *3. The court also excluded a third item which was a letter from the defendant to the plaintiff which included a request for a release from liability in exchange for a payment of $250,000. The *Davis* court had no trouble concluding that this letter was written as part of a negotiation effort in an attempt to settle a dispute. *Id.* at 4. In contrast, no assumption that compromise negotiations were occurring during the pre-September 7, 1988 correspondence between Alberto and Sunstar applies and no explicit offer to settle for an amount in exchange for a release of liability occurred during this correspondence.[FN10]

FN10. Sunstar's remaining citations similarly fail to aid its attempt to bar admission of the pre-September 7, 1988 correspondence. In *Kritikos v. Palmer Johnson,* 821 F.2d 418, 423 (7th Cir.1987), the Seventh Circuit held that the trial judge improperly admitted two letters written by plaintiff's representative to the plaintiff because they were written "with the objective of advising the plaintiff of [a] possible compromise solution before legal action was commenced." One letter detailed a specific compromise solution for the plaintiff to consider in an attempt to reconcile the differences between the parties, and the second letter clarified what was said in the first letter. *Affiliated Mfrs., Inc. v. Aluminum Co. of Am.* 56 F.3d 521, 526 (3d Cir.1995), held that the district court properly: (1) construed Rule 408's exclusion as applying to less formal stages of a dispute short of threatened or contemplated litigation; (2) found that a dispute existed between the parties as of May 1, 1990 and that the documents at issue evidenced attempts to compromise the dispute; and (3) found that internal memoranda prepared as a basis for settlement negotiations and not communicated to the opposing party were excluded under Rule 408. Again, in sharp contrast, no possible compromise solution or attempt to compromise appears in any of the pre-September 7, 1988 correspondence in the present case.

With respect to the admissibility of post-September 6, 1988 statements and conduct under Rule 408, Professors Wright and Graham have considered this precise situation in their Federal Practice and Procedure treatise. They identified the issue as "whether Rule 408 bars evidence that there were no offers of compromise, or more realistically, that certain statements were not made during compromise negotiations." Wright & Graham, Federal Practice and Procedure: Evidence § 5308, at 239 (1980). Professors Wright and Graham then give the following illustration: "[S]uppose that in a dispute over the meaning of a contract, one of the parties offers evidence that during attempts to settle the disagreement his adversary never advanced the construction of the contract that he is now urging on the jury." *Id.* Wright and Graham noted that such evidence would be circumstantial evidence of offers to compromise but concluded that Rule 408 does not prohibit admission of evidence that certain statements were not made during compromise negotiations. "Read literally, Rule 408 would not seem to prohibit evidence that an offer of compromise was not made or that certain statements were not made during negotiations. Nor does there seem any strong policy reason for departing from the literal interpretation." *Id.* The parties have not cited, and this Court has not found, any case addressing whether Rule 408 bars evidence that certain statements were not made during compromise negotiations to show that the current meaning as-

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signed to a contractual phrase by the opposing party was an afterthought. In the absence of any case authority addressing this precise issue, this Court follows the approach suggested by Professors Wright and Graham and finds that statements and conduct post-September 6, 1988 are admissible to show that during the parties' dispute regarding the 1989 Marks, Sunstar did not take the position that the *senyo-shiyoken* provision allowed it to use a mark other than the Licensed Trademarks.

***24** Alternatively, Sunstar argues that all evidence relating to the 1989 Agreements is barred by Rules 401-403. Sunstar's failure to assert in pre-September 7, 1988 correspondence with Alberto that it was allowed to use the 1989 Mark pursuant to the *senyo-shiyoken* provision is highly probative in that it undercuts Sunstar's current position that *senyo-shiyoken* was intended in 1980 to allow Sunstar to use trademarks in addition to the Licensed Trademarks specified in the License grant. If there is any prejudicial impact to Sunstar from the pre-September 7, 1988 correspondence it is negligible and clearly does not outweigh the probative value, as required by Rule 403. Evidence of post-September 6, 1988 statements to show that Sunstar did not take a certain position during compromise negotiations is needlessly cumulative and thus, has little probative value. Moreover, evidence of settlement negotiations and the 1989 Agreements poses a threat of unfair prejudice. There exists a danger that such evidence could lead the jury to improperly conclude that the 1989 settlement implies a concession of contractual liability for using any VO5 trademark variation in Japan.[FN11]

FN11. Sunstar's attempt to justify exclusion of the pre-September 7, 1988 correspondence on the basis that the jury will be confused and misled "by the introduction of partial evidence concerning that dispute without sufficient context or explanation, and might infer liability in the present dispute based on an incomplete understanding of the facts concerning the earlier dispute" is unpersuasive. Sunstar's Reply at 15. The Court is confident the jury will be able to give appropriate consideration to this correspondence as it bears on the intent of the parties in 1980 only and will not infer liability in the present dispute based on the mere existence of a prior dispute. Sunstar's request to offer a limiting instruction is granted.

2. *Single Expert Witness on Matters of Japanese Law*

Sunstar next moves for an order limiting Alberto and Bank One collectively to a single expert witness at trial on matters of Japanese law. Alberto proferred expert reports on matters of Japanese law by Professors Hidetaka Aizawa and Akihiko Hara. Bank One proferred an expert report on matters of Japanese law by David S. Guttman, Esq. Alberto listed both of its Japanese law experts as witnesses in the Final Pretrial Order. Bank One listed Mr. Guttman as a trial witness for Bank One. Sunstar's motion is granted in part and denied in part.

Alberto and Bank One first assert that the Court has already determined that Alberto's experts and Bank One's expert may testify at trial. None of the cited materials indicate that Judge Lindberg or Judge Guzman has definitely ruled that Alberto's experts and Bank One's expert may testify at trial. Alberto also argues, without citation to any authority, that Sunstar's objection to multiple experts on Japanese law testifying at trial comes too late because multiple experts on Japanese law have appeared during discovery and motion practice in this case. The prohibition against multiple experts on the same subject matter is not a rule pertaining to the discovery or motion practice stages of the case. Rather, it is a rule governing the trial stage of the case. *Commonwealth Ins. Co. v. Stone Container Corp.*, 2002 WL 385559, at *6 (N.D.Ill. March 12, 2002) (stating "While it is generally the practice in this district to prohibit a party from offering multiple experts to express the same opinions on a subject,

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there is no general practice or rule that prohibits a party from identifying under Fed.R.Civ.P. 26(a)(2) more than one testifying expert on a subject and reserving for later the decision as to which one to use at trial."). Sunstar timely objected to Alberto's naming of two experts on Japanese law in the final pretrial order.

***25** As noted above, this district generally prohibits a party from offering multiple experts to express the same opinions on a subject. This Court's standard form of Final Pretrial Order, Form LR 16.1.1, footnote 7 to Item 2(e) states, in relevant part: "Only one expert witness on each subject for each party will be permitted to testify absent good cause shown." Alberto has not demonstrated good cause for deviating from this general rule. Only one of Alberto's experts will be permitted to testify at trial on each subject of Japanese law. This does not mean that Alberto is limited to one testifying expert regarding Japanese law; it is limited to one testifying expert on each subject of Japanese law.

Sunstar also moves under Rule 403 to limit Alberto and Bank One collectively to using a single Japanese-law expert at trial because "allowing testimony from more than one of them would simply be repetitive and cumulative and thus a waste of time for both the Court and the jury." Sunstar Motion at 4. Under Rule 403, the trial court may exclude relevant evidence on grounds of "undue delay, waste of time, or needless presentation of cumulative evidence." Multiple expert witnesses expressing the same opinions on a subject is a waste of time and needlessly cumulative. It also raises the unfair possibility that jurors will resolve competing expert testimony by "counting heads" rather than evaluating the quality and credibility of the testimony.

The Court therefore rules that Mr. Guttman's testimony will be permitted to the extent it is not duplicative of the testimony of Alberto's expert(s) on Japanese law. Bank One contends that the reports of Alberto's and Bank One's experts are not merely cumulative. Bank One gives two examples of points made by its expert Mr. Guttman not covered by Alberto's experts. *See* Bank One's Memo. at 12. Testimony regarding these two points is not cumulative and will be permitted to the extent it is otherwise admissible.[FN12]

FN12. Sunstar contends that these points by Mr. Guttman are "extraneous." Sunstar's Reply at 14 n.6.

Finally, Alberto and Bank One complain that it is unfair that Sunstar's testifying expert plans to incorporate in his expert testimony the expert opinions of Sunstar's other expert. There is nothing improper about one expert adopting and incorporating the opinions of another expert so long as it is made clear in the expert report. Alberto and Bank One could have done the same thing. Alberto and Bank One knew long before they submitted their expert reports in October 2003 that Sunstar's expert, Professor Port, had adopted and incorporated the opinions of Professor Doi. *See* May 29, 2002 Expert Declaration of Professor Port at ¶ 14 and Expert Report of Professor Port at ¶ 1.

3. *Bank One's Japanese-Law Expert, David S. Guttman*

Sunstar's next motion in limine also involves expert testimony. Sunstar moves for an order excluding any expert testimony by David S. Guttman, the expert witness on matters of Japanese law proferred by Bank One under Fed.R.Evid. 702. Sunstar argues that Mr. Guttman's testimony is improper because: (1) he makes and relies upon legal interpretations of the parties' agreements that directly contradict prior holdings of this Court and (2) he makes or assumes (and then relies upon) factual findings as to matters outside the subject-matter area of his claimed expertise and which this Court previously held were required to be determined by the jury at trial. Sunstar states that this is not a *Daubert* motion but rather, it seeks "to reaffirm certain fundamental principles about the proper role of expert testimony, which Bank One's proffer of Mr. Guttman's report flouts at every turn." Sunstar Mo-

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tion at 2.

***26** In light of the Court's above rulings that the reasonableness of Bank One's conduct in connection with the suspension is no longer an issue for trial and that Mr. Guttman's testimony will only be permitted to the extent it is not duplicative of the testimony of Alberto's expert(s) on Japanese law, the extent of any remaining expert testimony by Mr. Guttman is unclear. Therefore, Sunstar's motion is denied without prejudice to reassertion if necessary after the precise content of Mr. Guttman's testimony, if any, is determined.

4. *Alberto Deposition Exhibit 162 and Any Similar Testimony/Documents*

Sunstar moves for an order excluding from evidence Alberto's Deposition Exhibit 162 and any other potential testimony or documents that are of similar effect or whose offering into evidence is intended for a similar purpose, pursuant to Fed.R.Evid. 402, 403, 404(a), 608(a) and 802. Neither Alberto nor Bank One indicate that it seeks to offer any similar testimony or documents. Sunstar's motion is granted.

Exhibit 162 was used as an exhibit during the deposition taken by Alberto of Junji Masuda, Esq. and was listed on Alberto's proposed trial exhibit list in the Final Pretrial Order. Mr. Masuda is an attorney and member of the bar in both Japan and New York. Mr. Masuda is a partner in the law firm of Masuda & Ejiri, which he founded in 1977. Mr. Masuda represented Sunstar in connection with the negotiation of the 1980 Agreements that are at issue here and has continued to represent Sunstar on various matters since that time. Alberto states that Mr. Masuda requested the insertion of the term *senyoshiyoken* into the 1980 Agreements.

Exhibit 162 (the "Web Page") is part of a 46-page document entitled "Lawyer's Guide to Japan," dated 1997. The Web Page was printed from the Masuda & Ejiri website. The Web Page states:

Japanese Attitudes Toward Contracts

The Japanese often prefer to include vague contract provisions such as "(certain things) shall be determined by mutual negotiation" rather than explicit provisions which clearly state the rights of each party on every presumable occasion. In fact, the Japanese sometimes ask for things that are completely different from the contract signed. Such attitudes reflect their preference for the flexible implementation of a contract according to the subsequent situations upon the mutual understanding which they believe is implied in the contract.[FN13]

FN13. The current version of the Web Page provides:

> The Japanese traditionally prefer to include vague contract provisions such as "(certain things") shall be determined by mutual negotiation" rather than explicit provisions which clearly state the rights of each party on every presumable occasion. Such attitudes reflect a preference for the flexible implementation of a contract according to the subsequent situations upon the mutual understanding which they believe is implied in the contract. However, more and more Japanese, particularly major corporations, are becoming legalistic in the approach towards contracts.

The Web Page is not admissible because it is not relevant. Generalizations about a country's business practices without an adequate connection to the particular transaction at issue are not relevant:

> The problem with Pelham's testimony is that it was simply not relevant to any issue in this case. As the majority correctly observes, none of Pelham's testimony was directly connected to Jinro itself, and none was based on personal knowledge of Jinro or this particular transaction. It is a factu-

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al question whether a majority of Korean businessmen act in a certain way, but whether that fact is proven or not, it has no relevancy to show that this particular Korean businessman (or company) is that type of businessman or acted that way in this specific contractual arrangement. No serious effort was made at trial, or in any brief on appeal, to link Pelham's generalized testimony about Korean businessmen and the Korean financial and regulatory landscape to Jinro or the particular transaction at issue here. Thus, under Rule 401 Pelham's testimony was irrelevant and inadmissible because it sheds no light on Jinro's activities in this case.

***27** *Jinro Am. Inc. v. Secure Investments, Inc.*, 266 F.3d 993, 1010-11 (9th Cir.2001) (Wallace, J., concurring in the result). Similarly, the Web Page is not relevant because it says nothing about the particular transaction at issue in this case. Alberto has not adequately linked the Web Page to Masuda, Sunstar, or this particular transaction. Even if it is true that Japanese companies prefer to include vague contract provisions rather than explicit provisions, Japanese businessmen often ask for things that are completely different from the signed contract, and Japanese businessmen prefer a flexible implementation of a contract, these generalizations do not make it more probable that Masuda and Sunstar acted that way in this particular transaction in 1980.

Alberto asserts that the Web Page is relevant to Sunstar's state of mind and intent in negotiating the 1980 Agreements. Alberto contends that the Web Page reflects the state of mind of a Japanese lawyer representing Japanese clients, about how he and his clients view contract negotiations. Alberto seeks to offer the Web Page to show that "Masuda believed that Japanese businesses negotiate contracts this way and that he negotiated the Agreements and inserted the phrase *senyo shiyoken* on Sunstar's behalf consistent with this intent." Alberto Resp. at 6 n.7.

Nothing in the record shows that the statements in the Web Page represent the approach of Mr. Masuda in 1980 or that he negotiated the 1980 Agreements in this manner. The statements in the Web Page were written by persons other than Mr. Masuda more than 17 years after the 1980 transaction. Mr. Masuda testified at his deposition that he did not write the material in the Web Page, had no involvement with its preparation, did not know who was involved in its preparation, did not know who had edited it, and had never read it before it was shown to him at his deposition. Masuda Dep. at 186-87. Mr. Masuda further testified that he believed "relatively young lawyers" or "very young lawyers" in his firm wrote the statements contained in the Web Page. *Id.* Mr. Masuda explained that he believed the general statements made in the Web Page pertain to domestic contracts only and not lawyer-assisted international business transactions. *Id.* at 189. In sum, Alberto has not cited any evidence showing that the statements in the Web Page reflect the opinions of Mr. Masuda in the 1980 time frame or that he acted in a manner consistent with these generalizations in his work on this specific transaction. There is also no evidence indicating that Sunstar generally acts in this way or that Sunstar did so in the specific transaction which is the subject of this litigation. FN14

FN14. Alberto argues that the Web Page is also probative of which party should bear the responsibility for the existence of an ambiguity in the Agreements. *Contra proferentum* is a rule of contract construction which requires that an ambiguous contract provision be construed more strongly against the person who selected the language. Black's Law Dictionary 327 (6th ed.1990). Sunstar responds that the rule of *contra proferentum* is inapplicable when dealing with contracts freely negotiated by sophisticated parties. The Court expresses no opinion on whether the doctrine of *contra proferentum* is applicable to the instant case. Even if the doctrine applied to this case, the Web Page is not probative of whether Sunstar inserted the phrase *senyo-*

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> *shiyoken* to create an ambiguity because there is no adequate link between the generalized statements in the Web Page regarding a Japanese preference for vague contract provisions and Masuda, Sunstar, or this specific transaction.

Even if the Web Page was marginally relevant, the Court finds it inadmissible under Rule 403. Testimony that "either directly or indirectly seeks to link a defendant's conduct to that which is said to be typical of a particular racial, ethnic group or nationality" is excludable under Rule 403's balancing test:

> ***28** Allowing an expert witness in a civil action to generalize that most Korean businesses are corrupt, are not to be trusted and will engage in complicated business transaction to evade Korean currency laws is tantamount to ethnic or cultural stereotyping, inviting the jury to assume the Korean litigant fits the stereotype. In stark terms, [the expert's] syllogism reduced to this: (a) Korean businesses generally are corrupt; (b) Jinro is a Korean business; (c) therefore, Jinro is corrupt. Our caselaw, and that of other circuits, establishes that this is an impermissible syllogism.

Jinro, 266 F.3d at 1007. The Web Page Alberto seeks to admit would only serve to introduce the same kind of "impermissible syllogism" here. Alberto clearly wants the jury to infer from the Web Page that Japanese businesses generally disregard the terms of written contracts and therefore in this particular instance, Sunstar, as a Japanese company, did not honor the terms of the 1980 Agreements. The problem with that inference is that a stereotype or generalization about Japanese companies is not probative of how Sunstar acted in this specific transaction. Likewise, there exists a real danger that the proposed evidence could suggest a decision to the jury on an improper basis. The Web Page could lead the jury to decide the issue of what the parties intended by including the phrase *senyo-shiyoken* into the 1980 Agreements by improper reference to ethnic stereotypes. The cultural generalizations in the Web Page may also improperly divert the jury's attention away from the real issue of whether Sunstar disregarded the terms of the 1980 Agreements.

5. *Damages Calculations*

Sunstar's final motion in limine seeks pursuant to Rule 408 (and also Rules 401, 402, and 403) to bar admission of all evidence pertaining to any purported reasonable royalty or other damages calculations that are based (in whole or in part, directly or indirectly) on either or both of two agreements between Sunstar and Alberto dated February 8, 1989: a License and Know-How Agreement and an accompanying side letter agreement. Sunstar's motion is denied.

Aron Levko, Alberto's damages expert, prepared a report regarding the damages that Alberto allegedly sustained due to Sunstar's use of the 1999 Mark. Levko's Report states that it

> sets forth [his] opinions about (a) the damages that may be recoverable by Alberto due to Sunstar's use of the 1999 Mark; and (b) the proper methodology for calculating such damages.

Levko reached his conclusion regarding the amount of damages allegedly due Alberto from Sunstar's use of the 1999 Mark by "using the 1989 License as a benchmark regarding the economic terms that would have been incorporated into an agreement in 1999, prior to Sunstar's use of the 1999 Mark." Levko Report at 4. Specifically, the Levko Report states that he determined the "reasonable royalty" by "tak[ing] the annual minimum sum per the 1989 Agreement and increased it by the percentage increase in the United States Consumer Price Index for Personal Care Products ("CPI") for the time period February 1989 to February 1999." *Id.* at 4-5.

***29** Sunstar contends that Rule 408 precludes Alberto and its expert from making any evidentiary use of amounts taken from the 1989 Agreements as support for a calculation of claimed damages in this litigation. Alberto argues, among other things, that the 1989 Agreements and its expert's damage calcu-

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lation made in reliance thereon should be admitted at trial because Rule 408 is inapplicable where Alberto's claims at issue in this action are not the claims which are the subject of the 1989 compromise.

Rule 408 forbids admission of evidence from compromises or compromise negotiations "to prove liability for or invalidity of *the claim* or its amount." Fed.R.Evid. 408 (emphasis added). The Tenth Circuit has noted that "[r]ead literally, the rule does not appear to cover compromises and compromise offers that do not involve the dispute that is the subject of the suit, even if one of the parties to the suit was also a party to the compromise." *Bradbury v. Phillips Petroleum Co.,* 815 F.2d 1356, 1363 (10th Cir.1987). Substantial authority supports Alberto's contention that Rule 408 only bars evidence of settlement negotiations to prove the validity or amount of the claim under negotiation. "Rule 408 does not require the exclusion of evidence regarding the settlement of a claim different from the one litigated ." *Towerridge, Inc. v. T.A.O., Inc.,* 111 F.3d 758, 770 (10th Cir.1997); *see also Boardcort Capital Corp. v. Summa Med. Corp.,* 972 F.2d 1183, 1194 (10th Cir.1992). The Sixth Circuit Court of Appeals has explained that the "general principle" is that "Rule 408 only bars the use of compromise evidence to prove the validity or invalidity of the claim that was the subject of the compromise, not some other claim." *Uforma/Shelby Business Forms, Inc. v. NLRB,* 111 F.3d 1284, 1293-94 (6th Cir.1997) (*quoting* 23 Wright & Graham, Federal Practice & Procedure: Evidence § 5314 n.25). Notwithstanding Rule 408, settlement evidence regarding a claim or dispute different from the one being litigated has been held admissible in numerous other cases. *See Wyatt v. Security Inn Food & Beverage,* 819 F.2d 69, 71 (4th Cir.1987); *Vulcan Hart Corp. v. National Labor Relations Bd.,* 718 F.2d 269, 277 (8th Cir.1983); *Herman v. City of Allentown,* 985 F.Supp. 569, 577 (E.D.Pa.1997); *United States v. McCorkle,* 1994 WL 329679, at *2 (N.D.Ill. July 7, 1994) ("[ ]Rule 408 does not bar settlement information in one case from admissibility in another case.").[FN15]

FN15. *But see Williams v. Fermenta Animal Health Co.,* 984 F.2d 261, 264 (8th Cir.1993); *Playboy Enterprises, Inc. v.. Chuckleberry Publ, Inc.,* 687 F.2d 563, 568-69 (2d Cir.1982); *Citibank v. Citytrust,* 1988 WL 88437 (E.D.N.Y. Aug.23, 1988); *Lo Bosco v. Kure Engineering Limited,* 891 F.Supp. 1035, 1038 (D.N.J.1995) (holding that the better view is that Rule 408 may exclude settlement proposals in one case from admission in another case where the cases are related); *Scaramuzzo v. Glenmore Distilleries, Co.,* 501 F.Supp. 727, 733 (N.D.Ill.1980).

Most importantly, the Seventh Circuit has held: "[Rule] 408 provides that statements made in settlement negotiations are not admissible to establish a party's liability, or damages, in the dispute that was the subject of the negotiation." *Cates v. Morgan Portable Building Corp.,* 780 F.2d 683, 691 (7th Cir.1985). The *Cates* court held that the district court did not violate Rule 408 by using a 1973 settlement agreement to fix damages incurred thereafter. Judge Posner, writing for the court, explained: "Nothing [the defendant] said or agreed to in the negotiations that culminated in the execution of the stipulation in September 1973 could have been used to establish its liability for the breach of contract that occurred in September 1970 or to fix its damages for that breach." *Id. Cates* is controlling precedent. Alberto is therefore precluded under Rule 408 from introducing the 1989 Agreements to establish Sunstar's liability for breaching the 1980 Agreements through its use of the 1989 Marks as well as to fix damage for that alleged breach. Since the dispute under negotiation in the 1989 Agreements is different than the dispute at issue in this litigation, Rule 408 does not bar this evidence from being considered here.

***30** Sunstar also argues that for similar reasons the 1989 Agreements should be excluded under the general relevance Rules of 401 and 402 and be-

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cause of their excessive prejudice in comparison to any probative value under Rule 403. Sunstar argues that the 1989 Agreements are not relevant to what a willing licensee would pay a willing licensor in arms length negotiation because they were settlement agreements, made in the face of explicit threats of litigation and for the purpose of avoiding the burden of complex and expensive litigation. The Court concludes that any prejudice from admitting the 1989 Agreements for the purpose of establishing a reasonable royalty rate does not substantially outweigh their probative value, as required by Rule 403.

Sunstar does not dispute that license agreements are generally relevant for the purpose of showing a reasonable royalty. *Medtronic, Inc. v. Catalyst Research Corp.,* 547 F.Supp. 401, 415 (D.Minn.1982) (stating that the "most persuasive evidence" of what a willing buyer and willing seller would agree to consisted of two existing agreements between the patent owner and nonparties, and the terms that the patent owner actually offered the proposed infringer."). Rather, Sunstar contends that royalties paid under threat of litigation have no probative value. It is true that the Supreme Court stated more than a century ago that: "a payment of any sum in settlement of a claim for an alleged infringement cannot be taken as a standard to measure the value of the improvements patented, in determining the damages sustained by the owners of the patent in other cases of infringement." *Rude v. Westcott,* 130 U.S. 152, 164, 9 S.Ct. 463, 32 L.Ed. 888 (1889). The Supreme Court explained: "Many considerations other than the value of the improvements patented may induce the payment in such cases. The avoidance of the risk and expense of litigation will always be a potential motive for a settlement." *Id.*

The Court does not interpret *Rude* as prohibiting the introduction of licenses or offers to license made after litigation or threat of litigation on the issue of a reasonable royalty. The Court concludes that the rule stated in *Rude* governs the weight, not the admissibility of such license evidence in a reasonable royalty analysis. Courts have recognized that the trier of fact may properly consider the context in which the license was reached in weighing the probative value of such evidence. *See Deere & Co. v. International Harvester Co.,* 710 F.2d 1551, 1557 (Fed.Cir.1983) (holding that district court could properly "discount the probative value" of a license negotiated "against a backdrop of continuing litigation."); *Devex Corp. v. General Motors Corp.,* 667 F.2d 347, 362 (3d Cir.1981) (noting that an industry-wide licensing offer made by plaintiffs in 1964 "doubtlessly included an element of a desire to end this already extensive litigation" but "that factor, although to be taken into account, does not automatically rule out use of the [licensing offer to establish a reasonable royalty.]"); *Tights, Inv. v. Kayser-Roth Corp.,* 442 F.Supp. 159, 162 (M.D.N.C.1977) (holding that in awarding a reasonably royalty to a patent holder it is improper to give "substantial evidentiary weight" to existing license agreements having a royalty rate which was arrived at under conditions of open, industry-wide infringement.).[FN16]

FN16. *See also Deere,* 710 F.2d at 1560 (Davis, J. dissenting in part) (noting that numerous Court of Claims cases have held that licenses, even in settlement, furnish a relevant component for determining a royalty).

***31** The Seventh Circuit has recognized that licenses agreed to under threat of litigation or to settle litigation are relevant to fix damages for infringement. In *Columbia Broadcasting System, Inc. v. Zenith Radio Corp.,* 537 F.2d 896 (7th Cir.1976), the Seventh Circuit upheld a judgment for royalties based upon the plaintiff's license grants, settlements of litigation, and an offer to settle with other American tube manufacturers. Moreover, in a case cited by Sunstar, this court confirmed that the context in which the licenses were negotiated effects the weight rather than the admissibility of the license evidence. *Activated Sludge, Inc. v. Sanitary Dist. of Chicago,* 64 F.Supp. 25, 33-35 (N.D.Ill.1946), *aff'd*

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per curiam, 157 F.2d 517 (7th Cir.1946) (considering but failing to give determinative weight to licenses which included settlements for past infringement). Finally, in *B & H Manufacturing, Inc. v. Foster-Forbes Glass Co.,* 1993 WL 141120 (N.D.Ind. Jan.6, 1993), a magistrate judge rejected defendant's attempt to prevent plaintiff from introducing at trial evidence concerning the licenses between plaintiff and third parties. The plaintiff argued that the license agreements were relevant because they showed "the result obtained from a negotiation between a willing licensor and a willing licensee: an agreed upon royalty rate of 18¢ per gross." *Id.* at *6. The magistrate judge refused to exclude the license agreements at trial, stating:

> [T]he court agrees with B & H that the agreements will be useful to the jury for the purpose of establishing a damages floor. Although Owens-Illinois and Anchor Glass had both been threatened with litigation (and Owens-Illinois had fought a lawsuit for three years), due to the size and strength of these two companies the court finds that the licenses are evidence of a reasonable royalty rate obtained after negotiation between a willing licensor and a willing licensee.

Id. at *7.

Sunstar's arguments about royalties paid under threat of litigation implicate the weight, not the admissibility, of the 1989 Agreements. The trier of fact may consider the context in which the 1989 Agreements were reached and determine whether the probative value of the 1989 license should be discounted because it was negotiated under threat of litigation. Alberto is entitled to show that the 1989 Agreements have relevance to the reasonable royalty determination despite their negotiation under the threat of litigation. Sunstar is free to cross-examine Levko about the basis for his opinion. Through cross-examination and testimony from its own witnesses, Sunstar is also free to reveal any weaknesses in Levko's opinion and establish that the 1989 license included a premium for litigation avoidance.

CONCLUSION

For the reasons stated above, the parties' motions in limine are granted in part and denied in part. In Case No. 01 C 0736, Sunstar's motion in limine [150-1] is granted; Sunstar's motion in limine [151-1] is granted in part and denied in part; Sunstar's motion in limine [152-1] is denied; Sunstar's motion in limine [153-1] is denied without prejudice; Sunstar's motion in limine [154-1] is granted in part and denied in part; Bank One's motion in limine [156-1] is granted; Bank One's motion in limine [157-1] is granted; Bank One's motion in limine [158-1] is granted; Bank One's motion in limine [159-1] is granted; Bank One's motion in limine [160-1] is granted; Bank One's motion in limine [161-1] is denied; Alberto's motion in limine [163-1] is granted; Alberto's motion in limine [164-1] is granted; Alberto's motion in limine [165-1] is denied without prejudice; Alberto's motion in limine [166-1] is granted in part and denied in part; Alberto's motion in limine [167-1] is denied; Alberto's motion in limine [168-1] is denied without prejudice; Alberto's motion in limine [169-1] is granted in part and denied in part; and Alberto's motion in limine [170-1] is granted.

***32** Under Rule 72(a), objections to this memorandum opinion and order must be filed with the district court within ten days after being served with a copy of this opinion. Failure to object to a magistrate judge's ruling on nondispositive pretrial matters waives the right to attack such rulings on appeal. *United States v. Brown,* 79 F.3d 1499, 1504 (7th Cir.1996).

N.D.Ill.,2004.
Sunstar, Inc. v. Alberto-Culver Co., Inc.
Not Reported in F.Supp.2d, 2004 WL 1899927 (N.D.Ill.)

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EXHIBIT 5

LEXSEE 2001 U.S. DIST. LEXIS 24383

Transclean Corporation, James P. Viken, Jon A. Lang, and Donald E. Johnson, Plaintiffs, vs. Bridgewood Services, Inc., Defendant.

Civ. No. 97-2298 (RLE)

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MINNESOTA

2001 U.S. Dist. LEXIS 24383

January 8, 2001, Decided
January 8, 2001, Filed, Judgment Entered

SUBSEQUENT HISTORY: Later proceeding at *Transclean Corp. v. Bridgewood Servs., 134 F. Supp. 2d 1049*; *2001 U.S. Dist. LEXIS 4674*.

PRIOR HISTORY: *Transclean Corp. v. Bridgewood Servs., 2000 U.S. Dist. LEXIS 19870*.

DISPOSITION: [*1] Judgment entered;motion for enhanced damages denied; motion for attorney's fees granted; motion for new trial granted; motion for entry of judgment granted.

CASE SUMMARY:

PROCEDURAL POSTURE: Following a jury verdict for plaintiff patent holder in its patent infringement action against defendant infringer, the patent holder moved for enhanced damages under *35 U.S.C.S. § 284*, attorney's fees under *35 U.S.C.S. § 285*, and prejudgment interest under *35 U.S.C.S. § 284*.

OVERVIEW: The patent holder brought an infringement action against the infringer alleging that the infringer's automatic fluid exchanging system infringed on its patent. The jury returned a verdict for the patent holder, and it moved for enhanced damages, attorney's fees, and prejudgment interest. The court denied the patent holder enhanced damages holding that the infringer's conduct did not surmount the egregiousness hurdle, even though the jury found that it had willfully infringed on the patent. The infringer was unaware that it was infringing on the patent until after it was contacted by the patent holder. After receiving the notice, it forwarded a copy of its own patent to the patent holder as requested, which it believed was valid over the patent holder's patent. The infringer's financial condition did not support enhanced damages because it had acted as a fierce competitor of the patent holder. The court did not criticize the infringer for challenging the validity of the patent holder's patent because it was anticipated by prior art. The court awarded the patent holder attorney's fees for addressing the infringer's unsupported inequitable conduct defense and prejudgment interest.

OUTCOME: The patent holder was awarded attorney's fees on the infringer's inequitable conduct defense and prejudgment interest in its infringement action against the infringer but denied the patent holder enhanced damages.

LexisNexis(R) Headnotes

Patent Law > Jurisdiction & Review > Standards of Review > General Overview
Torts > Damages > General Overview
Torts > Negligence > Duty > Affirmative Duty to Act > General Overview

[HN1] Enhanced damages are allowed, in a patent infringement case, by *35 U.S.C.S. § 284*, which provides, in pertinent part, as follows: Upon finding for the claimant the court shall award the claimant 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, together with interest and costs as fixed by the court. When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. The statute prescribes no standards for such increase, but precedent establishes that a person having knowledge of an adverse patent has an affirmative duty to exercise due care to avoid infringement of a presumptively valid and enforceable patent.The statute thus recognizes the tortious nature of patent infringement and the public interest in a stable patent right, for enhanced damages are not compensatory but punitive.

Copyright Law > Civil Infringement Actions > Remedies > Damages > Actual Damages
Patent Law > Remedies > Collateral Assessments > Increased Damages
Patent Law > Remedies > Damages > General Overview
[HN2] Whether enhanced damages are appropriate is determined through a two-step process. First, the fact-finder must determine whether an infringer is guilty of conduct upon which increased damages may be based and, if so, the court then determines, exercising its sound discretion, whether, and to what extent, to increase the damages award given the totality of the circumstances. Stated otherwise, enhanced damages may be awarded only as a penalty for an infringer's increased culpability, namely willful infringement or bad faith, and damages cannot be enhanced to award the patentee additional compensation to rectify what the district court views as an inadequacy in the actual damages awarded.

Patent Law > Remedies > Damages > General Overview
[HN3] An act of willful infringement satisfies the culpability requirement and is, without doubt, sufficient to meet the first requirement to increase a compensatory damages award. However, a finding of willful infringement does not mandate that the district court enhance damages; it merely authorizes the court to do so at its discretion. Increased damages also may be awarded to a party because of the bad faith of the other side.

Patent Law > Inequitable Conduct > Effect, Materiality & Scienter > General Overview
Patent Law > Remedies > Collateral Assessments > Increased Damages
Patent Law > Remedies > Damages > General Overview
[HN4] Bad faith is used, for example, in referring to misconduct in the prosecution of or litigation over a patent. Such conduct includes inequitable conduct during patent prosecution, bringing vexatious or unjustified suits, attorney or client misconduct during litigation, or unnecessarily prolonging litigation. These acts by themselves, however, are not sufficient for an increased damages award under *35 U.S.C.S. § 284* because they are not related to the underlying act of infringement and say nothing about the culpability of the infringer. Only a culpable infringer can be held liable for increased damages, not an innocent one. The listed acts might be evaluated to determine if the infringer acted willfully in light of the totality of the circumstances. The ultimate fact to be proven, that is, the basis for increased damages, however, would be that the infringement was willful, not that litigation activities were improper.

Patent Law > Remedies > Collateral Assessments > Increased Damages
Patent Law > Remedies > Damages > General Overview
[HN5] Even if a party is subsequently found to be infringing another's patent despite its investigations, it will be liable only for compensatory damages, not increased damages, if it performed its affirmative duty in good faith.

Patent Law > Remedies > Collateral Assessments > Increased Damages
Patent Law > Remedies > Damages > General Overview
[HN6] In determining the propriety of enhanced damages, the court exercises its discretion upon a consideration of the factors: (1) whether the infringer deliberately copied the ideas or design of another, (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed, (3) the infringer's behavior as a party to the litigation, (4) the infringer's size and financial condition, (5) the closeness of the case, (6) the duration of the infringer's misconduct, (7) any remedial action by the infringer, (8) the infringer's motivation for harm, and (9) whether the infringer attempted to conceal its misconduct. In exercising its discretion to enhance

damages, however, it is limited to a trebling of the basic damage award.

Patent Law > Remedies > Damages > General Overview
[HN7] Where the trial judge has concluded that there was substantial evidence to support the jury's determination that defendant acted with the requisite culpability to justify an award of increased damages, the first step in the willful infringement process is complete.

Patent Law > Remedies > Damages > General Overview
[HN8] While a finding of willfulness does not require an award of enhanced damages, the court would abuse its discretion were it to grant, or deny, plaintiff's request without a demonstration as to why the finding of willfulness was an insufficient showing of culpability for increased damages.

Patent Law > Remedies > Damages > General Overview
[HN9] The principal considerations in enhancement of damages are the same as those of the willfulness determination, but in greater nuance as may affect the degree of enhancement. Thus egregiousness of the infringer's conduct may receive greater emphasis, as may any mitigating factors. All aspects relevant to a particular case should be given the weight appropriate to their substance. A broad range of discretion is reposed in the trial court, founded on this need to weigh and balance multiple factors in determining a just remedy.

Patent Law > Remedies > Damages > General Overview
[HN10] Experienced litigators properly recognize that even competent evidence can be unpersuasive if it depends upon the testimony of a witness who is unable to deport himself well. The answer is not to withhold that evidence, out of hand, but to balance whether, in the context of other evidence of record, the witness' testimony can earn the jury's belief. Such strategic considerations, well-vested in the discretion of a trial attorney, do not easily rise to a level of culpability that is commensurate with a finding of bad faith.

Patent Law > Remedies > Damages > General Overview
[HN11] The paramount determination in deciding to grant enhancement and the amount thereof is the egregiousness of the defendant's conduct based on all the facts and circumstances.

Criminal Law & Procedure > Scienter > Willfulness
Patent Law > Inequitable Conduct > Effect, Materiality & Scienter > General Overview
Patent Law > Remedies > Collateral Assessments > Increased Damages
[HN12] Increased damages may be awarded to a party because of the bad faith of the other side. Bad faith is used, for example, in referring to misconduct in the prosecution of or litigation over a patent. Such conduct includes inequitable conduct during patent prosecution, bringing vexatious or unjustified suits, attorney or client misconduct during litigation, or unnecessarily prolonging litigation. These acts by themselves, however, are not sufficient for an increased damages award under *35 U.S.C.S. § 284* because they are not related to the underlying act of infringement and say nothing about the culpability of the infringer. The listed acts might be evaluated to determine if the infringer acted willfully in light of the totality of the surrounding circumstances. The ultimate fact to be proven, that is, the basis for increased damages, however, would be that the infringement was willful, not that litigation activities were improper. Thus, although an infringer's inequitable conduct in prosecuting his own patents, or his egregious conduct in infringement litigation may be sufficient for other sanctions or fee awards, or may be used as a factor in determining whether or how much to increase a damages award once sufficient culpability is found, these actions are not sufficient independent bases to justify increased damages under *§ 284*.

Civil Procedure > Sanctions > Baseless Filings > General Overview
Civil Procedure > Appeals > Frivolous Appeals
Patent Law > Remedies > Collateral Assessments > Attorney Fees
[HN13] Courts have tools to punish egregious misconduct. The listed actions are typical of "exceptional case" conduct upon which an award of attorneys fees may be based under *35 U.S.C.S. § 285*. Other sanctions include attorneys fees pursuant to *Fed. R. Civ. P. 11*, *Fed. R. App. P. 38*, or *28 U.S.C.S. § 1927*. *Fed. R. Civ. P. 37*.

Civil Procedure > Remedies > Costs & Attorney Fees > Attorney Expenses & Fees > Statutory Awards
Patent Law > Inequitable Conduct > Burdens of Proof
Patent Law > Remedies > Collateral Assessments > Attorney Fees
[HN14] *35 U.S.C.S. § 285* provides for the award of

reasonable attorney fees to the prevailing party in exceptional patent infringement cases. The prevailing party must prove the exceptional nature of the case by clear and convincing evidence. The court has recognized many varieties of misconduct that make a case exceptional for a fee award. These forms of misconduct include willful infringement, inequitable conduct before the United States Patent and Trade Office, offensive litigation tactics, vexatious or unjustified litigation, or frivolous filings.

Civil Procedure > Judicial Officers > Judges > Discretion
Civil Procedure > Remedies > Costs & Attorney Fees > Attorney Expenses & Fees > Statutory Awards
Patent Law > Remedies > Collateral Assessments > Attorney Fees
[HN15] A finding of willful infringement is sufficient to make a case exceptional. An express finding of willful infringement is a sufficient basis for classifying a case as "exceptional," and indeed, when a trial court denies attorney fees in spite of a finding of willful infringement, the court must explain why the case is not "exceptional" within the meaning of the statute. Nevertheless, the decision whether or not to award fees is still committed to the discretion of the trial judge, and even an exceptional case does not require in all circumstances the award of attorney fees.

Patent Law > Remedies > Collateral Assessments > Attorney Fees
[HN16] When attorney fees under *35 U.S.C.S. § 285* are awarded solely on the basis of litigation misconduct, the amount of the award must bear some relation to the extent of the misconduct.

Patent Law > Inequitable Conduct > General Overview
Patent Law > Remedies > Collateral Assessments > Attorney Fees
[HN17] Unjustified accusations of inequitable conduct are offensive and unprofessional, and they have become a plague on the patent system.

Patent Law > Inequitable Conduct > Burdens of Proof
Patent Law > Jurisdiction & Review > Subject Matter Jurisdiction > Appeals
[HN18] Given the ease with which a relatively routine act of patent prosecution can be portrayed as intended to mislead or deceive, clear and convincing evidence of conduct sufficient to support an inference of culpable intent is required.

Patent Law > Remedies > Damages > General Overview
[HN19] The court has conditioned a patent owner's entitlement to a portion of the infringer's sale of its business upon proof that the purchaser of the business did not purchase the patent owner's business but, instead, elected to purchase the infringer's business.

Patent Law > Remedies > Damages > General Overview
[HN20] Because fashioning an adequate damages award depends on the unique economic circumstances of each case, the trial court has discretion to make important subsidiary determinations in the damages trial, such as choosing a methodology to calculate damages.

Civil Procedure > Trials > Jury Trials > Jury Instructions > General Overview
Patent Law > Remedies > Damages > Patentholder Losses
Patent Law > Remedies > Damages > Reasonable Royalties
[HN21] In theory, a proper royalty rate should afford the patent holder the profits, by way of a license or royalty, which would be attributable to the infringement. On occasion, the reasonable royalty rate would not produce adequate damages, where, for example, the infringer parlayed a sale, because of the infringement, that otherwise would have been made by the patent holder. In such a case, awarding the royalty rate, only, would not compensate the patent holder for the loss of the value of that specific sale, over and above the royalty rate. The United States District Court for the District of Minnesota understands the Georgia-Pacific analysis to envision a royalty rate that would make the patent holder whole. To suggest that the reasonable royalty rate merely establishes a floor, upon which the patent holder may claim additional, subjective enhancements, does not square with the purposes served by a reasonable royalty rate, if that rate is properly established. Where a showing has been made, which supports income that was foregone -- over and above the royalty rate -- such as lost profits from specific sales, or price erosion in the marketplace, which owes to the challenged infringement, then an additive would seem both appropriate, and warranted, if the patent

holder is to obtain adequate damages.

Civil Procedure > Remedies > Judgment Interest > Prejudgment Interest
Patent Law > Remedies > Collateral Assessments > Prejudgment Interest
Patent Law > Remedies > Damages > General Overview
[HN22] A patent owner, who is successful in proving infringement, is ordinarily entitled to an award of prejudgment interest. *35 U.S.C.S. § 284*. Prejudgment interest has no punitive, but only compensatory purposes. Interest compensates the patent owner for the use of its money between the date of injury and the date of judgment.

Civil Procedure > Remedies > Judgment Interest > Prejudgment Interest
Criminal Law & Procedure > Trials > Judicial Discretion
Patent Law > Remedies > Damages > General Overview
[HN23] The United States Supreme Court has suggested a court may deny prejudgment interest in certain limited circumstances, for example, where the owner has been responsible for undue delay in prosecuting the lawsuit.

Civil Procedure > Remedies > Judgment Interest > Prejudgment Interest
Patent Law > Infringement Actions > Defenses > Estoppel & Laches > General Overview
Patent Law > Remedies > Collateral Assessments > Prejudgment Interest
[HN24] District courts have discretion to limit prejudgment interest where, for example, the patent owner has caused undue delay in the lawsuit, but there must be a justification bearing a relationship to the award. The Court of Appeals for the Federal Circuit has determined that a delay, between the notice of infringement and the commencement in the infringement action, is not "undue" delay such as would justify limiting the term of prejudgment interest. The same result has been reached where the hiatus between the notice of suspected infringement and the commencement of a lawsuit, was approximately 17 months. In denying the infringer's request to exclude that period of delay from the term of prejudgment interest, the court has noted that the fact that 17 months passed between the notice letter and the lawsuit does not, without more, mean that the delay was "undue." Specifically the infringer there failed to offer some evidence that the delay was based on an improper reason.

Civil Procedure > Remedies > Judgment Interest > General Overview
Patent Law > Remedies > Collateral Assessments > Prejudgment Interest
Patent Law > Remedies > Damages > General Overview
[HN25] A trial court is afforded wide latitude in the selection of interest rates, and may award interest at or above the prime rate. Further, it has been recognized that an award of compound rather than simple interest assures the patent owner is fully compensated, and the determination whether to award simple or compound interest is a matter largely within the discretion of the district court.

Civil Procedure > Remedies > Judgment Interest > Prejudgment Interest
Patent Law > Remedies > Damages > General Overview
[HN26] A trial court's authority to award prejudgment interest is governed by statute. See *Minn. Stat. § 549.09*. Prejudgment interest is an element of damages awarded to provide full compensation by converting time-of-demand damages into time-of-verdict damages. It is designed to compensate the plaintiff for the loss of the use of the money owed. *Section 549.09* has been amended to provide that the prevailing party shall receive interest on any judgment or award. The amended statute allows prejudgment interest irrespective of a defendant's ability to ascertain the amount of damages for which he might be held liable.*Section 549.09* has been to allow an award of prejudgment interest even in those cases involving unliquidated damages.

Civil Procedure > Trials > Jury Trials > Jury Instructions > General Overview
Civil Procedure > Appeals > Reviewability > Preservation for Review
[HN27] A party waives objection by acquiescing and proposing the verdict form. To preserve an argument concerning a jury instruction for appellate review, a party must state distinctly the matter objected to and the grounds for the objection.

Civil Procedure > Trials > Closing Arguments > Objections

Civil Procedure > Judgments > Relief From Judgment > Motions for New Trials
Criminal Law & Procedure > Trials > Closing Arguments > Inflammatory Statements
[HN28] Even when the subject of a timely objection, a new trial should be granted where the improper conduct of counsel in closing argument causes prejudice to the opposing party and unfairly influences a jury's verdict.

Patent Law > Infringement Actions > Infringing Acts > Repair & Replacement
Patent Law > Ownership > Conveyances > Licenses
Patent Law > Remedies > Damages > Reasonable Royalties
[HN29] *35 U.S.C.S. § 284* mandates that a claimant receive damages "adequate" to compensate for infringement. *Section 284* further instructs that a damage award shall be in no event less than a reasonable royalty; the purpose of this alternative is not to direct the form of compensation, but to set a floor below which damage awards may not fall. Thus, the language of the statute is expansive rather than limiting. It affirmatively states that damages must be adequate, while providing only a lower limit and no other limitation. The question to be asked in determining damages is how much had the patent holder and licensee suffered by the infringement, and that question is primarily: had the infringer not infringed, what would the patent holder-licensee have made.

Copyright Law > Civil Infringement Actions > Remedies > Damages > Actual Damages
Patent Law > Remedies > Damages > Patentholder Losses
[HN30] The general rule for determining actual damages to a patentee that is itself producing the patented item is to determine the sales and profits lost to the patentee because of the infringement.

Copyright Law > Civil Infringement Actions > Remedies > Damages > Infringer Profits
Patent Law > Inequitable Conduct > General Overview
Patent Law > Infringement Actions > General Overview
[HN31] Proving lost profits is not a facile process, as the proof employs a "but for" test -- the claimant must demonstrate a reasonable probability that, but for the infringement, it would have made the sales that were made by the infringer.

Patent Law > Inequitable Conduct > General Overview
Patent Law > Infringement Actions > General Overview
Patent Law > Remedies > Damages > Patentholder Losses
[HN32] The court has articulated a four-factor test to prove, as but one nonexclusive method, an entitlement to lost profits damages. The Panduit test requires that a patentee establish: (1) demand for the patented product; (2) absence of acceptable non-infringing substitutes; (3) manufacturing and marketing capability to exploit the demand; and (4) the amount of the profit it would have made. A showing under Panduit permits a court to reasonably infer that the lost profits claimed were in fact caused by the infringing sales, thus establishing a patentee's prima facie case with respect to "but for" causation. A patentee need not negate every possibility that the purchaser might not have purchased a product other than its own, absent the infringement. The patentee need only show that there was a reasonable probability that the sales would have been made "but for" the infringement.

Copyright Law > Civil Infringement Actions > Remedies > Damages > Infringer Profits
Patent Law > Remedies > Damages > Patentholder Losses
Patent Law > Remedies > Damages > Reasonable Royalties
[HN33] The Patent Act permits damages awards to encompass both lost profits and a reasonable royalty on that portion of an infringer's sales not included in the lost profit analysis.

Copyright Law > Civil Infringement Actions > Remedies > Damages > Infringer Profits
Patent Law > Remedies > Damages > General Overview
[HN34] *35 U.S.C.S. §284* contemplates that when a patentee is unable to prove entitlement to lost profits or an established royalty rate, it is entitled to "reasonable royalty" damages based upon a hypothetical negotiation between the patentee and the infringer when the infringement began.

Patent Law > Ownership > Conveyances > General Overview
Patent Law > Remedies > Collateral Assessments > General Overview
Patent Law > Remedies > Damages > Reasonable

Royalties

[HN35] The "hypothetical negotiation" under *35 U.S.C.S. § 284* is often referred to as a willing licensor and licensee negotiation. However, this is an "absurd" characterization of the determination when the parties were previously unable to come to an agreement, i.e., were not "willing." Therefore the use of a willing licensee-willing licensor model for determining damages risks creation of the perception that blatant, blind appropriation of inventions patented by individual, non-manufacturing inventors is the profitable, cannot-lose course. To avoid such a result, the fact finder may consider additional factors to assist in the determination of adequate compensation for the infringement. These factors include royalties received by the patentee for the licensing of the patent in suit, opinion testimony from qualified experts, the patentee's relationship with the infringer, and other factors that might warrant higher damages. The fact that an infringer had to be ordered by a court to pay damages, rather than agreeing to a reasonable royalty, is also relevant. Under such an analysis, the district court would normally instruct the jury to return a damage award, based on a willing licensee-willing licensor negotiation and these other factors, in an amount sufficient to adequately compensate the patentee for the infringement.

Patent Law > Remedies > Damages > General Overview

[HN36] A trial court may award an amount of damages greater than a reasonable royalty so that the award is adequate to compensate for the infringement, and such an increase may be stated as a reasonable royalty for an infringer. Courts have on occasion recognized the need to distinguish between royalties payable by infringers and non-infringers.

Patent Law > Inequitable Conduct > General Overview
Patent Law > Infringement Actions > General Overview
Patent Law > Remedies > Collateral Assessments > Increased Damages

[HN37] While, upon a proper showing, "additional damages" may be awarded by the fact finder, over and above a reasonable royalty, such additional damages must be proven, by a preponderance of the evidence, to have been caused by the infringement, and to have been reasonably foreseeable. Moreover, a reasonable royalty may not be increased by a "kicker" based on litigation or other expenses.

Patent Law > Remedies > Damages > General Overview

[HN38] When a claimant elects to forego lost profits as a measure of damages in favor of a reasonable royalty, the claimant may not shift certain "consequential business damages" into the reasonable royalty rate.

Patent Law > Remedies > Damages > General Overview

[HN39] The patent owner bears the burden of proof on damages.

Patent Law > Remedies > Damages > General Overview

[HN40] The fact that an infringer had to be ordered by a court to pay damages, rather than agreeing to a reasonable royalty, is also relevant [to the determination of a reasonable royalty.

Civil Procedure > Pleading & Practice > Pleadings > Amended Pleadings > General Overview
Civil Procedure > Judgments > Relief From Judgment > Motions to Alter & Amend
Civil Procedure > Appeals > Standards of Review > Abuse of Discretion

[HN41] The determination of the amount of damages based on a reasonable royalty is an issue of fact. When a party files a motion to amend the judgment or in the alternative to grant a new trial on the amount of damages awarded by a jury, the trial court determines whether the jury's verdict is against the clear or great weight of the evidence. The district court has wide discretion in determining whether to grant a new trial under this standard and, therefore, its decision on that issue is governed by an abuse of discretion standard of review.

Evidence > Procedural Considerations > Burdens of Proof > Initial Burden of Persuasion
Patent Law > Inequitable Conduct > General Overview
Patent Law > Remedies > Damages > General Overview

[HN42] The patent owner may satisfy his initial burden of proving causation in fact by inference in a two-supplier market.

Patent Law > Inequitable Conduct > General Overview
Patent Law > Infringement Actions > Burdens of Proof
Patent Law > Remedies > Damages > Patentholder Losses

[HN43] To recover lost profits, the patent owner must show "causation in fact," establishing that "but for" the

infringement, he would have made additional profits. When basing the alleged lost profits on lost sales, the patent owner has an initial burden to show a reasonable probability that he would have made the asserted sales "but for" the infringement. Once the patent owner establishes a reasonable probability of "but for" causation, the burden then shifts to the accused infringer to show that the patent owner's "but for" causation claim is unreasonable for some or all of the lost sales.

Civil Procedure > Judgments > Relief From Judgment > Additurs & Remittiturs > Remittiturs

[HN44] The use of remittitur enables parties to avoid the delay and expense of a new trial when a jury's verdict is excessive in relation to the evidence of record.

Civil Procedure > Judgments > Relief From Judgment > Additurs & Remittiturs > Remittiturs

[HN45] The "maximum recovery rule" requires that the determination on whether to accept a remittitur be based on the highest amount of damages that the jury could properly have awarded based on the relevant evidence.

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For T-Tech Industries, Inc, Bridgewood [*2] Services, Inc, DEFENDANTS: Karl L Cambronne, Chestnut & Cambronne, Minneapolis, MN USA.

For T-Tech Industries, Inc, DEFENDANT: Becky L Erickson, Chestnut & Cambronne, Minneapolis, MN USA.

For T-Tech Industries, Inc, Bridgewood Services, Inc, DEFENDANTS: Warren E Olsen, Fitzpatrick Cella Harper & Scinto, Washington, DC USA.

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For Transclean Corporation, COUNTER-DEFENDANT: Jon S Swierzewski, Alan Marshall Anderson, Renee L Jackson, Christopher K Larus, Larkin Hoffman Daly & Lindgren, Bloomington, MN USA.

JUDGES: Raymond L. Erickson, UNITED STATES MAGISTRATE JUDGE.

OPINION BY: Raymond L. Erickson

OPINION

ORDER

At Duluth, in the District of Minnesota, this *8th* day of January, [*3] 2001.

I. *Introduction*

This matter came before the undersigned United States Magistrate Judge pursuant to the consent of the parties, as authorized by Title *28 U.S.C. § 636(c)*, upon the parties' post-Trial Motions. Specifically, the Plaintiffs Transclean Corporation, James P. Viken, Jon A. Lang, and Donald E. Johnson ("Transclean") have moved for enhanced damages, for attorneys' fees, for prejudgment interest, and for a reversal of the Court's entry of Judgment as a matter of law, on that portion of the Plaintiff's damage claim which sought a recovery from the "good will" of the Defendant Bridgewood Services, Inc. ("Bridgewood"), [1] when Bridgewood's assets were sold to a third party, Century Manufacturing ("Century"). In turn, Bridgewood seeks an amendment of the Judgment or, in the alternative, a new Trial, on the issue of compensatory damages, and also requests the entry of Judgment, as a matter of law, on Transclean's False Advertising claim.

1 The name of the Defendant has changed several times in the past and, for convenience, we uniformly address the Defendant, irrespective of its prior names, as "Bridgewood."

[*4] A Hearing on the Motions was conducted on December 14, 2000, at which time, Transclean appeared

by Alan M. Anderson and Christopher K. Larus, Esqs., and Bridgewood appeared by Warren E. Olsen and Karl L. Cambronne, Esqs.

For reasons which follow, we deny Transclean's Motion for enhanced damages, and for a reversal of our prior grant of Judgment as a matter of law, and we grant Transclean's Motion for attorneys' fees, but only in certain limited respects, and we grant its Motion for an award of prejudgment interest. In addition, we grant Bridgewood's Motion for a New Trial on the issue of infringement damages, but subject to Transclean's opportunity to accept a remittitur as an alternative to a new Trial. [2]

2 The parties jointly request that we enter Judgment, as a ministerial act, on each of the claims that were previously the subject of a successful dispositive Motion, and we grant that request.

II. *Factual and Procedural Background*

On May 4, 2000, a Jury returned a Verdict for Transclean in this patent [*5] infringement, and false advertising case, and, as here pertinent, provided the following Answers to the Interrogatories that were submitted in the Special Verdict form:

1. Do you find, by a preponderance of the evidence, that Bridgewood infringed Claim 13 of the Viken Patent?

Yes *X* No

2. Do you find, by clear and convincing evidence, that Bridgewood's infringement of any claim of the '080 Patent was willful?

Yes *X* No

* * *

4. What amount of damages do you find, based upon a preponderance of the evidence, constitute a reasonable royalty for Bridgewood's sales of its infringing device?

$ *934,618.75*

5, What amount of additional damages, if any, do you find, based upon a preponderance of the evidence, is necessary to adequately compensate for Bridgewood's infringement?

$ *1,874,500.00*

6. What additional amount, if any, do you find, based upon a preponderance of the evidence, the Plaintiffs are entitled to recover as a reasonable royalty on Bridgewood's sale of its business assets, including good will?

$ *2,708,225.00*

Following our denial of Bridgewood's inequitable conduct claim, in an Order dated November 1, 2000, we [*6] entered Judgment on the Jury's Verdict, except as to Interrogatory No. 6, as we had earlier entered Judgment as a matter of law, on that aspect of Transclean's damage claim, in favor of Bridgewood. Transclean seeks a reversal of that determination, arguing that, as a measure of its damages which were attributable to Bridgewood's infringement, it should be allowed a reasonable royalty on the sale of Bridgewood's business interests, in the form of good will, which arose from the purchase of Bridgewood's assets, by Century, on or about April 30, 1998.

Although we granted Judgment on that issue to Bridgewood, prior to the submission of the case to the Jury, in the interests of judicial efficiency, we allowed the Jury to answer Interrogatory No. 6 as a part of its Special Verdict. See, *Bergstrom-Ek v. Best Oil Co., 153 F.3d 851, 859 n. 3 (8th Cir. 1994)*, citing *Harvey v. Wal-Mart, Stores, Inc., 33 F.3d 969, 970 (8th Cir. 1994)*, and *Dace v. ACF Industries, Inc., 722 F.2d 374, 379 n. 9 (8th Cir. 1983)*; see also, *U.S. Phillips v. Windmere Corp., 861 F.2d 695, 705 (Fed. Cir. 1988)*, cert. denied, *490 U.S. 1068, 104 L. Ed. 2d 635, 109 S. Ct. 2070 (1989)*, [*7] quoting *Dace v. ACF Industries, Inc., supra at 379*; *Allied Colloids Inc. v. American Cyanamid Co., 64 F.3d 1570, 1573 (Fed. Cir. 1995)*("This case illustrates again that it is usually better practice for the district court, faced with a motion for directed verdict, to allow the case to go to the jury, and address the issue by way of a judgment n.o.v. if necessary.").

With respect to Interrogatory Nos. 4 and 5,

Bridgewood asks that we construe the Jury's Answers to these Interrogatories as setting a maximum award of compensatory damages, on the Jury's infringement finding, in the amount of $ 1,874,500, as opposed to allowing the combined sum of the Answers to those Interrogatories to constitute Transclean's compensatory damages. In support of this Motion, Bridgewood argues that the Court's Instructions to the Jury, on this aspect of the Special Verdict form, contained latent errors of law, that the Special Verdict form was faulty, and that counsel for Transclean, in his closing argument, misled the Jury's responses to these Interrogatories. Notably, Bridgewood took no exception to the Court's Jury Instructions, or Special Verdict form on this point, [*8] nor did Bridgewood object to Transclean's closing argument at a time when corrective action could be taken by the Court.

As a final basis for altering the Jury's compensatory damages computation, Bridgewood asserts that the evidence was insufficient, as a matter of law, to allow the damage award the Jury reached. In response, Transclean contends that the Jury was presented with abundant evidence that a determination of a reasonable royalty would not fully compensate Transclean for Bridgewood's willful infringement. Further, Transclean emphasizes that the Jury did no more than follow the Court's instructions, on the assessment of damages, which were not opposed by Bridgewood, and faithfully consider the evidence, that was admitted at Trial, on the adequacy of a reasonable royalty. While denying any improper conduct in the closing argument of Transclean's counsel, Transclean underscores that, if any error occurred in the course of that argument, Bridgewood waived the same by failing to raise a timely objection.

Lastly, Bridgewood argues that the Court should enter Judgment, as a matter of law, on Transclean's false advertising claim, while Transclean seeks enhanced damages, pursuant [*9] to Title *35 U.S.C. § 284*, and an award of attorneys' fees, under Title *35 U.S.C. § 285*, together with prejudgment interest. In opposition to that relief, Bridgewood acknowledges that the Jury found Bridgewood's infringement to be willful, by clear and convincing evidence, but denies that it committed the type of culpable conduct that would properly allow enhanced damages, or would qualify this case as being "exceptional," so as to warrant an award of attorneys' fees.

III. *Discussion*

A. *Transclean's Post-Trial Motions.*

Since they involve distinctly different considerations, we separately address the parties' respective post-Trial Motions, and commence with those filed by Transclean, as they were the first filed.

1. *Transclean's Motion for Enhanced Damages.*

a. *Standard of Review*. [HN1] Enhanced damages are allowed, in a patent infringement case, by Title *35 U.S.C. § 284*, which provides, in pertinent part, as follows:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use [*10] made of the invention by the infringer, together with interest and costs as fixed by the court. When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

"The statute prescribes no standards for such increase, but precedent establishes that a person having knowledge of an adverse patent has an affirmative duty to exercise due care to avoid infringement of a presumptively valid and enforceable patent." *SRI International, Inc. v. Advanced Technology Laboratories, Inc., 127 F.3d 1462, 1464 (Fed. Cir. 1997)*; *Johns Hopkins Univ. v. CellPro, Inc., 152 F.3d 1342, 1364 (Fed. Cir. 1998)*("Although *Section 284* does not state a basis upon which a district court may increase damages, it is well established that enhancement of damages may be premised upon a finding of willful infringement."). "The statute thus recognizes the tortious nature of patent infringement and the public interest in a stable patent right, for enhanced damages are not compensatory but punitive." *Id.*

[HN2] Whether enhanced damages are appropriate is determined through a two-step [*11] process. "First, the fact-finder must determine whether an infringer is guilty of conduct upon which increased damages may be based" and, "if so, the court then determines, exercising its sound discretion, whether, and to what extent, to increase the damages award given the totality of the circumstances." *Jurgens v. CBK, Ltd., 80 F.3d 1566, 1570 (Fed. Cir. 1996)*. Stated otherwise, "enhanced damages may be

awarded only as a penalty for an infringer's increased culpability, namely willful infringement or bad faith," and "damages cannot be enhanced to award the patentee additional compensation to rectify what the district court views as an inadequacy in the actual damages awarded." *Beatrice Food Co. v. New England Printing & Lithographing Co., 923 F.2d 1576, 1579 (Fed. Cir. 1991)*.

[HN3] "An act of willful infringement satisfies this culpability requirement and is, without doubt, sufficient to meet the first requirement to increase a compensatory damages award." *Jurgens v. CBK, Inc., supra at 1570*. However, a finding of willful infringement does not mandate that the district court enhance damages; it merely authorizes the court to do so at [*12] its discretion." *Johns Hopkins Univ. v. CellPro, Inc., supra at 1365*. "Increased damages also may be awarded to a party because of the bad faith of the other side." *Jurgens v. CBK, Inc., supra at 1570*. As the Court explained, in *Jurgens:*

> [HN4] Bad faith is used, for example, in referring to misconduct in the prosecution of or litigation over a patent. Such conduct includes inequitable conduct during patent prosecution, bringing vexatious or unjustified suits, attorney or client misconduct during litigation, or unnecessarily prolonging litigation. These acts by themselves, however, are not sufficient for an increased damages award under *section 284* because they are not related to the underlying act of infringement and say nothing about the culpability of the infringer. Only a culpable infringer can be held liable for increased damages, not an innocent one. * * * The listed acts might be evaluated to determine if the infringer acted willfully in light of the totality of the circumstances. The ultimate fact to be proven, that is, the basis for increased damages, however, would be that the infringement was willful, not that litigation activities [*13] were improper.

Jurgens v. CBK, Inc., supra at 1570-71.

[HN5] "Even if a party is subsequently found to be infringing another's patent despite its investigations, it will be liable only for compensatory damages, not increased damages, if it performed its affirmative duty in good faith." *Id.*, citing *Delta-X Corp. v. Baker Hughes Prod. Tools, Inc., 984 F.2d 410, 413 (Fed. Cir. 1993)*, and *Ortho Pharm. Corp. v. Smith, 959 F.2d 936, 944 (Fed. Cir. 1992)*.

[HN6] In determining the propriety of enhanced damages, the Court exercises its discretion upon a consideration of the factors: "(1) whether the infringer deliberately copied the ideas or design of another, (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed, (3) the infringer's behavior as a party to the litigation, (4) the infringer's size and financial condition, (5) the closeness of the case, (6) the duration of the infringer's misconduct, (7) any remedial action by the infringer, (8) the infringer's motivation for harm, and (9) whether the infringer [*14] attempted to conceal its misconduct." *Johns Hopkins Univ. v. Cell-Pro, Inc., supra at 1352 n. 16*, citing *Read Corp. v. Portec, Inc., 970 F.2d 816, 827 (Fed. Cir. 1992)*, abrogated, in part, on other grounds, *Markman v. Westview Instruments, Inc., 52 F.3d 967, 975 (Fed. Cir. 1995)*(en banc). In exercising our discretion to enhance damages, however, we are limited "to a trebling of the basic damage award." *Signtech USA, Ltd. v. Vutek, Inc., 174 F.3d 1352, 1358-59 (Fed. Cir. 1999)*.

b. *Legal Analysis.* Since the Jury found that Bridgewood willfully infringed Transclean's patent -- a finding that is supported in the Record -- Transclean has satisfied the initial showing prerequisite to enhanced damages. See, *Jurgens v. CBK, Ltd., supra at 1571* ("The jury thus determined as a factual matter that CBK acted with the requisite culpability to justify an award of increased damages," [HN7] "the trial judge concluded that there was substantial evidence to support the jury's determination" and, thus, "the first step in the willful infringement process was complete; predicate liability was found."). [3]

> 3 As the Court explained, in *Comark Communications, Inc. v. Harris Corp., 156 F.3d 1182, 1190 (Fed. Cir. 1998)*:

> In determining whether willfulness has been shown, we look to the totality of the circumstances, understanding that willfulness, "as in life, is not an all-or-nothing trait, but one of degree. It recognizes that infringement may range from unknowing, or accidental, to deliberate, or reckless, disregard of the patentee's rights." *Rite-Hite Corp. v. Kelley Co., Inc., 819 F.2d 1120, 1125-26, 2 USPQ2d 1915, 1919 (Fed. Cir. 1987)*. We must look at exculpatory evidence as well as evidence tending to show deliberate disregard of Comark's rights in determining whether substantial evidence supports the jury's verdict. The correct legal standard, therefore, is whether, in light of all the evidence, there is substantial evidence to support the jury's finding of willfulness by clear and convincing evidence.

Here, Bridgewood has not challenged the Jury's finding of willful infringement, but concentrates on the impropriety of enhanced damages notwithstanding that finding.

As we detail, in the text of this opinion, we have considered the totality of the Record before us, and have expressly refrained from reweighing that evidence. "It is well settled that an important factor in determining whether willful infringment has been shown is whether or not the infringer obtained the opinion of counsel." *Id. at 1191*, citing *Ortho Pharmaceutical Corp. v. Smith, 959 F.2d 936, 944 (Fed. Cir. 1992)*. The Record is clear that, by all appearances, Bridgewood did not obtain legal counsel notwithstanding the letter, that Bridgewood received from Transclean, and that notified Bridgewood of Transclean's concern that Bridgewood was infringing Transclean's patent. "Where the infringer fails to introduce an exculpatory opinion of counsel at trial, a court must be free to infer that either no opinion was obtained or, if an opinion were obtained, it was contrary to the infringer's desire to initiate or continue its use of the patentee's invention." *Fromson v. Western Litho Plate and Supply Co., 853 F.2d 1568, 1573 (Fed. Cir. 1988)*. While Bridgewood characterizes Transclean's letter as somewhat equivocal, "it is not controlling whether the patentee threatens suit, demands cessation of infringement, or offers a license under the patent." *SRI Int'l, Inc. v. Advanced Technology Laboratories, Inc., 127 F.3d 1462, 1470 (Fed. Cir. 1997)*. Notwithstanding the receipt of that letter, Bridgewood continued to market its infringing product, apparently without the advice, or in spite of the advice of counsel, and, in light of these circumstances, as well as the totality of the Record before the Jury, we cannot say that the Jury's finding of willfulness is not supported by substantial, clear and convincing, evidence.

[*15] [HN8] While a finding of willfulness does not, as we have noted, require an award of enhanced damages, [4] we would abuse our discretion were we to grant, or deny, Transclean's request without a demonstration as to why the finding of willfulness was an insufficient showing of culpability for increased damages. See, *Tate Access Floors, Inc. v. Maxcess Technologies, Inc., 222 F.3d 958, 972 (Fed. Cir. 2000)*("We conclude that, in light of the jury's finding of willful infringement, the district court abused its discretion in refusing to increase damages or award attorneys fees because it failed to articulate any reasons for refusing to make such an award."); *Jurgens v. CBK, Ltd., supra at 1572* (After an express finding of willful infringement, "a trial court should provide reasons for not increasing a damages award or for not finding a case exceptional for the purpose of awarding attorneys fees."). The framework for our continued analysis has been formulated, as follows:

> [HN9] The principal considerations in enhancement of damages are the same as those of the willfulness determination, but in greater nuance as may affect the degree of enhancement. Thus egregiousness [*16] of the infringer's conduct may receive greater emphasis, as may any mitigating factors. See *Read Corp. v. Portec, Inc., 970 F.2d 816, 826-27, 23 USPQ2d 1426, 1435-36 (Fed. Cir. 1992)*(collecting factors). All aspects relevant to a particular case should be given the weight

> appropriate to their substance. A broad range of discretion is reposed in the trial court, founded on this need to weigh and balance multiple factors in determining a just remedy.

SRI Int'l, Inc. v. Advanced Technology Laboratories, Inc., supra at 1469.

Accordingly, we turn to a consideration of the factors which inform the enhanced damages analysis.

> 4 Citing *Tate Access Floors, Inc. v. Maxcess Technologies, Inc., 222 F.3d 958, 972 (Fed. Cir. 2000)*, and *Jurgens v, CBK, Ltd., 80 F.3d 1566, 1573 (Fed. Cir. 1996)*, Transclean argues that "the jury's finding of willfulness alone supports an award of treble damages." See, *Plaintiffs' Memorandum of Law in Support of their Post-Trial Motions*, at p. 3. Neither of the referenced cases support any such contention, and we reject the argument outright. See, *Tate Access Floors, Inc. v. Maxcess Technologies, Inc., 222 F.3d at 972* ("[A] finding of willful infringement does not mandate that damages be increased or that attorneys fees be awarded * * *."); *Jurgens v. CBK, Ltd., supra at 1573* ("[A] finding of willful infringement does not mandate that damages be increased or that attorneys fees be awarded.").

[*17] Emphasizing the phraseology of Bridgewood's counsel, as well as the testimony of certain of Bridgewood's principals -- to the effect that patents are a "curse" to "terrorize" competitive business ventures -- Transclean contends that Bridgewood's conduct effectuated Bridgewood's stated disdain for patents generally, and for Transclean's patent in particular. Although the comments of Bridgewood's counsel, in the course of his opening statement, were improvident, in their best light, we view Transclean's argument, which is predicated on that improvidence, to be equally short-sighted. Although not always the case, on occasion -- and we think this to be one of them -- words can truly just be words, and conduct, separate and apart from those words, must be evaluated on the strength of the acts involved. Here, the evidence shows that Bridgewood was unaware of any assertion, that it could be infringing upon Transclean's patent, until well after Bridgewood began to manufacture, and market, its own competing product. [5] There is no evidence that Bridgewood was attempting to copy the essence of Transclean's patent, or that Bridgewood failed in an unsuccessful attempt to design around, or otherwise [*18] pirate, Transclean's patent.

> 5 According to the Record presented, "since March of 1995, Bridgewood has manufactured, and sold, and offered for sale in the United States, its own automatic fluid exchanging system." *Transclean Corp. v. Bridgewood Services, 77 F. Supp.2d 1045, 1056 (D. Minn. 1999)*. It was not until August 8, 1996, that Transclean sent a letter to Bridgewood, "which notified it of a possible patent infringement claim." *Id. at 1058*.

According to the Record before us, in a letter dated August 8, 1996, Bridgewood was notified of Transclean's concern, that Bridgewood was infringing Transclean's patent. The letter requested additional information, including a copy of Bridgewood's patent. Shortly thereafter, Bridgewood forwarded a copy of its patent to Transclean, along with certain sales brochures. Bridgewood did not hear further from Transclean until it was served with the Complaint that Transclean filed with this Court on October 14, 1997 -- some fourteen months after [*19] Transclean's letter request for further information. Although Transclean urges that these facts demonstrate Bridgewood's willful disrespect for Transclean's patent, Bridgewood was not without a bona fide basis to believe that the patent, upon which it was marketing its competing product, was valid, over the patent of Transclean.

As we have previously detailed, see *Transclean Corp. v. Bridgewood Services, Inc., supra at 1056-57*, Bridgewood applied for its patent on October 7, 1994, but that application was rejected on June 12, 1995, because the Patent Examiner determined that Bridgewood's invention was unpatentable, under Title *35 U.S.C. § 103*, over Transclean's patent, among others. Bridgewood submitted additional materials, in response to that rejection, but the Examiner was undeterred and, on September 20, 1995, the application was, again, rejected. Bridgewood amended its application, once again, and submitted additional arguments, so as to distinguish its patent from that of Transclean and, on June 4, 1996, Bridgewood's patent issued without further comment from the Examiner. While the fact that Bridgewood's patent issued over the prior patent [*20] of Transclean

does not insulate Bridgewood from a finding of infringement, either literally or by equivalency, see, *National Presto Industries, Inc. v. West Bend Co., 76 F.3d 1185, 1192 (Fed. Cir. 1996)*, we think that such a circumstance militates against a finding of "bad faith" on Bridgewood's part.

Plainly, Bridgewood did not attempt to conceal its activities from Transclean for, pursuant to Transclean's request, Bridgewood forwarded a copy of its patent for Transclean's review. Rather than to then engage Bridgewood in a dialogue toward resolving any claim of infringement, that Transclean might have legitimately entertained, Transclean disengaged for a period of fourteen months, and then responded, to Bridgewood's proffer of its patent, with an infringement lawsuit. As Transclean concedes, "the proper time to assess willfulness is at the time the infringer received notice," *Odetics, Inc. v. Storage Technology Corp., 185 F.3d 1259, 1276 (Fed. Cir. 1999)*, and, at that time, Bridgewood had ample reason to believe that it held a valid patent over that of Transclean. While that reason has now been determined to have been erroneous, that error was not [*21] reasonably apparent in August of 1996. [6]

6 We recognize, as we did before, see footnote 2, supra, that Bridgewood failed to present an opinion of legal counsel as to the validity of Bridgewood's patent, as of August of 1996, or at any other time. We have accepted that such a failure could properly lead a Jury to conclude that Bridgewood's conduct was willful, but we here properly deal in "nuances," and we do not find the failure to obtain a legal opinion, over and above that implicitly presented by patent counsel, at the time that Bridgewood's patent application was under review by the Patent Examiner, to prompt an appreciable inference of culpability. See, *SRI Int'l, Inc. v. Advanced Technology Laboratories, Inc., supra at 1469*.

Moreover, we are not persuaded by Transclean's argument that Bridgewood's "financial condition supports an award of treble damages." *Plaintiffs' Reply Memorandum of Law in Support of their Post Trial Motions*, at p. 5. Bridgewood entered the market for automatic [*22] transmission fluid exchangers well after Transclean obtained its patent on June 7, 1994. Bridgewood's success in that market was substantially influenced by their significant contributions in design, marketing, and entrepreneurial effort. In contrast, Transclean's product appears to have stagnated, in the marketplace, notwithstanding Transclean's considerable interest in seeing its product succeed. This is not a case in which, from the outset, a diminutive Transclean was thrashed by the malevolence of a megalithic, corporate marauder. Two competitors, each believing that their product was patent-protected, vied for a common market, and Bridgewood proved to be the more successful. [7] Stated succinctly, while Bridgewood acted as a fierce competitor, we find nothing pernicious in their marketing approach, vis-a-vis Transclean. [8]

7 Nor are we persuaded by Bridgewood's contention "that very few resources remain after paying legal fees over the course of this litigation." *Bridgewood's Opposition to Transclean's Post-Trial Motions*, at p. 12. If ability to pay were the sole criterion, we are satisfied that Bridgewood, and its principals, could honor a Judgment in excess of the compensatory damages, that were found by the Jury, and determined to be lawful by this Court.

[*23]

8 We are mindful of the Jury's determination, that Bridgewood had engaged in false advertising which, to some extent, could reflect a malevolent market approach. What the Jury was not asked to determine, however, because the claim had not been effectively made by Bridgewood, was the extent to which Transclean's advertisements, to the effect that its product resulted in a "total exchange," produced equivalent falsity.

While the factors involving the duration of the infringement, and any remediation by the infringer, tend to be somewhat equivocal, the extent of any infringement was concluded on April 30, 1998, when Bridgewood sold its assets to Century, and Century purchased a license from Transclean, in order to sell the exchangers that had previously been manufactured by Bridgewood. Although this transaction delimited the duration of any infringement, there is no showing, in this Record, that the purpose of the sale, from Bridgewood's perspective, was either to conclude acts of infringement, or to remedy a past infringing practice. Indeed, it does not appear that Bridgewood knew that Century [*24] would be securing a license from Transclean, should Century be successful in completing the purchase of Bridgewood's assets.

Nonetheless, the transaction had both salient effects.

Lastly, we jointly consider the "closeness of the case," and Bridgewood's asserted "shotgun defense strategy," for they are, under the circumstances here, intricately interwoven. Whether we characterize Bridgewood's defense as "shotgun," *Plaintiffs' Memorandum of Law in Support of their Post-Trial Motions*, at p. 6, or as "zealous," *Bridgewood's Opposition to Transclean's Post-Trial Motions*, at p. 10, there can be no mistaking that the case was hard-fought on both sides. Transclean portends that Bridgewood had a committed resolve to unflinchingly litigate each issue to submission but, so long as the defenses have a principled basis, the closeness of the case will promote a staunch contest. Our summary dispositions did not reveal a clear winner; each party could claim some success. Although, we had found that, as a matter of law, Bridgewood had infringed five of the claims in Transclean's patent, as was its right, Transclean sought to prove the infringement of an additional claim at the time of Trial. [*25] Whether five or six claims were infringed, Bridgewood was committed to avoiding liability on the basis of the purported invalidity of Transclean's patent, as well as the derivative invalidity of that patent arising from allegedly inequitable conduct on Transclean's part.

We are hard-pressed to criticize Bridgewood for attempting to prove, on a considered basis, that Transclean's patent was invalid because it was anticipated by prior art -- particularly, the devices of Neil Becnel ("Becnel") -- when Transclean expended significant Trial time in proving that Bridgewood infringed Claim 13 of Transclean's patent, despite our pretrial ruling, as a matter of law, that Bridgewood had infringed Claims 1, 2, 3, 4, and 12. We could not say, at the time of Summary Judgment, who would be successful on the invalidity by anticipation defense, nor could we at the time the case was submitted to the Jury. While we characterized Becnel -- we think rightly -- as demonstrating "a persistent inability to accurately chronicle events, or to adequately explain significant contradictions in his prior statements and testimony," see *Findings of Fact, Conclusions of Law, and Order for Judgment* of November 1, 2000, at [*26] p. 13 n. 4, whether a Jury would accept, or renounce his credibility, was conjectural, despite our capacity to fully appraise his demeanor as a witness.

Ultimately, the Jury appears to have spurned Becnel's believability but, in doing so, the Jury had to consider and reject an appreciable amount of corroborative evidence, including the testimony of other witnesses. We do not believe that the proffer of Becnel's testimony was an act of bad faith. [HN10] Experienced litigators properly recognize that even competent evidence can be unpersuasive if it depends upon the testimony of a witness who is unable to deport himself well. The answer is not to withhold that evidence, out of hand, but to balance whether, in the context of other evidence of Record, the witness' testimony can earn the Jury's belief. Such strategic considerations, well-vested in the discretion of a Trial attorney, do not easily rise -- and, here, do not rise -- to a level of culpability that is commensurate with a finding of bad faith. Cf., *Read Corp. v. Portec, Inc., supra at 831* ("Such a 'litigation strategy' should be encouraged, not viewed as misconduct."), citing *State Indus., Inc. v. A.O. Smith Corp., 751 F.2d 1226, 1235-36 (Fed. Cir. 1985)*. [*27] The same, however, may not be said of Bridgewood's reliance on an inequitable conduct defense, but we find that issue better addressed in the context of Transclean's request for attorneys' fees.

In sum, having carefully reviewed the factors enunciated in *Read*, as well as the evidence in its totality, we conclude that it would be an abuse of our discretion if we were to award en-hanced damages to Transclean. [HN11] "The paramount determination in deciding to grant enhancement and the amount thereof is the egregi-ousness of the defendant's conduct based on all the facts and circumstances." *Read Corp. v. Portec, Inc., supra at 826*. Bridgewood's conduct, here, does not, on any principled basis, surmount that hurdle of egregiousness. [9]

9 In *Jurgens v. CBK, Ltd., 80 F.3d 1566, 1570 (Fed. Cir. 1996)*, the Court expressed the following distinction, between willful infringing conduct, and conduct subsequent to that infringement:

> [HN12] Increased damages also may be awarded to a party because of the bad faith of the other side.
>
> * * *
>
> Bad faith is used, for example, in referring to misconduct in the prosecution of or litigation over a

> patent. Such conduct includes inequitable conduct during patent prosecution, bringing vexatious or unjustified suits, attorney or client misconduct during litigation, or unnecessarily prolonging litigation. These acts by themselves, however, are not sufficient for an increased damages award under *section 284* because they are not related to the underlying act of infringement and say nothing about the culpability of the infringer. * * * The listed acts might be evaluated to determine if the infringer acted willfully in light of the totality of the surrounding circumstances. The ultimate fact to be proven, that is, the basis for increased damages, however, would be that the infringement was willful, not that litigation activities were improper. Thus, although an infringer's inequitable conduct in prosecuting his own patents, or his egregious conduct in infringement litigation may be sufficient for other sanctions or fee awards, or may be used as a factor in determining whether or how much to increase a damages award once sufficient culpability is found, *Read Corp., 970 F.2d at 826, 23 USPQ2d at 1435*, these actions are not sufficient independent bases to justify increased damages under *section 284*.

In underscoring the same point, the Court observed, in an appended footnote:

> [HN13] Courts have tools to punish egregious misconduct. The listed actions are typical of "exceptional case" conduct upon which an award of attorneys fees may be based under *35 U.S.C. § 285 (1988)*. Other sanctions include attorneys fees pursuant to *Fed.R.Civ.P. 11*, *Fed.R. App.P. 38*, or *28 U.S.C. § 1927 (1994)*. See also, *Fed.R.Civ.P. 37*.

> Accordingly, we follow this suggested approach, and we address what we regard as Bridgewood's unnecessary prolongation of this litigation, through the advancement of a contrived inequitable conduct defense, in the milieu of a *Section 285* award of attorneys' fees.

[*28] 2. *Transclean's Motion for an Award of Attorneys' Fees*.

a. *Standard of Review*. [HN14] "[Title] *35 U.S.C. § 285* provides for the 'award [of] reasonable attorney fees to the prevailing party' in 'exceptional' patent infringement cases." *Ruiz v. A.B. Chance Co., 234 F.3d 654*, 2000 WL 1783236 at *12 (Fed. Cir., December 6, 2000). "The prevailing party must prove the exceptional nature of the case by clear and convincing evidence." *Id.*, citing *Carroll Touch Inc. v. Electro Mach. Sys., Inc., 15 F.3d 1573, 1584 (Fed. Cir. 1993)*. As the Court observed, in *Yamanouchi Pharmaceutical Co., Ltd. v. Danbury Pharmacal, Inc., 231 F.3d 1339, 1346-47 (Fed. Cir. 2000)*:

> This court * * * has recognized many varieties of misconduct that make a case exceptional for a fee award. These forms of misconduct include willful infringement * * *, inequitable conduct before the PTO, offensive litigation tactics, vexatious or unjustified litigation, or frivolous filings * * *.

[Citations omitted].

[HN15] A finding of willful infringement is sufficient to make a case exceptional. See, *Modine Mfg. Co. v. Allen Group, Inc., 917 F.2d 538, 543 (Fed. Cir. 1990)*, [*29] cert. denied, *500 U.S. 918, 114 L. Ed. 2d 103, 111 S. Ct. 2017 (1991)*; *Amsted Indus. v. Buckeye Steel Casings Co., 24 F.3d 178, 184 (Fed. Cir. 1994)*. As the Court explained, in *Modine:*

> An express finding of willful infringement is a sufficient basis for classifying a case as "exceptional," and indeed, when a trial court denies attorney fees in spite of a finding of willful

> infringement, the court must explain why the case is not "exceptional" within the meaning of the statute. *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc., 781 F.2d 198, 201 (Fed. Cir. 1986)*. Nevertheless, the decision whether or not to award fees is still committed to the discretion of the trial judge, and "even an exceptional case does not require in all circumstances the award of attorney fees." *Id. at 201*.

Modine Mfg. Co. v. Allen Group, Inc., supra at 543; see also, *Rite-Hite Corp. v. Kelley Co., 819 F.2d 1120, 1126 (Fed. Cir. 1987)*.

[HN16] "When attorney fees under *35 U.S.C. § 285* are awarded solely on the basis of litigation misconduct, the amount of the award must bear some relation [*30] to the extent of the misconduct." *Read Corp. v. Portec, Inc., supra at 831*, citing *Beckman Instruments, Inc. v. LKB Produkter AB, 892 F.2d 1547, 1553-54 (Fed. Cir. 1989)*.

b. *Legal Analysis*. In support of an award of reasonable attorneys' fees, arising from Bridgewood's embracement of an inequitable conduct defense, we seriously doubt that we need add more than we have already expressed, in our rejection of that defense. In our prior determination, we forthrightly made the following findings, and conclusions:

> At best, [Bridgewood's] accusations [of inequitable conduct] are an unsupported hodgepodge of conjecture and surmise, interlaced with nothing more than [Bridgewood's] suspicions, economic self-interest, and adversarial mistrust.

Findings of Fact, Conclusions of Law, and Order for Judgment of November 1, 2000, at p. 4.

* * *

> This Record is bereft of any clear and convincing evidence of material misrepresentation on the part of [Transclean], or [its] legal representatives, whether the evidence is compartmentalized, or considered collectively.

Id. at 14.

* * *

> At Trial, no evidence was presented [*31] to establish an intent, on the part of [Transclean], either directly, or through [its attorney,] to deceive the Patent Examiner.

Id.

* * *

> Not surprisingly, "the habit of charging inequitable conduct in almost every major patent case has become an absolute plague." *Burlington Indus., Inc. v. Dayco Corp., 849 F.2d 1418, 1422 (Fed. Cir. 1988)*; Molins PLC v. Textron, Inc., supra at 1182 [HN17] ("Unjustified accusations of inequitable conduct are offensive and unprofessional," and "they have become a 'plague' on the patent system."). In our considered judgment, that "plague" has improperly been visited upon this case.

Id. at 23.

* * *

> We find the notion, as espoused by [Bridgewood], that [Transclean] only referenced the Becnel Patent in [its] Patent Application, as pertinent prior art, because they wanted to shield the substantive pertinence of that Patent from the Examiner's attention to be implausible, if not perverse.

Id. at 23-24.

* * *

> We understand [Bridgewood's] contention, that [Transclean's] description of Becnel's Patent was inaccurate, or

> purposefully deceitful. Apart from [Bridgewood's] conclusory characterization [*32] of the Becnel reference, we find no credible evidence to support that claim, much less clear and convincing evidence.

Id. at 26.

* * *

> Simply put, we have been directed to no evidence, much less clear and convincing evidence, of any withholding of prior art with an intent to deceive, or any material misrepresentations, in [Transclean's] Patent Application, which would properly invoke the inequitable conduct defense.

Id. at 27.

* * *

> Moreover, apart from [Bridgewood's] sinister suspicions, we have been pointed to no evidence that either [Transclean], or [its attorney] intended to deceive the PTO with respect to [Transclean's] Patent Application.

Id.

* * *

> As the Court of Appeals for the Federal Circuit has repeatedly recognized, [HN18] "given the ease with which a relatively routine act of patent prosecution can be portrayed as intended to mislead or deceive, clear and convincing evidence of conduct sufficient to support an inference of culpable intent is required." Moulins PLC v. Textron, Inc., supra at 1181, quoting *Northern Telecom, Inc. v. Datapoint Corp., 908 F.2d 931, 939 (Fed. Cir. 1990)*, cert. denied, *498 U.S. 920, 112 L. Ed. 2d 250, 111 S. Ct. 296 (1990)*. [*33] This is such a case, where inventiveness has woven a cloak of deception which bears no likeness to the reality of the Record before us.

Id. at 27-28.

Given these findings, which we here reaffirm, an award of *Section 285* fees is fully warranted with respect to the time and effort that Transclean expended, in reasonable attorneys' fees, in addressing Bridgewood's inequitable conduct defense. [10]

> 10 In addition, Transclean is entitled to reasonable attorneys' fees arising out of its status, as the prevailing party, on its false advertising claim under *Minnesota Statutes Sections 325F.67* and *8.31, Subdivision 3(a)*. As we later detail, in the text of this Order, we deny Bridgewood's Motion for the Entry of Judgment on Transclean's false advertising claim. Therefore, we employ the following mechanism, in order to be informed of the parties' respective positions as to the proper amount of any fee award.
>
> **By no later than January 26, 2001,** Transclean shall submit, for the Court's *in camera* review, an Affidavit of counsel averring to the accuracy of the appended time sheets, which document the time counsel expended solely on these two issues. In Transclean's transmittal letter to the Court, Transclean shall categorize the time entries into discrete tasks, and tabulate the time expended on each such categorization, and the fees being requested for each categorization, in order that Bridgewood will be informed as to the reasonable attorneys' fees that Transclean is requesting. **By no later than February 2, 2001,** Bridgewood shall file and serve any objection to Transclean's fee requests.

[*34] 3. *Transclean's Motion for a Reversal of Entry of Judgment as to a Reasonable Royalty on Bridgewood's Sale of its Business Assets, Including Good Will, to Century.*

At the close of Transclean's case-in-chief, we granted Bridgewood's Motion that Judgment be entered against Transclean, as a matter of law, see *Rule 50(a), Federal Rules of Civil Procedure*, on Transclean's assertion, that it was entitled to a reasonable royalty on the "good will" value, which Bridgewood received, when the assets of

Bridgewood were sold to Century. Transclean asks that we reconsider, and reverse, our earlier resolution of that issue. Finding no responsible basis to do so, we deny Transclean's request.

Although inferentially relying upon the analysis of *Minco Inc. v. Combustion Engineering Inc., 95 F.3d 1109 (Fed. Cir. 1996)*, Transclean made plain, when we considered Bridgewood's Motion for the entry of Judgment as a matter of law, that it was not relying upon the strict holding in that case. In *Minco*, [HN19] the Court conditioned a patent owner's entitlement, to a portion of the infringer's sale of its business, upon proof that the purchaser of the business did not purchase the patent [*35] owner's business but, instead, elected to purchase the infringer's business. There is no evidence that such an occurrence was at play in Century's purchase of the assets of Bridgewood. Indeed, the testimony of Robert Gey ("Gey"), the officer of Century who was instrumental in negotiating the purchase of Bridgewood's assets, as well as the separate License Agreement from Transclean, which allowed Century to sell Bridgewood's products without concern for infringing Transclean's patent, was that Century did not seriously consider purchasing Transclean's business. Gey's testimony, in this important respect, was unrebutted.

Moreover, Transclean did little more than isolate the value of the "goodwill," that Century purchased, when the sale of Bridgewood's business was consummated. The isolation of that valuation was uncomplicated -- the book value of Bridgewood's assets only needed to be deducted from the price paid by Century for the business, and the remainder would constitute Bridgewood's goodwill. Ascertaining that arithmetic figure might be helpful to Transclean's argument, but Transclean's financial expert, Carol A. Ludington ("Ludington"), did not attempt to further analyze that [*36] figure, so as to isolate what portion of the goodwill could properly be attributable to infringement, as opposed to the Defendant's aggressive marketing, the quality of Bridgewood's product, Bridgewood's customer support and pricing promotion, and the like. Transclean has merely argued that, but for Bridgewood's infringement, there would be no product to sell, and no goodwill; ergo, all of the goodwill is attributable to infringement. Of course, the argument, if valid, would govern the computation of any royalty for, as the argument goes, the royalty should represent the total profits obtained in the sale of the infringing device since, but for the infringement, there would be no resultant profit. Plainly, such is not the law. As a result, what Ludington isolated was a pool of money, and Transclean's entitlement to that pool, or any specific portion of it, was not substantiated in this Record.

Nor did any substantiation, for an entitlement to the goodwill that Transclean now seeks, emanate from the testimony of Nickolas E. Westman ("Westman"), who was Transclean's royalty rate expert. Westman generally testified that a one-third to one-half royalty should apply to the profits of the [*37] Defendant, but he expressly noted that the funds -- the profits -- to which such a figure should apply, would have to be determined by the Court. More importantly, he expressly testified that he knew nothing about Bridgewood's good will, at the time of the purchase of Bridgewood's business by Century, and that he did not know the components of that goodwill. Accordingly, Transclean's entitlement to a portion of Bridgewood's goodwill, as a reasonable royalty, was not established in the Record before us. To allow the Jury to divine the percentage of goodwill, that would be properly attributable to infringement, if any, would be a resort to pure speculation and conjecture.

In addressing this issue, we bear in mind that the governing law recognizes that, [HN20] "because fashioning an adequate damages award depends on the unique economic circumstances of each case, the trial court has discretion to make important subsidiary determinations in the damages trial, such as choosing a methodology to calculate damages." *Minco Inc. v. Combustion Engineering Inc.*, supra at 1007, citing *Smith Kline Diagnostics, Inc. v. Helena Lab. Corp., 926 F.2d 1161, 1164 (Fed. Cir. 1991)*, and *King Instruments Corp. v. Otari Corp., 767 F.2d 853, 863 (Fed. Cir. 1985)*. [*38] Repeatedly, we inquired of Transclean's counsel as to why this case was different from the legions of cases which have preceded, and which have not considered an infringer's goodwill as a separate pool of monetary resources from which a royalty could be drawn. Apart from the fact that, here, the sale of Bridgewood's business, to Century, simplified the computation of the goodwill value of Bridgewood, counsel was unable to distinguish this case from its forerunners.

The distinction, that Transclean has identified, is not a meaningful one, however. The ascertainment of good will is not a particularly exacting computation; accountants and financial advisers, such as Ludington, isolate the goodwill value of a going concern on a routine

basis, irrespective of whether the business was recently sold. If, as Transclean contends, goodwill should be treated as a separate pool of wealth, from which a royalty should be exacted, then we would have thought that, in every case in which the infringing product was the sole, or principal, commercial commodity of the infringer, a royalty would be extracted from the infringer's goodwill. We are aware of no such rule of law, and Transclean draws none [*39] to our attention. Thus, even if we construed *Minco* as broadly holding, that goodwill was a properly available source of royalty payments over and above the profits of an infringing company, then, as we have noted, the Record is devoid of any showing as to the proper royalty rate, vis-a-vis goodwill, that the Jury should properly find.

Lastly, [HN21] in theory, a proper royalty rate should afford the patent holder the profits, by way of a license or royalty, which would be attributable to the infringement. As we explained, in our Charge to the Jury, on occasion, the reasonable royalty rate would not produce adequate damages, where, for example, the infringer parlayed a sale, because of the infringement, that otherwise would have been made by the patent holder. In such a case, awarding the royalty rate, only, would not compensate the patent holder for the loss of the value of that specific sale, over and above the royalty rate. We understand the *Georgia-Pacific* [11] analysis to envision a royalty rate that would make the patent holder whole. To suggest, as does Transclean, that the reasonable royalty rate merely establishes a floor, upon which the patent holder may claim additional, [*40] subjective enhancements, does not square with the purposes served by a reasonable royalty rate, if that rate is properly established. Where a showing has been made, which supports income that was foregone -- over and above the royalty rate -- such as lost profits from specific sales, or price erosion in the marketplace, which owes to the challenged infringement, then an additive would seem both appropriate, and warranted, if the patent holder is to obtain adequate damages.

11 See *Georgia-Pacific Corp. v. United States Plywood Corp., 318 F Supp. 1116, 1120 (S.D.N.Y. 1970)*, modified and aff'd, *446 F.2d 295 (2nd Cir. 1971)*, cert. denied, *404 U.S. 870, 30 L. Ed. 2d 114, 92 S. Ct. 105 (1971)*(reciting a comprehensive list of fifteen facts in calculating a reasonable royalty rate).

In sum, we have reconsidered the damages issue, as it relates to Transclean's claim to a royalty on Bridgewood's goodwill, and we continue in the belief that Bridgewood is entitled to Judgment as [*41] a matter of law on that score.

4. *Transclean's Motion for Prejudgment Interest.*

[HN22] A patent owner, who is successful in proving infringement, is ordinarily entitled to an award of prejudgment interest. See, *Title 35 U.S.C. § 284 ("Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, * * * together with interest and costs as fixed by the court."); General Motors Corp. v. Devex Corp., 461 U.S. 648, 654-55, 76 L. Ed. 2d 211, 103 S. Ct. 2058 (1983)*("[A] court should normally award prejudgment interest to afford the plaintiff full compensation for infringement."). "Prejudgment interest has no punitive, but only compensatory purposes." *Oiners v. Walgreen Co., 88 F.3d 1025, 1033 (Fed. Cir. 1996)*, cert. denied, *519 U.S. 1112, 136 L. Ed. 2d 838, 117 S. Ct. 951 (1997)*. "Interest compensates the patent owner for the use of its money between the date of injury and the date of judgment." *Id.*, citing *Bio-Rad Lab., Inc. v. Nicolet Instrument Corp., 807 F.2d 964, 969 (Fed. Cir. 1986)*, cert. denied, *482 U.S. 915, 96 L. Ed. 2d 675, 107 S. Ct. 3187 (1987)*; [*42] see also, *Nickson Indus., Inc. v. Rol Mfg. Co., 847 F.2d 795, 800 (Fed. Cir. 1988)*("Generally, prejudgment interest should be awarded from the date of infringement to the date of judgment.").

"In Devex, [HN23] the Supreme Court suggested a court may deny prejudgment interest in certain limited circumstances, for example, where the owner has been responsible for undue delay in prosecuting the lawsuit." *Mahurkan v. C.R. Bard, Inc., 79 F.3d 1572, 1579-80 (Fed. Cir. 1996)*, citing *General Motors Corp. v. Devex Corp., supra at 657*. Here, Bridgewood does not dispute that an award of prejudgment interest is within the Court's discretion, but contends that, in considering any such award, the Court should account for the delays in this litigation which were caused by Transclean. We find no appreciable delay in the manner in which Transclean prosecuted its claims against Bridgewood and, therefore, no diminution in the award of prejudgment interest should be imposed on that score. While, as we have already noted, Transclean awaited some fourteen months, after providing Bridgewood with notice of Bridgewood's

suspected infringement, to institute this [*43] action, that is not the sort of delay that is "undue."

[HN24] "District courts have discretion to limit prejudgment interest where, for example, the patent owner has caused undue delay in the lawsuit," "but there must be a justification bearing a relationship to the award." *Nickson Indus., Inc. v. Rol Mfg. Co., supra at 800*. In an unpublished decision, the Court of Appeals for the Federal Circuit determined that a delay, between the notice of infringement and the commencement in the infringement action, is not "undue" delay such as would "justify limiting the term of prejudgment interest." *Wallace Computer Services, Inc. v. Uarco Inc., 887 F.2d 1095, 1989 WL 106583* **2 (Fed. Cir. 1989) (Table decision). The same result was reached in *Comark v. Harris Corp., 1997 U.S. Dist. LEXIS 10876, 1997 WL 431000* **16 (E.D.Pa., July 17, 1997), aff'd, *156 F.3d 1182 (Fed. Cir. 1998)*, where the hiatus, between the notice of suspected infringement and the commencement of a lawsuit, was approximately seventeen months. In denying the infringer's request to exclude that period of delay from the term of prejudgment interest, the Court noted that, "the fact that seventeen months [*44] passed between the [notice] letter and the lawsuit does not, without more, mean that the delay was 'undue.'" *Id.* Specifically the infringer there, as here, failed to offer some evidence that the "delay was based on an improper reason." *Id.*

Transclean has requested "prejudgment interest at the prime rate plus one percent, compounded annually, and assuming that Bridgewood would make royalty payments semi-annually." In support of its request, Transclean has proffered the Declaration of Ludington which has gone unrebutted. Of course, [HN25] "[a] trial court is afforded wide latitude in the selection of interest rates, * * * and may award interest at or above the prime rate." *Uniroyal, Inc. v. Rudkin-Wiley Corp., 939 F.2d 1540, 1545 (Fed. Cir. 1991)*, citing *Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 556-57 (Fed. Cir. 1984), *Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, 1066 (Fed. Cir. 1983)*, and *Studiengesellschaft Kohle v. Dart Indus., Inc., 862 F.2d 1564, 1579-80 (Fed. Cir. 1988)*. Further, "it has been recognized that 'an award of compound rather than simple interest assures the patent owner is fully [*45] compensated," and "the determination whether to award simple or compound interest is a matter largely within the discretion of the district court." *Rite-Hite Corp. v. Kelly Co., Inc., 56 F.3d 1548, 1555 (Fed. Cir. 1995)*, citing *Fromson v. Western Litho Plate & Supply Co., 13 U.S.P.Q.2d 1856, 1862, 1989 WL 149268 (E.D.Mo. 1989)*, aff'd mem., *909 F.2d 1495 (Fed. Cir. 1990)*, and *Gyromat v. Champion Spark Plug Co.*, supra at 557.

We find an interest rate of prime plus one percent to be appropriate since that was the interest on Bridgewood's line of credit as of April 30, 1998, while Transclean was paying interest, on its own loans, at 15 percent per annum. Additionally, we have allocated the infringement damages, upon which prejudgment interest would be appropriate, from April of 1995 -- when Bridgewood's infringement commenced -- until April of 1998 -- when Bridgewood sold its business to Century. Consistent with Ludington's analysis, which we find to be appropriate, we have compounded the interest annually, and have assumed that Bridgewood would remit royalty payments semi-annually. See, e.g., *Studiengesellschaft Kohle v. Dart Indus., Inc., supra at 1580* [*46] (affirming prejudgment interest at prime rate compounded quarterly). We also compute the prejudgment interest through the date on which Judgment was entered -- November 1, 2000. Using these parameters, prejudgment interest, in the amount of $ 682,122, is awarded to Transclean on its infringement damages, which we find to be $ 1,874,500, as we later detail, for a total infringement damages award of $ 2,556,622.

In addition, and in accordance with the provisions of *Minnesota Statutes Section 549.09*, [12] Transclean is also entitled to interest on the damages awarded for Bridgewood's false advertising. We have computed that interest from the date Transclean filed its Amended Complaint, which first alleged a claim of false advertising, until the date on which Judgment was entered, with the award being computed as simple interest at the Minnesota statutory rate. Accordingly, prejudgment interest, in the amount of $ 5,761, is awarded to Transclean on its fraudulent advertising damages of $ 50,000, for a total award on that claim of $ 55,761.

12 While there is some conflict in the Minnesota cases, we conclude that Transclean is correct in requesting interest under *Section 549.09*, even though the false advertising damages were unliquidated until resolved by the Jury's Verdict. See, *Lienhard v. State, 431 N.W.2d 861, 865 (Minn. 1988)*; *Cox v. Crown CoCo, Inc., 544*

N.W.2d 490, 500 (Minn.App. 1996); but see, *Wenzel v. Mathies, 542 N.W.2d 634, 644 (Minn.App. 1996)*, rev. denied (Minn., March 28, 1996)(concluding that the Minnesota Supreme Court, in *Lienhard* "did not change the rule that prejudgment interest on unliquidated damages is available only when damages are readily ascertainable by computation and not dependent on contingencies or jury discretion."), citing *ZumBerge v. Northern States Power Co., 481 N.W.2d 103, 109 (Minn.App. 1992)*, rev. denied (Minn., April 29, 1992), *Int'l Fin. Servs., Inc. v. Franz, 515 N.W.2d 379, 389 (Minn.App. 1994)*, aff'd in part and rev'd in part on other grounds, *534 N.W.2d 261 (Minn. 1995)*, and *Dear v. Minneapolis Fire Dep't Relief Ass'n, 481 N.W.2d 69, 73 (Minn.App. 1997)*, aff'd as modified, *485 N.W.2d 145 (Minn. 1992)*.

Were there doubt as to the Minnesota Supreme Court's holding, in *Lienhard*, the doubt was erased, for our purposes, by the Court of Appeals for the Eighth Circuit, in *Simeone v. First Bank Nat'l Ass'n, 73 F.3d 184, 191 (8th Cir. 1996)*, where the Court addressed the issue of prejudgment interest, under Minnesota law, as follows:

> [HN26] A trial court's authority to award prejudgment interest is governed by statute. See *Minn. Stat. § 549.09*. Prejudgment interest is an element of damages awarded to provide full compensation by converting time-of-demand damages into time-of-verdict damages. It is designed to compensate the plaintiff for the loss of the use of the money owed. *Johnson v. Kromhout, 444 N.W.2d 569, 571 (Minn.Ct.App. 1989)*. Prior to 1984, prejudgment interest was allowed on an unliquidated claim only where the damages were readily ascertainable by computation or reference to generally recognized standards such as market value. *Solid Gold Realty, Inc. v. J.B. Mondry, 399 N.W.2d 681, 684 (Minn.Ct.App. 1987)*. In 1984, however, *§ 549.09* was amended to provide that "the prevailing party shall receive interest on any judgment or award." *Minn.Stat. § 549.09*. The amended statute allows prejudgment interest "irrespective of a defendant's ability to ascertain the amount of damages for which he might be held liable." *Lienhard v. State, 431 N.W.2d 861, 865 (Minn. 1988)*.

We are satisfied that *Lienhard* interpreted *Section 549.09* to allow an award of prejudgment interest even in those cases involving unliquidated damages, such as the damages arising from Transclean's false advertising claim.

[*47] B. *Bridgewood's Post-Trial Motions.*

1. *Bridgewood's Motion for an Amended Judgment or, in the Alternative, a New Trial on the Damages Issue.*

We begin with a recitation of what Bridgewood's Motion is not. Since Bridgewood did not object to our Jury Instructions, or to the Special Verdict form we employed, as they related to the issue of damages, Bridgewood has no standing upon which to assert that the Jury was misled by either our Charge to the Jury, or by the form upon which the Jury returned its Verdict. See, *Mitsubishi Electric Corp. v. Ampex Corp., 190 F.3d 1300, 1304 (Fed. Cir. 1999)* [HN27] (party waives objection by acquiescing and proposing the verdict form), citing *Hoechst Celanese Corp. v. BP Chemicals, Ltd., 78 F.3d 1575, 1581 (Fed. Cir. 1996)*; *Reorganized Church of Jesus Christ of Latter Day Saints v. U.S. Gypsum Co., 882 F.2d 335, 338 (8th Cir. 1989)*(same); *Dupre v. Fru-Con Engineering Inc., 112 F.3d 329, 334 (8th Cir. 1997)*("To preserve an argument concerning a jury instruction for appellate review, a party must state distinctly the matter objected to and the grounds for the objection."). [13]

> 13 Of course, even in the absence of an objection, we could undertake a "plain error" analysis if an objection would have had substance. See, e.g., *Cross v. Cleaver, 142 F.3d 1059, 1067 (8th Cir. 1998)*("When a party fails to make a timely and adequate objection before the trial

court to a matter subsequently raised on appeal, this court will review the matter only for plain error."). Notably, Bridgewood does not challenge the language employed in any of the operative Instructions, nor does it cite any "patent" error in the Verdict form. Rather, Bridgewood complains of some amorphous "latent" error as having affected the Jury's damages analysis. "Under plain error review, an error not identified by a contemporaneous objection is grounds for reversal only if the error prejudices the substantial rights of a party and would result in a miscarriage of justice if left uncorrected." *Id.,* quoting *Rush v. Smith, 56 F.3d 918, 922 (8th Cir. 1995)(en banc).* Here, Bridgewood points to no such error, and our independent review reveals none.

To the extent that Bridgewood has urged, that the Jury was misled, by the form of the Special Verdict, to treat Interrogatory No. 4 as a minimum damage figure, and Interrogatory No. 5 as the maximum amount of damages that Transclean could recover, the urging finds no support in the language of the Verdict form, or in the Jury Instruction that related to those two Interrogatories. We find it implausible that the Jury could have misread those Interrogatories in the way that Bridgewood advocates.

[*48] Nor does Bridgewood have standing to now complain of the closing argument of Transclean's counsel, or of its own counsel's argument. See, *Alholm v. American Steamship Co., 144 F.3d 1172, 1181 (8th Cir. 1998)*(even [HN28] when the subject of a timely objection, "[a] new trial should be granted where the improper conduct of counsel in closing argument 'causes prejudice to the opposing party and unfairly influences a jury's verdict.'"), quoting *Pappas v. Middle Earth Condominium Ass'n, 963 F.2d 534, 540 (2nd Cir. 1992).* Bridgewood made no timely objection to what it now perceives as misstatements in Transclean's summation to the Jury, and our review of the summation discloses no error, let alone prejudicial error. *Id.* ("Other statements which are cited as grounds for a new trial were not objected to at trial."). As for any objectionable content in the closing argument of Bridgewood's own counsel, we are unable to perceive how Bridgewood could now responsibly seek rectification for the statements of its counsel, freely made in open Court, which did not constitute "plain error." [14]

14 Counsel for Bridgewood expresses concern that his suggestion to the Jury, during closing argument, that the Court did not wish to try this action on a second occasion, might have intimated that certain of the Jury's responses, on the Special Verdict form, would be considered by the Jury as "advisory." First, we did not inform the Jury that any aspect of the Special Verdict form was advisory, and we find nothing prejudicial, to any party, in counsel's explanation to the Jury, that it would be asked to answer certain damages questions, even though, in Bridgewood's view, the Jury should find that Bridgewood had not infringed upon Transclean's patent. See, *Partial Transcript Vol VI, May 2, 2000,* at p. 49-50. As unremarkable, cryptic, and oblique, as counsel's comment was, we have no reason to believe that it had any potential to unfairly influence the Jury's Verdict.

[*49] Shorn of its distractions, Bridgewood's Motion is simply an effort to secure a new Trial, on the ground that the Jury's damages award, when the Jury's Answers to Interrogatories 4 and 5 are combined, finds no substantial support in the evidentiary Record. Since the Motion is heavily fact-driven, we first trace the contours of the law of infringement damages, and then apply that law to the facts before us.

a. *Standard of Review.* As we have previously related, [HN29] Title *35 U.S.C. § 284* "mandates that a claimant receive damages 'adequate' to compensate for infringement." *Rite-Hite Corp. v. Kelley Co., Inc.,* supra at 1544.

Section 284 further instructs that a damage award shall be "in no event less than a reasonable royalty"; the purpose of this alternative is not to direct the form of compensation, but to set a floor below which damage awards may not fall. *Del Mar Avionics, Inc. v. Quinton Instrument Co., 836 F.2d 1320, 1326, 5 USPQ2d 1255, 1260 (Fed. Cir. 1987).* Thus, the language of the statute is expansive rather than limiting. It affirmatively states that damages must be adequate, while providing only a lower limit and no other limitation. [*50]

Id.

"The question to be asked in determining damages is 'how much had the Patent Holder and Licensee suffered by the infringement," and "that question [is] primarily: had the Infringer not infringed, what would the Patent Holder-Licensee have made?" *Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507, 12 L. Ed. 2d 457, 84 S. Ct. 1526, 1964 Dec. Comm'r Pat. 760 (1964).*

As the Court of Appeals for the Federal Circuit has explained, in *Rite-Hite:*

> In accordance with the Court's guidance, we have held that [HN30] the general rule for determining actual damages to a patentee that is itself producing the patented item is to determine the sales and profits lost to the patentee because of the infringement. *Del Mar, 836 F.2d at 1326, 5 USPQ2d at 1260*; see *State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1577, 12 USPQ2d 1026, 1028 (Fed. Cir. 1989)*, cert. denied, *493 U.S. 1022, 110 S. Ct. 725, 107 L. Ed. 2d 744 (1990)*(award of damages may be split between lost profits as actual damages to the extent they are proven and a reasonable royalty for the remainder).

Rite-Hite Corp. v. Kelley Co., Inc., supra at 1545.

[HN31] Proving [*51] lost profits, however, is not a facile process, as the proof employs a "but for" test -- the claimant must demonstrate a reasonable probability that, but for the infringement, it would have made the sales that were made by the infringer. See, e.g., *Minco Inc. v. Combustion Engineering Inc., supra at 1119* ("A segment of the infringer's sales may not warrant a lost profits award because the patentee cannot establish causation for that segment" as, "for instance a patent owner may not operate in the specific geographical area covered by the infringer or may not have had the manufacturing or marketing capacity to make the infringer's sales," but "the patentee would still be entitled to a reasonable royalty on each of those sales.").

In *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1156 (Fed. Cir. 1978)*, [HN32] the Court articulated a four-factor test to prove, as but one nonexclusive method, an entitlement to lost profits damages.

> The Panduit test requires that a patentee establish: (1) demand for the patented product; (2) absence of acceptable non-infringing substitutes; (3) manufacturing and marketing capability to exploit the demand; [*52] and (4) the amount of the profit it would have made. Panduit, 575 F.2d at 1156, 197 USPQ at 730. A showing under Panduit permits a court to reasonably infer that the lost profits claimed were in fact caused by the infringing sales, thus establishing a patentee's prima facie case with respect to "but for" causation. *Kaufman Co. v. Lantech, Inc., 926 F.2d 1136, 1141, 17 USPQ2d 1828, 1831 (Fed. Cir. 1991)*. A patentee need not negate every possibility that the purchaser might not have purchased a product other than its own, absent the infringement. Id. The patentee need only show that there was a reasonable probability that the sales would have been made "but for" the infringement. Id.

Rite-Hite Corp. v. Kelley Co., Inc., supra at 1545.

In addition, [HN33] "the Patent Act permits damages awards to encompass both lost profits and a reasonable royalty on that portion of an infringer's sales not included in the lost profit analysis." *Minco Inc. v. Combustion Engineering Inc., supra at 1119*, citing *State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1577 (Fed. Cir. 1989)*, cert. denied, *493 U.S. 1022, 110 S. Ct. 725, 107 L. Ed. 2d 744 (1990)*. [*53]

[HN34] "*[Section 284*] contemplates that when a patentee is unable to prove entitlement to lost profits or an established royalty rate, it is entitled to "reasonable royalty" damages based upon a hypothetical negotiation between the patentee and the infringer when the infringement began." *Unisplay, S.A. v. American*

Electronic Sign Co., Inc., 69 F.3d 512, 517 (Fed. Cir. 1995), citing *Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1078 (Fed. Cir. 1983)*. As the Court went on to explain, in *Maxwell v. J. Baker, Inc., 86 F.3d 1098, 1109 (Fed. Cir. 1996)*, cert. denied, *520 U.S. 1115, 137 L. Ed. 2d 327, 117 S. Ct. 1244 (1997)*:

> [HN35] This "hypothetical negotiation" is often referred to as a willing licensor and licensee negotiation. However, as we previously stated in Rite-Hite, this is an "absurd" characterization of the determination when the parties were previously unable to come to an agreement, i.e., were not "willing," as in this case. * * * Therefore the use of a willing licensee-willing licensor model for determining damages "risks creation of the perception that blatant, blind appropriation of inventions patented [*54] by individual, nonmanufacturing inventors is the profitable, can't-lose course. * * * To avoid such a result, the fact finder may consider additional factors to assist in the determination of adequate compensation for the infringement. These factors include royalties received by the patentee for the licensing of the patent in suit, opinion testimony from qualified experts, the patentee's relationship with the infringer, and other factors that might warrant higher damages. * * * The fact that an infringer had to be ordered by a court to pay damages, rather than agreeing to a reasonable royalty, is also relevant. Under such an analysis, the district court would normally instruct the jury to return a damage award, based on a willing licensee-willing licensor negotiation and these other factors, in an amount sufficient to adequately compensate the patentee for the infringement.

See also, *Stickle v. Heublein, Inc., 716 F.2d 1550, 1563 (Fed. Cir. 1983)*("Trial [HN36] court may award an amount of damages greater than a reasonable royalty so that the award is 'adequate to compensate for the infringement,'" and "such an increase * * * may be stated * * * as a reasonable royalty [*55] for an infringer * * *."); *Fromson v. Western Litho Plate and Supply Co., 853 F.2d 1568, 1575 n. 11 (Fed. Cir. 1988)*("Courts have on occasion recognized the need to distinguish between royalties payable by infringers and non-infringers.").

[HN37] While, upon a proper showing, "additional damages" may be awarded by the fact finder, over and above a reasonable royalty, such additional damages must be proven, by a preponderance of the evidence, to have been caused by the infringement, and to have been reasonably foreseeable. See, e.g., *Rite-Hite Corp. v. Kelley Co., Inc.*, supra at 1546 ("For example, remote consequences such as a heart attack of the inventor or loss in value of shares of common stock of a patentee corporation caused indirectly by infringement are not compensable" and, therefore, "along with establishing that a particular injury suffered by a patentee is a "but for" consequence of infringement, there may also be a background question whether the asserted injury is of the type for which the patentee may be compensated."). Moreover, a reasonable royalty may not be increased by a "kicker" based on litigation or other expenses. See, *Mahurkar v. C.R. Bard, Inc., supra at 1580-81*. [*56]

As the Court of Appeals for the Federal Circuit has made plain, in *Rodime PLC v. Seagate Technology, Inc., 174 F.3d 1294, 1307-08 (Fed. Cir. 1999)*, [HN38] when a claimant elects to forego lost profits as a measure of damages in favor of a reasonable royalty, the claimant may not shift certain "consequential business damages" into the reasonable royalty rate. In the words of the Court:

> * * * Rodime seeks to recover additional damages -- those flowing from Seagate's refusal to take a license -- above and beyond a reasonable royalty. This court discerns no abuse of discretion by the district court in excluding the evidence for that purpose. The "consequential damages" Rodime seeks are merely a species of lost profits. Having elected to pursue only a reasonable royalty, Rodime cannot, in the district court's words, "bootstrap evidence of its lost profits back into the case by reference to 'reasonable royalties.'" Accordingly, this court affirms the district court's grant of Seagate's motion in limine to exclude evidence of

Rodime's consequential business damages.

Id. at 1308.

Lastly, [HN39] "the patent owner bears the burden of proof on damages." [*57] *Fromson v. Western Litho Plate and Supply Co., supra at 1574*.

b. *Legal Analysis.* Of the issues before us, the most troubling, by far, are those which surround the Jury's award of additional damages, over and above a reasonable royalty. From nearly the nascency of this action, Transclean elected to pursue a reasonable royalty as its measure of damages, as those damages might be augmented by any actual losses in sales/profits, or by such related damages, as could be competently shown. As a consequence, we formulated a Special Verdict form which was closely patterned after that approved by the Federal Circuit, in the *Maxwell* case. See, *Maxwell v. J. Baker, Inc., supra at 1110* ("The special verdicts asked the jury to answer two separate inquiries, the amount of a 'reasonable royalty' and the additional damages required to compensate for infringement" and, as such, "we do not find this to be an abuse of discretion."). "The first inquiry required the jury to determine the royalty that two willing parties would negotiate; the second inquiry required the jury to determine the increase in the damages required to adequately compensate the patentee based [*58] on other relevant factors." *Id.*

Here, the Jury determined reasonable royalty damages in the amount of $ 934,618.75. In reaching this result, the Jury was presented with unchallenged evidence that, during the years of infringement, Bridgewood had net sales of $ 11,503,000, and profits of $ 3,749,000, all derived from a single product -- the device that the Jury determined was infringing upon Transclean's patent. As for a reasonable royalty rate, the Jury was afforded several different valu-ations. Gey, who secured the only license to market on Transclean's patent, testified that he researched the issue and determined that a reasonable royalty rate should be 5% but, on behalf of Century, he agreed to pay Transclean a royalty of 9% of sales. The owners of Transclean were each paid an 8% royalty on Transclean's sales. In contrast, Westman testified to his opinion that a reasonable royalty, under a *Georgia Pacific* analysis would be 11% of sales, or one-third to one-half of Bridgewood's profits. As a result, the Jury's award of reasonable royalty damages was on the low side of the scale, as it constituted approximately 8% of Bridgewood's sales revenues, or 25% of Bridgewood's profits. [*59] Notably, in reaching his opinion on a range of reasonable royalties, Westman testified that he considered those factors which would properly reflect a reasonable royalty for an infringer. See, e.g., *Fromson v. Western Litho Plate and Supply Co., supra at 1575 n. 11* ("Courts have on occasion recognized the need to distinguish between royalties paid by infringers and non-infringers."); *Maxwell v. J. Baker, Inc., supra at 1109-10* [HN40] ("The fact that an infringer had to be ordered by a court to pay damages, rather than agreeing to a reasonable royalty, is also relevant [to the determination of a reasonable royalty].").

Plainly, the Jury did not consider its finding of reasonable royalty damages to adequately compensate Transclean for Bridgewood's infringement, as it also awarded additional damages of $ 1,874,500 -- an amount that equates with 50% of Bridgewood's profits during the period of infringement. During the course of its closing argument, Transclean urged the Jury to return 50% of Bridgewood's profits as a reasonable royalty, and the other 50% as additional damages. Although Bridgewood contends that this argument was objectionable, because Transclean [*60] sought only reasonable royalty damages, but had now shifted, without forewarning, to lost profits damages, no objection was then voiced. Transclean rightly complains that, having not objected to its argument at a time when the error could be corrected, Bridgewood waived any objection to Transclean's shift to a different measure of damages. Irrespective of Bridgewood's failure to object, our obligation is to ensure that the Jury's Verdict was supported by substantial evidence, and we find that the portion of the Jury's Verdict, which awards Transclean additional damages, in the amount of $ 1,874,500, is not supported by substantial evidence.

We do not lightly set aside any portion of a Jury's Verdict. [HN41] "The determination of the amount of damages based on a reasonable royalty is an issue of fact." *Unisplay, S.A. v. American Electronic Sign Co., Inc., supra at 517*, citing *SmithKline Diagnostics, Inc. v. Helena Lab. Corp., 926 F.2d 1161, 1164 (Fed. Cir. 1991)*. "When a party files a motion to amend the judgment or in the alternative to grant a new trial on the amount of damages awarded by a jury, 'the trial court determines whether the jury's verdict is [*61] against the

clear or great weight of the evidence.'" *Id.*, quoting *Standard Havens Prods. v. Gencor Indus., 953 F.2d 1360, 1367 (Fed. Cir. 1991)*, cert. denied, *506 U.S. 817, 121 L. Ed. 2d 28, 113 S. Ct. 60 (1992)*. "The district court has wide discretion in determining whether to grant a new trial under this standard" and, therefore, our decision on that issue is governed by an abuse of discretion standard of review. *Id.*

As pertinent to the issue of additional damages, we instructed the Jury as follows:

> When infringement of a valid claim has been shown, a patent owner is entitled to damages adequate to compensate for the infringement. Damages awarded for the infringer's use of the invention may be no less than a reasonable royalty. The amount of money awarded to compensate for damages sustained as a result of the infringement may, however, be more than a reasonable royalty. Damages must be proven by a preponderance of the evidence.
>
> * * *
>
> The minimum amount of monetary damages that you may award is a reasonable royalty. A "reasonable royalty" is the amount of money which the owner of a patent, who is desirous of licensing another to [*62] use the patent in return for a royalty, but who is not forced by financial need or other compulsion to do so, would accept, and the amount which a person who is desirous of obtaining a license to use the invention would be willing to pay as a royalty.
>
> In determining a reasonable royalty, you are to imagine Transclean and Bridgewood in a hypothetical arms-length negotiation. An arms-length negotiation is one which both Transclean and Bridgewood would enter into freely and voluntarily, and not because of financial need or compulsion. The reasonable royalty should be an amount which a prudent licensee would have been willing to pay as a royalty and which a prudent patent owner would have been willing to accept in order to grant a license. A reasonable royalty does not include a royalty which a patent owner would find unreasonable. Similarly, what an infringer would prefer to pay is not the test for a reasonable royalty. The determination of a reasonable royalty is based on what a willing licensor and licensee would bargain for at hypothetical negotiations on the date infringement started.
>
> In determining a reasonable royalty, you are entitled to consider any evidence bearing [*63] upon any profits that the infringer may have obtained from the infringement, as well as any evidence bearing upon the amount of money the patent holder may have lost because of the infringement. You may also consider the value that the infringer may have obtained in promoting its other products. The royalty can be measured as a flat dollar amount per product, or as a percentage of the infringer's revenues or profits from sales of infringing products, or as a fixed dollar amount, or any combination of these.
>
> * * *
>
> The law recognizes that the parties in this case did not engage in any negotiation to arrive at an appropriate royalty rate. In some cases, the use of a willing licensee-willing licensor model for determining damages may place an infringer in a no-lose position which actually rewards the infringer for not negotiating a royalty prior to its infringement. To avoid such a result, if you find that the Plaintiffs were damaged by the infringement in an amount greater than a reasonable royalty on each device actually sold by the Defendant you may award an additional amount of money necessary to adequately compensate the Plaintiffs.
>
> By way of example, if you find that the [*64] Plaintiffs lost specific sales of

> their product because of the Defendant's infringement, and if you further find that a reasonable royalty will not adequately compensate the Plaintiffs for that loss, then you may award damages for the amount of that loss which the Plaintiffs have proven. Or, if you find that the price of the Defendant's product caused price decreases in the market for the same or similar goods, so as to erode the price of the Plaintiffs' product, and if you further find that a reasonable royalty will not adequately compensate the Plaintiffs for that loss, if any, then you may award damages for the amount of that loss which the Plaintiffs have proven. As to this element of damages, you may not consider the value of the good will, if any, that the Defendant received at the time that it sold its business to Century Manufacturing on April 30, 1998.
>
> If you find, by a preponderance of the evidence, that the Plaintiffs are entitled to a portion of the good will value of the Defendant, if any, at the time that the Defendant sold its business to Century Manufacturing, then you may award that measure of damages in response to the Special Verdict Question that addresses [*65] that specific item of damages.
>
> * * *
>
> If, under the Court's Instructions, you should find the Plaintiffs are entitled to a Verdict, in fixing the amount of your Verdict you may not include in or add to an otherwise just award any sum for the purpose of punishing the Defendant, or to set an example.

We then instructed the Jury on the *Georgia Pacific* factors which could inform its determination of a reasonable royalty, including "the fact that Bridgewood had to be ordered by the Court to pay damages rather than agreeing to a reasonable royalty; [and] any other economic factor that normally prudent businesses would, under similar circumstances, take into consideration in negotiating the hypothetical license." As is our practice, copies of the Jury Instructions accompanied the Jury during its deliberations. Neither party -- and most notably Bridgewood -- has suggested any error in either the Instructions, or the Special Verdict form, that were given to the Jury. *Bridgewood's Reply Memorandum*, at p. 1 ("Bridgewood's arguments are not based on any patent ambiguity in the instructions or the form, which on its face appeared proper.").

As noted, the Jury determined [*66] that approximately 25% of Bridgewood's profits was a reasonable royalty -- an amount that appreciably fell short of the range of reasonable royalties identified by Westman. We do not quarrel with that finding, nor does Bridgewood or Transclean, except that Bridgewood contends that the Jury employed this finding as setting the minimum amount that it owed to Transclean. See, *Bridgewood's Memorandum in Support of its Post-Trial Motions*, at 2 ("Bridgewood submits that the $ 934,618.75 should be interpreted as an advisory response as to the **minimum** damages that the court could award, which was determined as a matter of judicial economy, and that such amount should not be "added" to the $ 1,874,500 given as adequate to compensate for infringement.") [emphasis in original]; *Transclean's Memorandum in Opposition to Bridgewood's Post-Trial Motions*, at 10 ("The jury, clearly after much deliberation, awarded $ 934,618.75 in reasonable royalty damages," and "an award of a reasonable royalty in that amount is easily supported by Transclean's experts' testimony.").

As instructed, the Jury could award damages, over and above reasonable royalty damages, if it was shown, by a preponderance [*67] of the evidence, that Transclean had suffered actual losses, not compensated by a reasonable royalty, such as a loss of specific sales to Bridgewood, or an erosion in the price of Transclean's product, that was induced by Bridgewood. Transclean offered no competent proof of actual losses, either through price erosion or through the loss of specific sales. While Transclean argued, in its summation to the Jury, that all of Bridgewood's profits were losses to Transclean, Transclean failed to establish the requisite causation element, between Bridgewood's profits, and Transclean's losses.

Of course, if there were only Transclean and Bridgewood in the competitive market of transmission fluid exchangers, then a presumption of causation would have been available to Transclean. See, *Grain Processing*

Corp. v. American Maize-Products Co., 185 F.3d 1341, 1349 (Fed. Cir. 1999), citing *Lam, Inc. v. Johns-Mansville Corp., 718 F.2d 1056, 1065 (Fed. Cir. 1983)*, for the proposition "that [HN42] the patent owner may satisfy his initial burden [of proving causation in fact] by inference in a two-supplier market." Since the Record reveals the presence of competitors, in the [*68] relevant marketplace of both Transclean, and Bridgewood, proof of causation, between Bridgewood's profits, and Transclean's asserted losses, was required. As the Court of Appeals for the Federal Circuit has recently explained:

> [HN43] To recover lost profits, the patent owner must show "causation in fact," establishing that "but for" the infringement, he would have made additional profits. See *King Instruments Corp. v. Perego, 65 F.3d 841, 952, 36 USPQ2d 1129, 1137 (Fed. Cir. 1995)*. When basing the alleged lost profits on lost sales, the patent owner has an initial burden to show a reasonable probability that he would have made the asserted sales "but for" the infringement. See id.; Rite-Hite, 56 F.3d at 1545. Once the patent owner establishes a reasonable probabilility of "but for" causation, "the burden then shifts to the accused infringer to show that [the patent owner's "but for" causation claim] is unreasonable for some or all of the lost sales." 56 F.3d at 1544.

Grain Processing Corp. v. American Maize-Products Co., supra at 1349.

The Record before us does not allow any showing of reasonable probability that Transclean would have [*69] secured a sale "but for" the infringement of Bridgewood.

Indeed, of all of Bridgewood's sales, only two were isolated, in Transclean's argument to the Jury, as sales that Transclean lost "head-to-head" with Bridgewood. These were early sales to Valvoline, and to Q-Lube. Unfortunately for Transclean's argument, the factors that were identified in *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., supra at 1156*, as essential to a finding of "but for" causation, were not established here. The testimony of Viken was predicated on his "understandings" of how many devices were purchased by Q-Lube, and Valvoline, and the Record is not clear whether either of those purchasers were limited, in their selection of transmission fluid exchangers, to only the products of Bridgewood and Transclean. Certainly no one from either of the asserted purchasers testified to the purchases, or how they were consummated. More importantly, there was no testimony that Transclean was capable of furnishing the equipment in question, since its sales, to the date of the Trial, were vastly overshadowed by the number of machines that Viken stated were the subject of the Q-Lube, and Valvoline, purchases.

[*70] In fact, Transclean expressly argued to the Jury, in the context of its requested damages on the false advertising claim, that these sales to Valvoline, and Q-Lube, were unlawfully commandeered by Bridgewood's misleading advertisements, and the Jury returned only $ 50,000 in damages on that claim. While we cannot be certain that some portion of the additional damages, which the Jury awarded to Transclean, had been prompted by these sales, nonetheless, by our computation, if the Jury found a reasonable probability, that these sales would have gone to Transclean, absent Bridgewood's infringement, then the additional damages award would have been approximately $ 523,800 -- arising from the sale of approximately 873 units at Transclean's $ 600 profit margin. Cf., *Transclean's Memorandum in Opposition to Bridgewood's Post-Trial Motions*, at p. 17 ("The jury heard evidence that Transclean's per unit profit on its machine was $ 600, indicating lost profits on the sales to Valvoline and Q-Lube alone of at least $ 523,000 * * *.") We are aware of no other evidence upon which the Jury could have responsibly relied in finding additional damages in the amount of $ 1,874,500.

We are mindful [*71] that Transclean believes that the evidence supports an additional damages award of $ 939,881.25, because Westman testified that Transclean was entitled to as much as 50% of the profits of Bridgewood -- that is, $ 1,874,500 -- and since the Jury only found reasonable royalty damages of $ 934,618.75, the reasoning in *Maxwell v. J. Baker, Inc., supra at 1110-11*, requires the award of the rest of that "reasonable royalty." *Transclean's Memorandum in Opposition to Bridgewood's Post-Trial Motions*, at 10 ("The jury also found that an additional $ 1,874,500 was necessary to adequately compensate Transclean for

Bridgewood's infringement" and, "based solely on Mr. Westman's testimony, $ 939,881.25 of this additional amount is supported by the evidence."). While we have no quarrel with the Court's holding, in *Maxwell*, we do not believe that anything resolved in that case would allow the interpretation that Transclean would have us draw from that decision. There, the Jury determined that a $ 0.05 royalty per unit was reasonable, but also allowed an additional $ 0.05 per unit award of additional damages because, the Court found, the evidence demonstrated that Maxwell had [*72] obtained a $ 0.10 royalty per unit, before the infringers of her patent forced a reduction to $ 0.05 per unit because of their pervasive infringement. Transclean has identified no similar evidence in this case, nor can it. [15]

15 Transclean has argued, in part, as follows:

> The jury was properly instructed that in determining the amount, if any, of additional damages adequate to compensate, it could take into account Bridgewood's profits from that infringement. Jury Instructions at 60-63. The total patent infringement damages awarded by the jury is $ 2,809,118.75, which is $ 934,881.25 less than the undisputed total profits earned by Bridgewood due to its infringement of Transclean's patent. Thus, the jury's damages award still leaves Bridgewood nearly $ 1 million in profits from its infringing activities, besides more than $ 6 million it received when it sold its assets in April 1998. This surely makes Bridgewood's infringement a profitable venture for its principals.

Transclean's Memorandum in Opposition to Bridgewood's Post-Trial Motions, at 11.

In support of the argument, Transclean cites to our Jury Instructions which relate to the ascertainment of a reasonable royalty. Here, the Jury determined that a reasonable royalty would amount in $ 934,618.75 in damages to Transclean. For Transclean to argue that it is allowed an additional reasonable royalty -- in the amount of $ 1,874,500 -- is not only unsupported in the Record before us, but also in the applicable law. Not surprisingly, Transclean offers no decisional support for that contention.

[*73] Accordingly, we find that the Jury's determination of additional damages, in the amount of $ 1,874,500 is not supported by substantial evidence, and cannot be sustained. Had we found that the evidence of Bridgewood's specific sales to Valvoline, and Q-Lube, was sufficient to satisfy the "but for" standard, we could adjust the Jury's finding of additional damages accordingly. Having concluded that the evidence was insufficient to sustain a "but for" finding of causation, we are compelled to order a new Trial on the issue of infringement damages, unless Transclean agrees to a remittitur of the excessive portion of the damage award. See, *Unisplay, S.A. v. American Electronic Sign Co., Inc., supra at 519* [HN44] ("The use of remittitur enables parties to avoid the delay and expense of a new trial when a jury's verdict is excessive in relation to the evidence of record."); *American Road Equip. Co. v. Extrusions, Inc., 29 F.3d 341 (8th Cir. 1994)*(directing remittitur because Jury awarded damages in excess of the amount proved).

We are satisfied that, in granting additional damages, the Jury determined that the reasonable royalty damages were inadequate and, therefore, [*74] we look to the Record, under [HN45] the "maximum recovery rule," which requires that the determination [on whether to accept a remittitur] be based on the highest amount of damages that the jury could properly have awarded based on the relevant evidence." *Unisplay, S.A. v. American Electronic Sign Co., Inc., supra at 519*, citing *Earl v. Bouchard Transp. Co., 917 F.2d 1320, 1328-30 (2nd Cir. 1990)*, and *Marchant v. Dayton Tire & Rubber Co., 836 F.2d 695, 704 (1st Cir. 1998)*. Bridgewood concedes that, under the Record presented to the Jury, a total infringement damages award of $ 1,874,500 would be justified. [16] Based upon our close review of the Record, as a whole, we find and conclude that, under the maximum recovery rule, Transclean can either elect a new Trial on the issue of damages, or accept a total damages award, arising from Bridgewood's infringement, in the amount of $ 1,874,500. Simply stated, there is ample evidence of Record which would sustain infringement damages equaling 50% of Bridgewood's profits, but there is no evidence that would support a

recovery of 75% of Bridewood's profits as infringement damages. Transclean must [*75] make its election **by no later than January 26, 2001.**

16 As urged by Bridgewood:

> [Westman] testified that, considering all of the circumstances, "one-third to one half of Bridgewood's profits (with profits deliberately undefined) would compensate Transclean for the infringement. Mr. Westman's opinion took into account all of the factors that might warrant damages higher than a hypothetical reasonable royalty negotiated at arm's length. It is clear from his own testimony that his figure of one third to one half of Bridgewood's profits was meant to be a reasonable royalty **for an infringer,** as a better way of compensating the patentee, in a situation distinguished from a hypothetical arm's length negotiation. Hence, the $ 1,874,500 amount given in the jury's response to Special Verdict No. 5 (which mathematically equates to one half of Bridgewood's pre-tax profits) is the maximum amount that Mr. Westman said was needed to compensate Transclean for the infringement, and that amount includes both a minimum reasonable royalty and any additional amount necessary to adequately compensate for the infringement. Accordingly, that amount is the maximum amount of damages supported by the evidence and the court should limit the judgment for patent damages to that amount.

Bridgewood's Memorandum in Support of Post-Trial Motions, at p. 3-4 [emphasis in original].

We do not accede to Bridgewood's argument, that Westman's opinion testimony necessarily excluded the potential for additional damages, if properly supported by evidence, but we have concluded that Transclean's evidence of additional damages was insufficient, as a matter of law, to authorize such an award.

[*76] 2. *Bridgewood's Motion for the Entry of Judgment, as a Matter of Law, on Transclean's False Advertising Claim.*

Arguing that Transclean failed to prove any damages arising from its false advertising, Bridgewood seeks an entry of Judgment, as a matter of law in its favor, on that issue. At the close of all of the evidence, we expressed some concern that, under an action for false advertising, Bridgewood would be found liable for using the same, or similar representations, as Transclean has employed in the past. Ultimately, we considered this as a natural result of the parties' pleadings. Transclean asserted a false advertising claim, while Bridgewood did not. While we remain unpersuaded that there is a distinction between Bridgewood's 100% replacement representations, and Transclean's advertisements which claim "all" or a "total" replacement of transmission fluid, the distinction goes nowhere, as Bridgewood did not prosecute a false advertising claim against Transclean. While the Jury could regard the parties' representations as indistinguishable and, therefore, conclude that Transclean could not have sustained any damage from Bridgewood's advertising, which was not appreciably [*77] different from Transclean's, the Jury could also find that Bridgewood's advertising was false. Indisputably, the Jury could not find that Transclean also falsely advertised to Bridgewood's detriment. The issue presented to the Jury was not one of comparable fault.

We instructed the Jury, without objection from Bridgewood, that damages would be appropriate if the proof preponderated in Transclean's favor, and the evidence allowed an award of damages. Evidence substantiated Transclean's claim that potential customers of transmission fluid exchangers were persuaded to purchase Bridgewood's exchanger because of its 100% exchange representation. Similarly, we instructed the Jury, without objection from Bridgewood, as to the measure of damages that would be afforded to Transclean upon a finding of liability under the Lanham Act, and the Minnesota Consumer Fraud Act. In part, we instructed as

follows:

> Transclean's damages may also include the amount Transclean would expend to counteract the public confusion resulting from any false or misleading advertising by Bridgewood. Transclean is entitled to recover the cost of such corrective advertising even if it did not conduct corrective [*78] advertising prior to trial. In determining the cost of such corrective advertising, you may consider the amount Bridgewood has expended on its false or misleading advertisements.

As Transclean argues, without contest from Bridgewood, "in light of Bridgewood's expenditure of more than $ 1.4 million in advertising, the jury's award of only $ 50,000 represents a very nominal sum to engage in corrective advertising." *Transclean's Memorandum in Opposition to Bridgewood's Post-Trial Motions*, at p. 17. [17]

> 17 Any concern that the Jury's award of false advertising damages overlaps its award of infringement damages is resolved by reference to our Instruction to the Jury that, "if you find that the Defendant is liable for infringement damages, as well as for damages under the Lanham Act and/or under a State Statute, you may not compensate the Plaintiffs more than once for the same dollar loss."

Finding no basis upon which to grant Bridgewood Judgment as a matter of law, we deny that Motion.

NOW, THEREFORE, [*79] It is --

ORDERED:

1. That Judgment be entered, in Bridgewood's favor, on Counts II and III of Transclean's Amended Complaint, with each party bearing its own costs and expenses.

2. That Judgment be entered, in Transclean's favor, on Counts I, II, III, IV, and V, of Bridgewood's Counterclaim.

3. That Judgment be entered, as a matter of law, on Bridgewood's claim for a portion of the good will value of Bridgewood, at the time that Bridgewood's assets were sold to Century Manufacturing Company.

4. That Transclean's Motion for Enhanced Damages [Docket No. 182] is DENIED.

5. That Transclean's Motion for Attorney's Fees [Docket No. 182] is GRANTED, in part, consistent with the text of this Order.

6. That Transclean's Motion for Prejudgment interest [Docket No. 182] is GRANTED, and that Transclean is entitled to prejudgment interest in the amount of $ 687,883.

7. That Bridgewood's Motion for a New Trial [Docket No. 188] is GRANTED, unless Transclean accepts a remittitur of $ 1,874,500, plus prejudgment interest of $ 682,122 on its infringement claim, together with fraudulent advertising damages of $ 50,000, plus prejudgment interest of $ 5,761, for a total award of $ 2,612,383.

[*80] 8. That Bridgewood's Motion for the Entry of Judgment, as a matter of law, on Transclean's False Advertising Claims [Docket No. 188], is DENIED.

9. That Transclean shall file its request for attorneys' fees, and its election as to a new Trial, or a Remittitur, **by no later than January 26, 2001,** and that Bridgewood shall file its response, if any, to Transclean's request for attorney's fees, **by no later than February 2, 2001.**

10. That the Clerk of Court should enter Judgment consistent with this Order.

BY THE COURT:

Raymond L. Erickson

UNITED STATES MAGISTRATE JUDGE