

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF TEXAS  
TYLER DIVISION

NETWORK-1 TECHNOLOGIES, INC.

*Plaintiff,*

vs.

ALCATEL-LUCENT USA INC., ET AL.,

*Defendants.*

CASE NO. 6:11-cv-492-RWS-KNM

**JURY TRIAL DEMANDED**

**Network-1's Motion to Exclude Certain Opinions of  
HP's RAND Expert Dr. M. Ray Perryman**

**[filed under seal]**

[confidential information redacted]

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## **I. Introduction.**

Under Rule 702, “expert testimony is admissible only if it is both relevant and reliable.” *Pipitone v. Biomatrix, Inc.*, 288 F.3d 239, 244 (5th Cir. 2002); Fed. R. Evid. 702 (expert testimony must be “based on sufficient facts or data” and use “reliable principles and methods,” “reliably applied ... to the facts of the case.”). “The party offering the expert must prove by a preponderance of the evidence that the proffered testimony satisfies the rule 702 test.” *Mathis v. Exxon Corp.*, 302 F.3d 448, 459-60 (5th Cir. 2002).

HP’s RAND expert, Dr. Perryman, seeks to offer certain unreliable opinions:

- An opinion that royalty stacking could impact HP’s accused products, with no evidence that HP is paying any stacked royalties on the accused technology;
- An opinion applying definitions from the IEEE’s 2015 update to its patent policy, including a new definition of “reasonable rate,” which are not part of the RAND commitment at issue in this case;
- An opinion detailing examples of royalty rates on other patents that were purportedly inflated by patent hold-up, with no evidence that these patents are comparable to the ‘930 patent asserted here;
- An opinion that Network-1’s past licenses were influenced by a threat of injunction, despite his own admission that he has no evidence that this occurred and, moreover, no evidence that would suggest that a non-practicing-entity, like Network-1, could obtain an injunction.

These unreliable opinions should be excluded.

## II. Dr. Perryman’s royalty-stacking opinion should be excluded.

The Federal Circuit has held that “a distinct but integral part of the admissibility inquiry is whether the data utilized in the methodology is sufficiently tied to the facts of the case. In practice, this means that abstract recitations of royalty stacking theory ... are insufficiently reliable.” *Commonwealth Sci. & Indus. Research Organisation v. Cisco Sys., Inc.*, 809 F.3d 1295, 1302 (Fed. Cir. 2015) (internal punctuation and citations omitted); *see Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1234 (Fed. Cir. 2014) (“The district court need not instruct the jury on hold-up or stacking unless the accused infringer presents actual evidence of hold-up or stacking. Certainly something more than a general argument that these phenomena are possibilities is necessary.”). Accordingly, an expert may not offer a royalty stacking opinion without evidence that defendant is paying, or is required to pay, multiple royalties on the accused technology.

Dr. Perryman offers the opinion that royalty stacking could theoretically impact HP’s accused products:

- He states that royalty stacking “may ... arise from the fact that multiple patents (frequently hundreds or even thousands) often apply to a single product, especially in relation to standards-based technologies.” Ex. 1 (Perryman Report) ¶42; ¶59 (“the primary purpose of F/RAND terms is to prevent ... royalty stacking”).
- He identifies 174 Letters of Assurance (LOAs)<sup>1</sup> for the IEEE 802.3 standard (the Ethernet standard) and 18 companies that have submitted LOAs for the 802.3af/at

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<sup>1</sup> Letters of Assurance are letters submitted by a company, to the IEEE, stating whether the company believes it has patents that may be infringed by practicing the standard and whether the company is willing to grant licenses on certain terms. That a company submitted such a letter does not establish that a patent covers a portion of the standard, and when a letter is submitted the IEEE makes no determination of whether a patent is infringed or standard-essential. *See* Ex. 4 (Ringle depo.) 80:17-23, 82:13-20; Ex. 5 (Carlson depo.) 105:12-22.

standard (the Power over Ethernet standard). *Id.* at ¶¶99-100. Dr. Perryman offers the opinion that, if each of the 18 companies that submitted a Letter of Assurance “demanded a royalty of [REDACTED] of a product’s sale price, then [REDACTED] of the [HP] product’s sale price would be allocated to paying royalties.” *Id.* at ¶101.

- He cites an analysis by HP’s technical expert, Dr. Davis, that purportedly identified “a set of relevant patents” for “the various features included within PoE chips.” *Id.* at ¶¶102-103. He further cites a 2003 statement by Network-1 CEO Corey Horowitz that royalties from “standards based infringements ... could be small considering that there are several vendors who might be able to recover.” *Id.* at ¶104.
- He points to 20 other patents purportedly related to PoE and asserts that “at the royalty rate concluded by [Network-1’s expert], [REDACTED]  
[REDACTED]  
[REDACTED] *Id.* at ¶143.

However, Dr. Perryman admits that he did not even “look for” any “evidence that would suggest ... HP is paying royalties or is obligated to pay royalties on any ... Power over Ethernet patent” other than the ‘930 patent asserted in this case. Ex. 2 (Perryman depo.) 318:18-319:1. In fact, he “didn’t see any evidence about HP’s royalties on other patents at all.” *Id.* at 317:10-15. Moreover, HP’s technical expert, Dr. Davis, admits that he did not “identify any patents that ... HPE switches made use of,” Ex. 3 (Davis depo.) 239:17-20, and did not “identify any patents that HPE is paying royalties on.” *Id.* at 240:5-7.

Dr. Perryman’s royalty stacking opinion is exactly the type of “abstract recitations of royalty stacking theory” held to be “insufficiently reliable” under controlling Federal Circuit law. *Commonwealth Sci. & Indus. Research Organisation v. Cisco Sys., Inc.*, 809 F.3d 1295, 1302

(Fed. Cir. 2015). In the words of *Ericsson*, “[t]he mere fact that thousands of patents are declared to be essential to a standard does not mean that a standard-compliant company will necessarily have to pay a royalty to each SEP holder. In this case, [Dr. Perryman] never even attempted to determine the actual amount of royalties [HP is] currently paying for [802.3af] patents.” *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1234 (Fed. Cir. 2014) (internal quotations omitted).

Accordingly, Dr. Perryman’s royalty stacking opinion should be excluded. *See* Ex. 1 (Perryman Report) ¶¶42, 59, 98-104, 143.

### **III. Dr. Perryman’s opinion applying definitions from the IEEE’s 2015 update to its patent policy should be excluded.**

To be admissible, an expert opinion must be “reliably applied . . . to the facts of the case.” Fed. R. Evid. 702. The Federal Circuit has explained that, when analyzing the impact of a RAND commitment on a reasonable royalty, the relevant “facts of the case” are the patent owner’s actual RAND commitment, as defined by the submitted Letter of Assurance. *See Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1230 (Fed. Cir. 2014) (“the trial court should have instructed the jury about Ericsson’s *actual* RAND promises [from its Letter of Assurance]. ‘RAND terms’ vary from case to case.” (emphasis in original)). If an opinion is based on RAND terms that are not part of the patent owner’s Letter of Assurance, the opinion is not tied to the facts of the case (it is tied to the facts of some other hypothetical case) and is therefore not reliable.

For his RAND analysis, Dr. Perryman applied definitions from the IEEE’s 2015 update to its patent policy, including a new definition of “reasonable rate.” *See* Ex. 1 (Perryman Report) ¶¶50-54; Ex. 2 (Perryman depo.) 142:8-12. However, the relevant Letter of Assurance was submitted by former patent owner, Merlot Communications, in 2003, twelve years earlier. *See*

*Id.* at 145:24-146:10. And as demonstrated in Network-1’s concurrently-filed Motion for Partial Summary Judgment Concerning the IEEE’s 2015 Amended Patent Policy, the IEEE’s 2015 update to its patent policy cannot retroactively apply to Merlot’s letter. *See* Network-1’s Motion for Partial Summary Judgment Concerning the IEEE’s 2015 Amended Patent Policy (filed on 4/3/17). Moreover, the definitions from the IEEE’s 2015 patent policy update, including the IEEE’s new definition of “reasonable rate,” do not apply to any licensing obligations based on Merlot’s 2003 Letter of Assurance.<sup>2</sup> *See id.*

Accordingly, Dr. Perryman should not be permitted to offer his opinion purporting to apply the IEEE’s 2015 updated patent policy to this case. *See* Ex. 1 (Perryman Report) ¶¶50-54.

**IV. Dr. Perryman’s patent hold-up opinion for non-comparable patents should be excluded.**

A damages expert may not provide royalty opinions based on “licenses with no relationship to the claimed invention” or “discernible link to the claimed technology.” *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 870 (Fed. Cir. 2010). This is because a reasonable royalty should reflect the economic demand for the particular benefits of the claimed technology. *Id.* at 873. And the benefits (and corresponding royalties) for different patents vary by orders of magnitude. Accordingly, using licenses for non-comparable technologies to determine a reasonable royalty is likely to produce the wrong answer. Moreover, the answer is likely to be biased, because defendants would simply select patents with the lowest royalty rates and plaintiffs would select patents with the highest rates. *See Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1316 (Fed. Cir. 2011) (discussing the risk of such bias). The same logic

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<sup>2</sup> As discussed in our Motion for Partial Summary Judgment on Damages, Dr. Perryman admits that the 2015 definition of “reasonable rate” was not in the IEEE’s 2003 patent policy. Ex. 2 (Perryman depo.) 145:24-146:10. And he did not see “any evidence that Merlot or Network-1 specifically understood that reasonable rate means what the IEEE defined it to mean in 2015.” *Id.* at 150:12-19, 142:19-23.

applies when an expert seeks to use past verdicts for non-comparable patents to suggest a royalty rate for an asserted patent. Accordingly, an expert opinion purporting to compare the royalty rates for non-comparable patents is unreliable. *Id.* at 1317 (“[T]here must be a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue”).

To purport to illustrate how “owners of SEPs [standard essential patents] exploit their position by demanding excessive royalties,” Dr. Perryman seeks to offer examples from other cases where courts awarded a lower reasonable royalty than the patent owner sought. Ex. 1 (Perryman Report) ¶37. For example, that “Innovatio IP Ventures[] demand[ed] in 2013... a royalty rate for its Wi-Fi SEPs that amounted to ‘\$16 per unit for tablet computers,’” but a court awarded only “\$0.0956 per unit.” *Id.* For these examples to be relevant and reliable, the technology asserted would need to offer benefits comparable in value to those offered by the ‘930 patent. Otherwise, the royalty rates demanded and awarded for these technologies would not reflect the proper royalty rate for the ‘930 patent, and it would be highly misleading to suggest otherwise. But Dr. Perryman provides no evidence that any of the technologies he cites are comparable to the ‘930 patent (and there is no such evidence). Accordingly, his opinion is “speculative and unreliable evidence.” *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 868 (Fed. Cir. 2010). What is worse, unconstrained by technical comparability, Dr. Perryman selected low awarded royalty rates (cents per unit) to suggest that the royalty paid for HP’s infringement of the ‘930 patent should be equally low. *See Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1316 (Fed. Cir. 2011) (explaining that a concern with allowing experts to offer royalty rates from non-comparable patents is that the choice of patents will be biased). Moreover, Dr. Perryman’s opinion is barred by Rule 403 because it has no probative value and risks unfair prejudice by encouraging the jury to draw some comparison to the royalty rates for

these other patents, with no evidence that the value of these technologies is comparable to that of the '930 patent.

**V. Dr. Perryman's opinion that Network-1's past licenses were influenced by threat of injunction should be excluded.**

Rule 702 requires "more than subjective belief or unsupported speculation." *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 590 (1993); see *Commonwealth Sci. & Indus. Research Organisation v. Cisco Sys., Inc.*, 809 F.3d 1295, 1302 (Fed. Cir. 2015) (holding that a royalty stacking theory is unreliable if it merely speculates, without evidence, that stacked royalties could be paid). Accordingly, if the expert lacks evidence showing that a theory actually applies to the case, an expert may not offer the theory as a mere possibility. See *Lassigne v. Taco Bell Corp.*, 202 F. Supp. 2d 512, 517 (E.D. La. 2002) (excluding an expert opinion that choking was "possibly" a cause of plaintiff's injury, when the expert lacked evidence to show that choking was actually a cause).

Dr. Perryman asserts that Network-1 has used "the threat of litigation and injunctions to increase the negotiated royalty rates for its patent." Ex. 1 (Perryman Report) ¶107; *id.* at ¶117 ("Network-1 has frequently used the threat of litigation and injunctions to force PoE implementers to agree to pay inflated royalty rates for the '930 patent."). He asserts that, because Network-1 has allegedly "frequently sought or threatened injunctions," "Mr. Mills' purportedly comparable licenses may have been affected by the perceived threat of litigation, which would tend to skew the licensing rates in Network-1's favor." ¶133; *id.* at ¶142 (suggesting that past '930 patent licensees might have paid "more than the value of technology" due to "threats of injunctions").

But Dr. Perryman admits that he did not "identify any evidence that shows that any of Network-1's past settlement licenses were influenced by the threat of an injunction" and that,

moreover, he is “not aware of anything” that would show this. Ex. 2 (Perryman depo.) 184:19-24. He admits that the opinion he is offering in this case is merely that there is a “possibility” that Network-1’s licenses were influenced by a threat of injunction, based only on the fact that Network-1 pleaded injunctive relief. *Id.* at 184:11-18; *see id.* at 57:18-58:5 (he has seen no evidence that Network-1 “did anything more” than plead injunctive relief). He admits, “I do not have evidence that that actually was the case”—i.e., that “the explicit or implicit threat of an injunction actually did influence past Network-1 license agreements.” *Id.* at 184:11-18.

Moreover, he admits that he is “not aware of a...situation” where a non-practicing entity could even possibly get an injunction, because “irreparable harm ... typically is not the case.” Ex. 2 (Perryman depo.) 177:12-23. He has not “seen any evidence that would show that Network-1 ever suffered irreparable harm,” nor “any evidence that Network-1 could not be compensated by money damages.” *Id.* at 181:14-21, 183:3-9. In his work in over 50 patent cases, he has never seen a non-practicing-entity get an injunction. *Id.* at 177:24-178:24.

Accordingly, Dr. Perryman’s opinion that it is “possible” that Network-1’s past settlements were influenced by the threat of injunction is “unsupported speculation.” *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 590 (1993). This opinion should be excluded.

## **VI. Conclusion.**

For the above reasons, the Court should strike the following portions of Dr. Perryman’s report. Dr. Perryman should not be permitted to offer these opinions at trial.

- **Royalty stacking opinion:** ¶¶42, 98-104, from Dr. Perryman’s 11/30/16 Report, and the identified portions of ¶59 (“the primary purpose of F/RAND terms is to prevent ... royalty stacking”) and ¶143 (from the sentence that begins, “[Mr. Mills] fails to consider the numerous other technologies and patents related to PoE technology...” through the end of this paragraph).

- **Opinion applying RAND definitions from the IEEE’s 2015 update to its patent policy:** ¶¶50-54 from Dr. Perryman’s 11/30/16 Report.

- **Patent hold-up opinions for non-comparable patents:** ¶37 from Dr. Perryman’s 11/30/16 Report.

- **Opinions that Network-1’s past licenses were influenced by threat of injunction:**

The identified portions, from the following paragraphs of Dr. Perryman’s 11/30/16 Report:

- ¶91 (Network-1’s “practice of threatening ... injunctions as a tool to pressure product manufacturers into taking a license is demonstrably inconsistent with F/RAND”);
- ¶92 (“the threat of ... injunctions was prevalent for the non-settlement agreements as well”);
- ¶107 (“The company has repeatedly used the threat of ... injunctions to increase the negotiated royalty rates for its patent.”);
- ¶117 (“Network-1 has frequently used the threat of ... injunctions to force PoE implementers to agree to pay inflated royalty rates for the ’930 patent.”);
- ¶133 (the opinion that “some of the negotiated license terms in Mr. Mills’ purportedly comparable licenses may have been affected by the perceived threat of litigation, which would tend to skew the licensing rates in Network-1’s favor” because “Network-1 has ... has frequently sought or threatened injunctions against the Defendants of these suits.”);

- ¶142 (“It is extremely speculative of Mr. Mills to arbitrarily select a percentage to inflate his royalty rate” because “there are often legitimate reasons that Defendants pay more than the value of technology in settlements, including ... threats of injunctions”).

A proposed order is attached.

Dated: April 3, 2017

Respectfully submitted,

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