IN THE UNITED STATES DISTRICT COURT

FOR THE EASTERN DISTRICT OF TEXAS

TEXARKANA DIVISION

MAXELL, LTD.,

Plaintiff,

v.

APPLE INC.,

Defendant.

Civil Action No. 5:19-cv-00036-RWS

JURY TRIAL DEMANDED

[redacted]

APPLE INC.'S SURREPLY TO MAXELL'S MOTION TO STRIKE MR. GUNDERSON'S USE OF OFFERS MADE IN LICENSING NEGOTIATIONS AND EXCLUDE TESTIMONY REGARDING THE SAME

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I. INTRODUCTION

The [redacted] offers Maxell seeks to strike do not fall under the ambit of Rule 408. Maxell itself said the offers were made in the context of a potential "business transaction." [redacted] Even if they were made under the threat of litigation, the Federal Circuit has endorsed their use for the exact purposes on which they are relied by Mr. Gunderson.

II. ARGUMENT

Maxell needed to show that the offers (1) were made under threat of litigation and (2) are used for an inadmissible purpose under Rule 408. It has done neither.

A. There Was No Threat Of Litigation [redacted]

Maxell has now had two opportunities to show that it made a litigation threat either before or at the time the parties exchanged offers [redacted], and has failed to do so both times. [redacted] *See* D.I. 430 at 3–4. [redacted] . [redacted] . If there was ever any doubt that Maxell never threatened Apple with litigation, Maxell resolved it when it called the negotiations a "business transaction" (D.I. 111 at 3) [redacted] D.I. 403-2 at 134:21-135:8. [redacted] D.I. 430 at 2

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(emphasis added), [redacted]. D.I. 65-52 (Loudermilk Decl.) ¶ 4 [redacted]. D.I. 430 at 2. [redacted] D.I. 430 at 2. [redacted]

The cases Maxell does cite to assert that the undisputed circumstances surrounding the negotiations constitute a "threat of litigation" are both easily distinguished. In *Pioneer Corp. v. Samsung SDI Co.*, No. 2:06-CV-384-DF, 2008 WL 11348480 (E.D. Tex. Oct. 15, 2008), the court excluded evidence of settlement negotiations where the patentee provided "tangible evidence of [defendant's] infringement," and both parties then engaged outside counsel. *Id.* at *2. But it admitted negotiations between plaintiff and an accused infringer who engaged "in an arms-length business transaction," even though "the parties 'disputed both the validity and infringement claims regarding each other's respective patents.'" *Id.* at *3. *Pioneer* thus confirms Apple's view: [redacted] confirms these negotiations are admissible. And *Cornell Research Found., Inc. v. Hewlett-Packard Co.*, No. 5:01-CV-1974 (NAM/DEP), 2007 WL 4349135 (N.D.N.Y. Jan. 31, 2007), which Maxell cites for the proposition that "the time that transpired between the offers and the lawsuit is irrelevant" (D.I. 430 at 3), says nothing of the kind. To the contrary, the court in *Cornell* held

[1] [redacted] D.I. 430-2 at 106:15-25.

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that it was unnecessary for it "to stake out a position on [the] thorny issue" of "whether a threat of litigation was made and had advanced sufficiently, at the time of the negotiations," because the challenged negotiations were admissible for reasons other than those prohibited by Rule 408. 2007 WL 4349135 at *17–18.

Maxell does nothing to distinguish Apple's cases that confirm the facts here support a finding of no litigation threat. In *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, contrary to what Maxell insinuates in a footnote (D.I. 430 at n.2), the court actually admitted evidence of negotiations that had not crystallized into threats of litigation. 561 F.2d 1365, 1373 (10th Cir. 1977). In *Deere & Co. v. Int'l Harvester Co.*, the Federal Circuit confirmed that Rule 408 is not applicable to "an offer, albeit one ultimately rejected, to license an, as yet, uncontested patent," made three years before a lawsuit was filed. 710 F.2d 1551, 1556–57 (Fed. Cir. 1983). And in *Datatreasury Corp. v. Wells Fargo & Co.*, the court acknowledged that factors it had previously considered to exclude litigation-related license evidence, e.g., in *Cybergym*, go to weight rather than admissibility. No. 2:06-CV-72 DF, 2010 WL 903259, at *1–2 (E.D. Tex. Mar. 4, 2010) (citing *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 872 (Fed. Cir. 2010)). These cases are directly on point here, and compel denying Maxell's motion.

B. Mr. Gunderson Relies On The Offers For Admissible Purposes

Even if Maxell had established that the offers were made under threat of litigation (it has not), they are still admissible for the purposes for which Mr. Gunderson uses them. [redacted] D.I. 430 at 4. But the law confirms that amounts are admissible for a proper damages analysis. *See Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1326 (Fed. Cir. 2009) (admitting evidence of amounts as relevant to "the question of whether the licensor and licensee would have agreed to a lump-sum payment

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or instead to a running royalty based on ongoing sales or usage").

Maxell also concedes that Mr. Gunderson uses the offers it challenges only to set outer bounds, but then asks the Court to ignore the Federal Circuit's precedent that offers are admissible for precisely that purpose as part of the hypothetical negotiation, notwithstanding Rule 408. Maxell has no credible way to distinguish those cases.

Maxell argues that *Fromson v. Advance Offset Plate Inc.*, 837 F.2d 1097, 1987 WL 24566, at *2 (Fed. Cir. 1987) "never even reached the issue of what constitutes a permissible purpose." D.I. 430 at 5 n.7. But that's not correct. The Federal Circuit directly addressed this question, overruling the plaintiff's objection that license negotiations should have been excluded under Rule 408 and holding that "[t]he court permissibly found [] that these were not offers to compromise but merely opening gambits in an expected negotiation." 1987 WL 24566, at *2.

To distinguish *Hughes Aircraft Co. v. United States*, 31 Fed. Cl. 481, 488 (1994), where the court held that "historical licensing offers" were "highly significant" to place a "ceiling" on the royalty rate because "a royalty arrived at through the hypothetical negotiation process must fall below the universally rejected level of the offers made by [the Plaintiff]," Maxell ignores the facts and tries to reframe the case as discussing "indicia of reliability." D.I. 430 at 4–5. But the parties in *Hughes* were not disputing reliability—they were disputing whether the offers were "inadmissible in light of Rule 408." 31 Fed. Cl. at 487. The court thus found that the patentee's license offers "met the criteria of both the 'otherwise discoverable' and 'another purpose' exceptions" to Rule 408. *Id.*

And in *Studiengesellschaft Kohle, m.b.H. v. Dart Indus., Inc.*, the Federal Circuit affirmed the district court's decision to lower the floor of the parties' negotiations based on consideration of a litigation settlement. 862 F.2d 1564, 1570 (Fed. Cir. 1988). The special master erred by disregarding the settlement and setting a "floor rate" higher than the rate in the

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