IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

WONDERLAND SWITZERLAND AG,	)	
	)	
Plaintiff,	)	
	)	Case No. 1:20-cv-00727-JPM
v.	)	
	)	
EVENFLO COMPANY, INC.,	)	
	)	
Defendant.	)	

ORDER GRANTING IN PART AND DENYING IN PART PLAINTIFF WONDERLAND'S DAUBERT MOTION

Before the Court is Plaintiff Wonderland Switzerland AG's ("Wonderland") Daubert Motion to exclude the testimony of Mark A. Peterson and accompanying Opening Brief and Declarations of David M. Tennant, filed on March 10, 2022. (ECF Nos. 105–08.) Defendant Evenflo Company, Inc. ("Evenflo") filed its Brief in Opposition and accompanying Declaration of Lydia C. Raw on March 28, 2022. (ECF Nos. 117, 118.) Wonderland filed its Reply Brief and accompanying Declaration of Bijal V. Vakil on April 8, 2022. (ECF Nos. 130, 132.) For the reasons discussed below, Wonderland's Motion to Exclude is **GRANTED IN PART** and **DENIED IN PART**.

I. BACKGROUND

Mark A. Peterson is a damages expert for Evenflo. (ECF No. 107-1 at PageID 1571.) He intends to testify as to the hypothetical royalty rate that would have been agreed upon had Evenflo sought a license from Wonderland for use of U.S. Patent Nos. 7,625,043 (the "'043 patent") and 8,141,951 (the "'951 patent"). (Id. at PageID 1569.) He also intends to rebut the opinions of

Wonderland's damages expert, W. Todd Schoettelkotte. (Id.) Mr. Peterson is the founder of Robinwood Consulting LLC, a "firm focused primarily on the valuation of intellectual property and the calculation of economic damages in litigation." (ECF No. 107-1 at PageID 1571.) Mr. Peterson also has additional experience valuing intellectual property and providing litigation support. (Id.) The '043 patent entitled "Child car seat with multiple use configurations" describes a car seat that has multiple use configurations, and a car seat with a seat back that can be detached to form a no-back booster seat. (ECF No. 1 ¶ 14–15.) The '951 patent entitled "Child safety seat" describes "a car seat with a mechanism for adjusting the height of the backrest." (ECF No. 1 ¶ 19.)

Wonderland seeks to exclude certain portions of Mr. Peterson's testimony regarding damages attributable to the '951 and '043 patents. (ECF Nos. 105, 106.) Wonderland makes two basic arguments for why Mr. Peterson's testimony should be excluded: (1) Mr. Peterson improperly selected a hypothetical negotiation date that was too far from when sale of the accused products began, and (2) Mr. Peterson improperly limited the reasonable royalty damages based on Design-Around costs. (ECF No. 106 at PageID 1478.)

II. LEGAL STANDARD

There are three requirements that must be met for a proposed expert's opinion to be admissible: "(1) the expert must be qualified; (2) the opinion must be reliable; and (3) the expert's opinion must relate to the facts." Kraft Foods Grp. Brands LLC v. TC Heartland, LLC, 232 F. Supp. 3d 632, 633 (D. Del. 2017) (citing Elcock v. Kmart Corp., 233 F.3d 734, 741 (3d Cir. 2000)). In evaluating the reliability of expert opinion testimony, a trial court must consider whether the testimony is based on "sufficient facts or data," whether it is the "product of reliable principles and methods," and whether the expert "has applied the principles and methods reliably to the facts of the case." Fed. R. Evid. 702. In carrying out this analysis, the Court considers multiple factors, including (but not limited to)

> whether 1) a theory or technique is scientific knowledge that will assist the trier of fact; 2) the theory or technique has been subjected to peer review and publication; 3) the known or potential rate of error, and the existence and maintenance of standards controlling the technique's operation; and 4) the general acceptance of the theory or technique.

Montgomery County v. Microvote Corp., 320 F.3d 440, 447 (3d Cir. 2003) (citing Daubert v. Merrell Dow Pharmaceuticals, Inc., 509 U.S. 579 (1993).)

The party offering the expert's testimony has the obligation to prove the expert's qualifications by a preponderance of the evidence. Mahmood v. Narciso, 549 Fed. App'x 99, 102 (3d Cir. 2013) (citing In re TMI Litig., 193 F.3d 613, 663 (3d Cir. 1999)). That being said, "the rejection of expert testimony is the exception rather than the rule." Fed. R. Evid. 702 advisory committee's note, 2000 amend. The party offering the expert's testimony does "not have to demonstrate to the judge by a preponderance of the evidence that the assessments of their experts are correct, they only have to demonstrate by a preponderance of evidence that their opinions are reliable." In re Paoli R.R. Yard PCB Litig., 35 F.3d 717, 744 (3d Cir. 1994). Mere weaknesses in the factual basis of an expert witness opinion bear on the weight of the evidence rather than on its admissibility. Breidor v. Sears, Roebuck and Co., 722 F.2d 1134, 1138–39 (3d Cir. 1983) ("Where there is a logical basis for an expert's opinion testimony, the credibility and weight of that testimony is to be determined by the jury, not the trial judge").

"To be admissible, expert testimony opining on a reasonable royalty must 'sufficiently [tie the expert testimony on damages] to the facts of the case. If the patentee fails to tie the theory to the facts of the case, the testimony must be excluded.'" Exmark Mfg. Co. v. Briggs & Stratton

Power Prods. Grp., LLC, 879 F.3d 1332, 1349 (Fed. Cir. 2018) (quoting Uniloc USA, Inc. v. Microsoft Corp., 632 F.3d 1292, 1315 (Fed. Cir. 2011) (alteration in original)).

III. ANALYSIS

A. Mr. Peterson's Hypothetical Negotiation date

Wonderland objects to Mr. Peterson setting the hypothetical negotiation date as sometime between December 2013 and April 2, 2014.[1] (ECF Nos. 106 at PageID 1516–17, 107-1 at 1597.) Wonderland argues that Mr. Peterson improperly based this date on when "rational businesspeople" would have engaged in license negotiations at the capital appropriations stage of the development of the allegedly infringing products. (ECF No. 106 at PageID 1518.) Wonderland argues that the Federal Circuit has rejected such an approach, and that instead the hypothetical negotiation date "must be 'determined to have occurred when the infringement began.'" (Id. at PageID 1518–19 (quoting Wang Lab'ys, Inc. v. Toshiba Corp., 993 F.2d 858, 869 (Fed. Cir. 1993)).) Wonderland also argues that Mr. Peterson improperly moved the hypothetical negotiation date as part of an effort to avoid "hold-up" costs such as designing around the patented features or using non-patented alternatives that would be incurred had the negotiation taken place at a later date. (Id. at PageID 1519–20.)

Evenflo argues that Mr. Peterson's selection of an earlier hypothetical negotiation date does coincide with the date that infringement began. (ECF No. 117 at PageID 4712.) Evenflo contends that prototypes were manufactured during the capital appropriations stage of development, and that this would be the time at which the initial infringement occurred. (Id. at PageID 4712–13.) Based on the manufacture of these prototypes, Evenflo argues that Mr. Peterson's hypothetical negotiation date "naturally aligns with the actual date of first

[1] Mr. Peterson does not provide an exact date for this hypothetical negotiation, but rather notes that the appropriate date "would occur sometime between . . . December 2013 and . . . April 2, 2014." (ECF No. 107-1 at PageID 1597.)

infringement" based on the "first making/using of the accused devices." (Id. at PageID 4714.) Evenflo also argues that Mr. Peterson did not select the hypothetical negotiation date in order to avoid hold-up costs, and that his comments regarding hold-up costs are better characterized as his providing an opinion as to when these costs would be incurred and whether they apply at suggested dates. (Id. at PageID 4714–15.)

In its Reply, Wonderland argues that neither Evenflo nor Mr. Peterson presented evidence of any manufacture or testing that occurred at the dates that Mr. Peterson suggested. (ECF No. 130 at PageID 5493–95.) Essentially, Wonderland contends that Evenflo's assertion of an earlier infringement is a pretextual justification, and that Mr. Peterson actually chose the earlier date in an attempt to avoid design-around costs and based on speculation regarding when "rational" actors would have chosen to begin negotiation in response to economic factors. (Id. at 5492–95.) Wonderland supports its assertion by pointing to sections of Mr. Peterson's report and deposition in which Mr. Peterson (1) notes that he does not know if a prototype was actually made, (2) notes that his choice of date was "driven primarily by the economics of when it would have made sense" for the Parties to engage in negotiations, (3) argues that a hypothetical date might appropriately be at a different time than the first date of accused infringement, and (4) uses December 2014 and not an earlier date as the starting point for calculating royalty damages based on his hypothetical rate. (Id. at PageID 5492–93.)

When using a hypothetical negotiation to assess damages, "the date of the hypothetical negotiation is the date that the infringement began." LaserDynamics, Inc. v. Quanta Computer, Inc., 694 F.3d 51, 75 (Fed. Cir. 2012). The parties agree that the first infringement should form the basis for the chosen date, and their disagreement stems primarily from whether Mr. Peterson's chosen date accurately reflects when infringement actually began. (see ECF Nos. 106, 117, 130.)

Mr. Peterson asserts that a date falling between December 2013 and April 2, 2014 "more naturally aligns with the actual date of first infringement." (ECF No. 107-1 at PageID 1597.)

The manufacture of a single infringing item such as a prototype is sufficient to constitute infringement regardless of whether it is offered for sale. Hygienic Specialties Co. v. H.G. Salzman, Inc., 189 F.Supp 790 (S.D.N.Y. 1960) (citing Caterpillar Tractor Co. v. International Harvester Co., 106 F.2d 769 (9th Cir. 1939)), rev'd on other grounds, 302 F.2d 614. However, Evenflo has not put forth any evidence showing that such an item was actually produced at any point in the period between December 2013 and April 2, 2014. (see ECF No. 107-1 at PageID 1597.) Mr. Peterson specifically noted that he was not aware of the existence of a prototype, but that if one was made then it would most likely have been made at some time between June and August 2014. (ECF No. 108-1 at PageID 2493, 2500.) Mr. Peterson also notes that the conclusion of the Capital Appropriation Request ("CAR") process on April 2, 2014 would have occurred prior to creating a prototype. (Id. at PageID 2487.) Evenflo similarly notes that "standard practice at Evenflo is to create final prototypes shortly after project approval and tooling quotes, such as those found in the CAR." (ECF No. 117 at PageID 4713.) Evenflo also noted that manufacture of preproduction prototypes takes place after authorization of the CAR is completed, which is necessary to allocate the funds to purchase the tooling and machinery to manufacture the prototypes. (ECF No. 140 at PageID 5662.)

While Evenflo asserts that there was an infringing prototype made at some point between December 2013 and April 2, 2014, they have not put forth any admissible evidence to support this assertion. Wonderland's Daubert Motion to exclude testimony that relies upon Mr. Peterson's hypothetical negotiation date of December 2013 to April 2, 2014 is **GRANTED**. Mr. Peterson may provide testimony based on a hypothetical negotiation date of either December 2014 or earlier, provided that there is admissible evidence of the actual existence of an allegedly infringing prototype at the date selected.

B. Mr. Peterson Limiting Reasonable Royalty Damages Using Design-Around Cost

Wonderland objects to any testimony by Mr. Peterson that reasonable royalty damages should be limited to no more than the potential cost to Evenflo to implement a non-infringing alternative design. (ECF No. 106 at PageID 1520–23.) Wonderland argues that it is incorrect as a matter of law to limit damages in such a manner. (Id. at PageID 1521.) Wonderland also argues that the non-infringing alternatives that Mr. Peterson considered were not available at the time that the hypothetical negotiation would have taken place, since Evenflo would still have needed to make changes, get tooling, and ensure compliance of the alternative design. (Id. at PageID 1522.)

Evenflo argues that Mr. Peterson did not consider the cost of implementing non-infringing alternatives as an absolute cap, but rather correctly considered them as factors influencing his calculation of a hypothetical royalty rate. (ECF No. 117 at PageID 4716–21.) Evenflo contends that Mr. Peterson explicitly said that he did not rely on these costs as an absolute cap in his deposition. (Id. at PageID 4717.) Evenflo also argues that all of the non-infringing alternatives were available at the time of the hypothetical negotiation, and that Wonderland misapplies the standard governing "availability." (Id. at PageID 4719.) Evenflo asserts that Wonderland improperly bases its analysis of whether the non-infringing alternatives are available on whether the alternative could be implemented in "short order." (Id. at PageID 4720.) Evenflo argues that this standard would essentially prevent the consideration of any non-infringing alternatives other than quick software fixes, and that this standard is contrary to the law. (Id. at PageID 4721–22.) Evenflo further argues that even if the alternatives are found to have not been available at the time of the negotiation, they would still be relevant and could properly be considered when determining the hypothetical royalty rate. (Id. at PageID 4721.)

In reply, Wonderland argues that Evenflo misrepresents Mr. Peterson's conclusions, and that Evenflo continues to improperly argue that the cost of a non-infringing alternative can cap reasonable royalty damages. (ECF No. 130 at PageID 5495–96.) Wonderland argues that Mr. Peterson's report does claim that costs of a non-infringing alternative can serve as a hard cap on damages, and points to sections of Mr. Peterson's report that support this claim. (Id. at PageID 5495–96.)

Under Federal Circuit precedent, reasonable royalty damages are not "capped at the cost of implementing the cheapest available, acceptable, non-infringing alternative." Mars, Inc. v. Coin Acceptors, Inc., 527 F.3d 1359, 1373 (Fed. Cir. 2008), modified in other respect, 557 F.3d 1377 (Fed. Cir. 2009). "To the contrary, an infringer may be liable for damages, including reasonable royalty damages, that exceed the amount that the infringer could have paid to avoid infringement." Id. at 1373. While they do not serve as a hard upper limit on damages, the availability of non-infringing alternatives still may factor into the royalty rate calculation and justify a reduction in the appropriate royalty. Id. at 1373 (affirming the district court's reduction of the royalty rate from 11.5% to 7% based on the potential availability of non-infringing alternatives).

Wonderland is correct that Evenflo may not make the argument that the cost of implementing a non-infringing alternative can serve as a hard upper limit on damages. However, Evenflo is permitted to make the argument that the existence of these alternatives may justify a reduction in the appropriate hypothetical royalty rate that would have otherwise been agreed upon absent these alternatives. This type of rate adjustment is exactly the type that the Federal Circuit affirmed and endorsed in Mars. Mars, 527 F.3d at 1373. While Mr. Peterson refers to the cost of non-infringing alternatives being a cap on damages or bounding damages, these comments appear to be directed to providing an adjustment on the royalty rate and its proper apportionment, and not the overall damages available.[2] (ECF No. 130 at PageID 5496 (quoting ECF No. 107-1 at PageID 1600, 1650).) Mr. Peterson also clarified in his deposition that he did not consider the existence of these alternatives to be a "hard cap" on the upper amount of damages, but rather he considered them as a factor which may increase or decrease the appropriate hypothetical royalty rate. (ECF No. 117 at PageID 4717 (quoting ECF No. 118-1 at PageID 4819–20).)

In order to be an acceptable non-infringing alternative, "a product or process must be 'available or on the market at the time of infringement.'" Grain Processing Corp v. American Maize-Products Co., 185 F.3d 1341, 1348 (Fed. Cir. 1999) (quoting Grain Processing Corp. v. Am. Maize-Prod. Co., 108 F.3d 1392 (Fed. Cir. 1997)). Whether such an alternative is available is a factual determination. See Id. (affirming a district court's factual findings regarding the availability of a non-infringing alternative process.) Courts may consider facts such as whether the alleged infringer had, or could obtain, the "materials," "necessary equipment, know-how, and experience to implement" the non-infringing alternative. Id. at 1348; see also Honeywell Intern., Inc. v. Hamilton Sundstrand Corp., 166 F. Supp. 2d 1008, 1029 (D. Del. 2001) ("a non-infringing alternative is only available during the accounting period if the infringer had all of the necessary equipment, know-how, and experience to [use the alternative] whenever it chose to do so during the time of infringement"), rev'd on other grounds, 370 F.3d 1131 (Fed. Cir. 2004).

[2] A distinction can be drawn between a downward adjustment on a royalty rate and limiting overall damages based on the cost of implementing a non-infringing alternative. Reducing royalty rates based on a non-infringing alternative may still result in overall damages that are higher than the cost of implementing a non-infringing alternative, depending on the circumstances of the case. This could occur in a hypothetical situation (unrelated to the instant action) where the royalty rate was reduced from $10 per unit to $5 per unit based on the existence of an available non-infringing alternative, 100,000 units were sold, and implementing the non-infringing alternative would have cost $250,000. In this case, the appropriate damages would be $500,000 based on the royalty and it would be improper to cap these damages at $250,000 based on what it would have cost to instead implement the non-infringing alternative at the outset.

Wonderland has not made a sufficient showing that the non-infringing alternatives were unavailable as a matter of law. Whether they were available is a question of fact and is not a sufficient basis for the exclusion of Mr. Peterson's opinion. Wonderland's Daubert Motion to exclude testimony that relies upon Mr. Peterson's use of design-around is **DENIED**. Mr. Peterson may give such testimony, provided that he does not argue that the costs of implementing a non-infringing alternative serves as an absolute upper limit on the overall damages.

IV. CONCLUSION

For the foregoing reasons, Wonderland's Daubert Motion is **GRANTED IN PART** and **DENIED IN PART**. Mr. Peterson may not base his opinion on a hypothetical negotiation date occurring between December 2013 and April 2, 2014. Mr. Peterson may take into consideration the effect that available non-infringing alternatives would have on the hypothetical royalty negotiation, but he may not use the cost of implementing these alternatives as a hard upper limit on total damages.

IT IS SO ORDERED, this 3rd day of January, 2023.

s/ Jon P. McCalla
JON P. McCALLA
UNITED STATES DISTRICT JUDGE