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1 UNITED STATES DISTRICT COURT  
2 SOUTHERN DISTRICT OF NEW YORK

3 NIKE, INC.,

4 Plaintiff,

5 v.

23 Civ. 771 (SA)

6 LULULEMON USA INC.,

Conference

7 Defendant.  
8 -----x

9 New York, N.Y.  
10 December 19, 2024  
2:05 p.m.

11 Before:

12 HON. ARUN SUBRAMANIAN,

13 District Judge

14 APPEARANCES

15  
16 ARNOLD & PORTER KAYE SCHOLER LLP  
17 Attorneys for Plaintiff  
MICHAEL HARRIS  
18 BY: AARON BOWLING  
LINDSEY STAUBACH  
19 -and-  
20 BRIAN FOGARTY, Nike

21 KNOBBE MARTENS OLSON & BEAR LLP  
22 Attorneys for Defendant  
BY: ALI RAZAI  
23 BRENDAN SMITH  
JOE JENNINGS  
-and-  
24 KIERAN MOORE, Lululemon  
25

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1 (Case called)

2 MR. HARRIS: Michael Harris, outside counsel for  
3 plaintiff Nike Inc. With me is Aaron Bowling and Lindsey  
4 Staubach, also outside counsel. And to my right, your left, is  
5 Ryan Fogarty. He is in house at Nike. He manages all of  
6 Nike's global litigation and IP. He's vice president of global  
7 IP and litigation. We appreciate the opportunity to meet with  
8 you today.

9 THE COURT: Thank you, very much. Good afternoon.  
10 And for Lululemon?

11 MR. RAZAI: Good afternoon, your Honor. This is Ali  
12 Razai from Knobbe Martens on behalf of Lululemon. With me is  
13 Mr. Kieran Moore, who is the buck-stops-here person for  
14 Lululemon.

15 THE COURT: Okay. Good.

16 MR. RAZAI: Also with me is Brandon Smith and Joe  
17 Jennings, my partners also from Knobbe Martens.

18 THE COURT: Let me first ask the parties, maybe you  
19 designated a spokesperson, to just give me the current state of  
20 play in terms of the parties' discussions, and what, if any,  
21 help I can give the parties. And then we can take it from  
22 there.

23 MR. HARRIS: Thank you, your Honor. This is Michael  
24 Harris. So we've exchanged offers, as you directed the parties  
25 to do. We have not yet resolved the matter, the dispute. And

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1 the parties have not agreed to the Court's assistance.

2 THE COURT: Okay. All right. Well, then we will move  
3 to the pending motions. Let's start with Nike's motion for a  
4 partial summary judgment. Who is going to speak on this from  
5 Lululemon?

6 MR. RAZAI: That would be me, your Honor.

7 THE COURT: Putting all your invalidity arguments to  
8 the side, including the argument that Nike can't make  
9 inconsistent or can't take inconsistent claim construction  
10 positions on infringement and invalidity, just focusing on  
11 noninfringement for the 794 patent. What is your position on  
12 noninfringement? Which element from the 794 patent, and I've  
13 got it right here, do the accused products not satisfy?

14 MR. RAZAI: There are two positions your Honor. The  
15 first is that Nike didn't --

16 THE COURT: I got the *Celotex* point.

17 MR. RAZAI: The second part is that although there is  
18 no evidence that was entered into the record, the only line in  
19 the entire brief that they put in, the only evidence that was  
20 cited were the infringement contentions that were put in, which  
21 are in evidence.

22 THE COURT: I got that too.

23 MR. RAZAI: Right. So in those infringement  
24 contentions, those contentions were put together with an  
25 understanding of claim construction that Dr. Pastore had. And

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1 we have that on a slide. I can show you --

2 THE COURT: No. I'm just saying I have my claim  
3 constructions. I have my patent. I want to know which  
4 element -- at trial, the jury is sitting in the box, and you  
5 are going to say, look at this element from Claim 1 or Claim 14  
6 from the 749 patent, and the accused products don't satisfy  
7 that.

8 MR. RAZAI: Yes.

9 THE COURT: Or I'll give you two options. You can  
10 either answer that question, or you can say, at trial we are  
11 not going to do that. We are going to undermine the  
12 credibility of Nike's evidence on infringement by showing that  
13 Dr. Pastore is not credible and unqualified. So at that point  
14 Nike is just not going to meet its burden to demonstrate by a  
15 preponderance of the evidence that there is infringement. So  
16 we may not offer a position on noninfringement, which is going  
17 to show that they have not met their burden. Sort of like in a  
18 criminal case, the government tries to meet its burden. The  
19 defendant has no obligation to take a position on the issues.  
20 The defendant may just cross-examine the witnesses for the  
21 government and undermine the case of the party that bears the  
22 burden of proof. But you've got to do one of those two things.

23 MR. RAZAI: Yes, your Honor.

24 THE COURT: If you don't do either of those two  
25 things, the motion is going to be granted.

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1 MR. RAZAI: I choose B, your Honor. And I can go into  
2 more detail on certain aspects, but B is where we are going  
3 with this particular motion, your Honor.

4 THE COURT: All right. So Nike's motion for partial  
5 summary judgment is denied.

6 First, Nike argues that there is no dispute concerning  
7 infringement of the 749 patent. However, Nike fails to even  
8 get out of the starting gates. It doesn't make any effort to  
9 describe the elements of the asserted claims and point to  
10 evidence that it would use to establish that each element is  
11 satisfied as to each of the accused products. It doesn't talk  
12 about Claim 14 at all.

13 It instead, refers generally to its expert and relies  
14 on the fact that Lululemon fails to articulate any claim  
15 element that it contends is not satisfied. Lululemon is  
16 correct that Nike misunderstands its moving burden under  
17 *Celotex* especially on an issue where Nike bears the burden of  
18 proof.

19 Plus, if Nike's proof is in the form of Dr. Pastore's  
20 expert testimony, which it appears it is, then, of course, if  
21 Lululemon established at trial that Pastore was unqualified or  
22 not credible, then Lululemon, without actually affirmatively  
23 arguing that the products did not meet X or Y element, might  
24 prevail on the basis that Nike failed to meet its burden to  
25 prove its claims by a preponderance of the evidence.

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1           Now, this does not mean that Lululemon, as a tactical  
2 matter, should take the issue of noninfringement to trial if  
3 they can't articulate a way in which they don't infringe -- and  
4 this is purely Lululemon's call -- they might embrace and  
5 reframe that point. But the claim is so broad, everyone  
6 infringes which is precisely why it is invalid. And, in fact,  
7 that is the other piece of this case, which the Court will get  
8 to.

9           The second part of Nike's motion is on pre-suit  
10 damages. Whether or not Nike will be entitled to pre-suit  
11 damages turns on fact questions that can't be resolved on  
12 summary judgment. In a nutshell, 35 U.S.C. 287(b) provides a  
13 safe harbor from 287(a)'s allowance for pre-suit damages even  
14 where a defendant is not on notice of infringement based on  
15 other criteria. But the safe harbor is inapplicable if the  
16 defendant owns or controls someone who practices a patented  
17 process. What "control" means in this context has beguiled the  
18 Courts because it is not defined and the federal circuit hasn't  
19 addressed the question. But in the context, the "owns or  
20 controls" prong of the statute is clearly directed to a  
21 vicarious liability inquiry. For that reason, the directs and  
22 controls inquiry used in cases like *Akamai* is the more  
23 appropriate standard. But no matter which standard is used,  
24 the facts and circumstances of what happened behind the scenes  
25 are disputed. Issues of direction, control, and knowledge are

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1 quintessential fact issues that normally are not resolved on a  
2 motion for summary judgment. For those reasons, Nike's motion  
3 is denied.

4 Let's turn to Lululemon's motion for summary judgment.  
5 This motion is also denied.

6 Lululemon argues that there is no genuine issue of  
7 material fact as to infringement on the 484 and 046 patents and  
8 no issue on obviousness as to the 749 patent. Suffice it to  
9 say that there are plainly factual disputes on all of these  
10 issues. This case presents a classic battle of the experts and  
11 evidence premised on tests and visual inspections.

12 As for Lululemon's invalidity argument, this isn't one  
13 of anticipation based on a prior patent but obviousness based  
14 on two shoes and a hodgepodge of prior references. On the  
15 issue of obviousness, Lululemon bears the burden the proof by  
16 clear and convincing evidence, and the jury will need to hash  
17 these issues out.

18 However, the Court does have an obligation to make  
19 sure any terms requiring construction are properly defined.  
20 Here, the parties gesture towards disputes without anyone  
21 coming out and saying that there actually is one. For  
22 instance, the parties spill a lot of ink on what "domed" means,  
23 but it is not clear to the Court that there actually is a  
24 dispute as to the meaning of that term in the 484 patent.

25 So let me ask counsel for Nike first, Mr. Harris, can

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1 you speak to this?

2 MR. HARRIS: I can, your Honor. Thank you.

3 THE COURT: What is Nike's position on what "domed"  
4 means.

5 MR. HARRIS: Thank you, your Honor. Our position is  
6 there is not a dispute on what it means. Both experts  
7 testified that the ordinary and customarily meaning of "dome"  
8 is, in their view, essentially the same thing. An element  
9 that's protruding. A 3D element that's protruding relative to  
10 the two flat sides the claim require. I think both experts  
11 have testified to that.

12 THE COURT: You gave that definition. And we have all  
13 done this before, where we say, "it's plain and ordinarily  
14 meaning," and they give some characterization of what that is  
15 which involves more words. But I'm with you that "domed" seems  
16 pretty straightforward.

17 So let me ask Mr. Razai if have a dispute -- well, let  
18 me give it to you straight. Nike, I take it, says "domed"  
19 means curved structure that protrudes out of a plane. And they  
20 say that your position is, it's a three dimensional item that  
21 has a curved surface. First of all, is that pretty much  
22 accurate as to what Lululemon thinks? And if that's true, is  
23 there a dispute that the Court needs to resolve here?

24 MR. RAZAI: I think it's a fair assessment that it's a  
25 three-dimensional curved surface. But I think that it's

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1 important that it's three dimensional and that it be curved.  
2 I'm not sure whether Nike is pointing to any three-dimensional  
3 curved surfaces and saying that it's a dome.

4 THE COURT: That's a separate issue.

5 MR. RAZAI: Right.

6 THE COURT: But as to the definition, we can't have  
7 "three dimensional" in there because that's literally the next  
8 word in the claim. So it would be like three dimensional,  
9 three dimensional.

10 MR. RAZAI: Right. But I think that may be construing  
11 a curved three-dimensional structure altogether, as opposed  
12 to --

13 THE COURT: Well, I think they get there because they  
14 say "curved structure that protrudes out of a plane," so that  
15 has to be three dimensional. Because protruding out of a  
16 plane -- I haven't read Sphereland and FlatLand in a while, but  
17 I think that's definitional there.

18 MR. RAZAI: I see what you're saying, your Honor.  
19 Protruding out of a plane doesn't necessarily have to protrude  
20 in two dimensions. As you can imagine, having a piece of  
21 string that protrudes out of a plane could still be a curved  
22 surface protruding out of a plane. But from my perspective, a  
23 piece of string probably doesn't have enough dimensionality to  
24 let a jury know it's a three-dimensional dome the way you would  
25 see on a building. That was my point, your Honor.

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1 THE COURT: I'm going to flag a few of these, but what  
2 I'm going to ask the parties to do is in the context of  
3 pretrial motions if there is any dispute as to these  
4 definitions then those should be brought to the Court's  
5 attention so that we can decide whether a fixed definition is  
6 necessary. That way, we were we're not going to be in the  
7 middle of experts testifying where an application is made that  
8 the witness's testimony should be stricken because it's  
9 inconsistent with the Court's constructions which has happened.  
10 It happens all the time, and I want to avoid it if we can. And  
11 there is not very many of these. There is just a couple that I  
12 think the parties really don't have a dispute about and really  
13 when they are doing is arguing that the facts are inconsistent  
14 with the construction. But, you know, I want to make sure that  
15 we get all the legal stuff out of the way.

16 MR. RAZAI: Of course. With respect to engaging in  
17 this process, how best should the parties ascertain whether  
18 there is a dispute, given the fact that this is going to be a  
19 pretrial issue, and it is probably going to require some meet  
20 and confers to try to understand whether there is a dispute or  
21 not. Will be some procedure that will be outlined in the  
22 Court's order or how should we try to work that out? Sometimes  
23 procedure is more sticky than the substance.

24 THE COURT: Well, you are going to have to meet and  
25 confer on the jury instructions. And part of the jury

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1 instructions is going to be the constructions for the claims in  
2 this case. And so I think in the context of that you should be  
3 able to figure out if there is really a dispute here.

4 MR. RAZAI: Okay. And then the briefing should be in  
5 the context of jury instructions then unless the briefing will  
6 be required but if so?

7 THE COURT: Yeah, we will put it on the same track as  
8 motions *in limine*. Why don't you first meet and confer, and  
9 the parties can jointly request some additional pages so they  
10 can have a separate brief if they need it on these terms that  
11 have come up and any others. There should not be a whole lot  
12 of others because we had a whole hearing where we went through  
13 the claim instructions. However, I really want to make sure  
14 that we don't run into the situation I'm talking about where we  
15 are in the middle of witness testimony and these issues come  
16 up.

17 MR. RAZAI: There's only one term I'm thinking about  
18 and hopefully we can get it resolved. It's just one term --  
19 that I'm sure your Honor will hit -- that I'm most concerned  
20 about.

21 THE COURT: Okay. Good.

22 Now, maybe we are getting to the next one which is as  
23 to what it means for the knitted textile element to have at  
24 least one knitted structure that differs from a knitted texture  
25 in the surrounding knitting textile structure, which is from

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1 the 749 patent. The parties seem to dispute whether this would  
2 encompass a situation where the textile element has multiple  
3 structures and those structures are the same as the multiple  
4 structures in the sounding knitting textile structure. That is  
5 to say, the textile element has Elements A and B, and so does  
6 the surrounding structure. I take it Lululemon says that the  
7 claim term is satisfied because in A in the element is  
8 different than B in the surrounding structure.

9 Is that a fair assessment, Mr. Razai?

10 MR. RAZAI: Your Honor, I don't think there is a  
11 dispute any longer on that term. Both parties agree that if  
12 you have a texture on the textile structure that's different  
13 than a texture on the surrounding textile, that limitation will  
14 be met and that both in the opening and reply briefing of  
15 Nike's motion for summary judgement of infringement. I would  
16 let Mr. Harris confirm, but I believe that's pretty explicit.

17 MR. HARRIS: Thank you, your Honor. We agree there is  
18 no dispute.

19 THE COURT: Okay. Perfect. All right. So that's  
20 Lululemon's motion for summary judgment.

21 Mr. Razai, you are already up. If there is a  
22 particular point from the evidence that you want to raise, I'm  
23 happy to hear you. And just to go back to something that you  
24 mentioned, you mentioned the lack of a domed three-dimensional  
25 structure when the fabric -- I'm paraphrasing here -- when the

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1 fabric is all laid out, is there a dome structure? You are  
2 saying that has not been shown by Dr. Pastore; right?

3 MR. RAZAI: That's part of it. That's not why I stood  
4 up, your Honor. I'm okay, so far, with what we've discussed.  
5 The only issue that I would like to present is if we are going  
6 down this road of claim terms, I think the claim term, to me,  
7 that is the most important to resolve is I believe there is a  
8 dispute about surrounding textile structure. I think that is  
9 the issue that probably, to me, is the most important out of  
10 all three of these terms that we've discussed thus far.

11 THE COURT: Okay. Good. Because I think I get to  
12 that in the next motion, but let's address it right now.

13 So what does "surrounding" mean?

14 MR. RAZAI: Surrounding textile structure, to us, your  
15 Honor, is basically any waste material. But there is an  
16 expressed definition that Dr. Pastore gave in the *ITC* case.  
17 From my perspective, any material that is waste material  
18 outside of the textile element.

19 THE COURT: Why wasn't this raised during the claim  
20 construction phase of the case?

21 MR. RAZAI: We didn't believe that there was a dispute  
22 over the plain and ordinary meaning but now this seems that the  
23 plain and ordinary that the parties are espousing, seem to have  
24 very different views.

25 THE COURT: So you are not arguing estoppel or

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1 disclaimer of any kind. You're just saying plain and ordinary  
2 meaning?

3 MR. RAZAI: There is a dispute as to what -- like you  
4 had said earlier, your Honor, what is a domed structure? There  
5 has to be a plain and ordinary meaning. When we set forth and  
6 put on the table what we think the plain and ordinary meanings  
7 are, there became a dispute over claim scope, which then  
8 implies O2Micro and a need to resolve that dispute between what  
9 the plain and ordinary meanings are because there is a dispute  
10 between the two parties.

11 THE COURT: I got you on that. I'm just saying you  
12 are saying not relying on any of those doctrines --

13 MR. RAZAI: No. No disavow. Just what the plain and  
14 ordinary meaning of "surrounding textile structure" is in the  
15 context of the 749. There also some discussion by Dr. Pastore  
16 in the context of this patent what it means. So I'm not sure  
17 that actually implicates estoppel, but it is probative of what  
18 Nike understands that plain and ordinary meaning to be which is  
19 the same as what we currently understand plain and ordinary  
20 meaning to be.

21 THE COURT: Okay. And so, again, give me what  
22 Lululemon's position is.

23 MR. RAZAI: Lululemon's position is any material  
24 that's outside the textile structure.

25 THE COURT: Okay.

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1 MR. RAZAI: Waste material that's outside the textile  
2 structure.

3 THE COURT: Why doesn't that rewrite the claim term?  
4 I mean, "surrounding" means "around," in some sense.

5 MR. RAZAI: Your Honor --

6 THE COURT: Like, you have the city, and you have the  
7 surrounding country side. You might have adjacent lots, in  
8 which case you would use a term like "adjacent" or "next to,"  
9 something like that.

10 MR. RAZAI: For example, from my perspective, Chicago  
11 has surrounding cities. But Chicago is surrounded by water.  
12 But that's not my definition. I think one thing that would be  
13 helpful is if I could put a slide up from Dr. Pastore in the  
14 ITC case where he was arguing the meaning of surrounding  
15 textile structure in the context of this very patent, would it  
16 be probative in terms of enlightening what --

17 THE COURT: That's why I asked you questions about  
18 disclaimer and all of that stuff. Under *Phillips*, I'm really  
19 focused on the intrinsic record, not really what someone said  
20 in the ITC.

21 MR. RAZAI: I'm not sure that estoppel really -- I  
22 don't know if it's an issue with estoppel, but it's an issue of  
23 what the technical definition is in this particular industry.  
24 And "surrounding textile structure," meaning the material  
25 that's -- and even Dr. Pastore, in his testimony, said it's

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1 about 50 percent but less than 50 percent. He actually said it  
2 doesn't have to go all the way around. So the word "surround"  
3 may have a definition in the ordinary meaning. But the  
4 ordinary meaning we are talking about is surrounding textile  
5 structure which is a term in that art, not necessarily the term  
6 "surround," as maybe you and I understand it with respect to  
7 our everyday usage.

8 THE COURT: Okay. You've got something to show me?

9 MR. RAZAI: Yeah.

10 THE COURT: Oh, if you didn't have something to show  
11 me -- I thought --

12 MR. RAZAI: I would show you. Except it's from the  
13 *ITC*, and it's confidential. I would have to clear certain  
14 members of the court, or I could sidebar it and give counsel  
15 the slide so you could see what I'm talking about without  
16 having to publish it in the courtroom.

17 THE COURT: Is there testimony about what  
18 "surrounding" means is under my protective order?

19 MR. RAZAI: Yes. Because it's CBI from the *ITC* and  
20 AEO under this protective order because it was Adidas's  
21 attorney eyes only information.

22 MR. HARRIS: Your Honor, may I be heard on this?

23 It's not actually testimony from Dr. Pastore about  
24 what the ordinary meaning of "surrounding" is. I think what  
25 they want to show you is that an internal Adidas's technical

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1 document, that is one of, I think, a thousand pages of  
2 documents that's part of some contentions in that case. At a  
3 time when there was no claim construction and the parties were  
4 disputing different claim constructions. So I think we are  
5 really far afield here and my colleague --

6 THE COURT: We are definitely far afield of the  
7 motions I was set to address here. But in any event, I was  
8 about to de-designate it, but Adidas isn't here and that  
9 wouldn't be fair to them.

10 So, Mr. Razai, if you want to approach.

11 MR. RAZAI: Absolutely, your Honor.

12 Your Honor, if we could go to Slide 22. You'll see  
13 there's a page number on 21, but 22 doesn't have the page  
14 number, unfortunately. If you look at surrounding textile  
15 structure on that slide, your Honor, what's in the box is  
16 actually in the statement of undisputed facts. And it was an  
17 undisputed fact, Paragraph 55 of Docket No. 192-1 one that  
18 Dr. Pastore has given this definition for surrounding textile  
19 structure. The annotations that you see, your Honor, are  
20 provided by Dr. Pastore in the *ITC* case, and they show what he  
21 believes are surrounding textile structures between those  
22 textile elements.

23 THE COURT: Mr. Harris, you agree?

24 MR. HARRIS: No, of course not.

25 I just want to start by saying, I think your Honor

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1 knows, Lululemon has filed petitions against the patents at  
2 issue in this case, including the 749. They raised this claim  
3 construction argument in the context of that IPR proceeding.  
4 And for what it's worth, the PTAB, in our institution decision  
5 of that proceeding, rejected this claim construction argument  
6 and has agreed with us that the plain and ordinary meaning of  
7 "surrounding" is what Dr. Pastore says it is, which is "mostly"  
8 or "completely." It doesn't have to be completely, but it's  
9 going to be mostly or completely surrounding in the context of  
10 this patent.

11 And we can tell you that you should not be construing  
12 the 749 patent based on an internal Adidas confidential  
13 technical document, completely out of context. That is not  
14 intrinsic record that should be considered in the construction  
15 of the term surrounding in this case.

16 MR. RAZAI: Your Honor, with respect to the  
17 institution decision, it was an institution decision where the  
18 board instituted it on different grounds and that record is not  
19 fleshed out. That's just the institution decision.

20 Secondly, with respect to the context, we welcome  
21 the opportunity to brief it to show what the context is and the  
22 fact that this was the actual construction espoused by Nike in  
23 terms of what its claim term means and how it actually fought  
24 pretty hard to actually get that construction, your Honor.

25 THE COURT: But what I'm not understanding is why that

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1 matters. Because are you not arguing any of those doctrines  
2 that would make those types of issues centrally relevant.  
3 You're arguing plain and ordinary meaning, and so we would look  
4 to the plain and ordinary meaning of the term. If there was  
5 evidence in the 749 patent that you think informs the  
6 definition or what the understanding was to a person of  
7 ordinary skill in the art of surrounding, then that would be  
8 something. But surrounding is such a generic and widely used  
9 term, that it would be surprising to me that it had a  
10 particular definition applicable to the textiles industry that  
11 people would associate a particular definition that is not the  
12 normal definition of "surrounding" to that term because it's so  
13 generic. "The surrounding woods around my house," or something  
14 of that kind, where it generally means consistent with the  
15 characterization, it's not a definition, it's plain and  
16 ordinary meaning. But the characterization of Nike of that  
17 term which is -- Mr. Harris, help me, again, is it mostly or  
18 completely around?

19 MR. HARRIS: That's right, your Honor. Mostly or  
20 completely.

21 MR. RAZAI: Your Honor, the issue that we face here is  
22 we are not concerned with the word "surrounding." The term  
23 that has an ordinary meaning in the art, it's not about  
24 ordinary meaning in general, it's the ordinary meaning in the  
25 art, is the term "surrounding textile structure." And with

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1 respect to that term, Nike's expert agreed that it doesn't even  
2 have to go past 50 percent. So we are not talking about most.  
3 We are talking about less than half, or even half would be  
4 enough. So we need to have an understanding of what that  
5 definition is within that particular art. And I think  
6 providing context to what all the definition would be is going  
7 to be helpful to understand what the correct legal construction  
8 should be and how the jury should be informed on that term so  
9 the jury doesn't do precisely what we are doing here which is  
10 give meaning to the word "surrounding" because it understands  
11 surrounding, but it doesn't understand the textile industry  
12 where the term "surrounding textile structure" has a meaning  
13 different than just taking "surrounding" by itself.

14 THE COURT: Look, this is not an issue that was  
15 presented on the pending motions. The issue that was presented  
16 on the pending motions was an effort to exclude as  
17 inadmissible, certain testimony from Dr. Pastore based on prior  
18 positions he has taken on some of the claim terms at issue.  
19 But in terms of just this claim term needs to be construed in  
20 this case, that is not an argument that has been raised. But  
21 you are right, under *O2Micro* if it isn't a term that needs to  
22 be construed, for better or worse, I've got to do it.

23 So I think makes the most sense, I take it your  
24 suggestion would be the construction of this term is not one  
25 that is best left to pretrial motions because we just need an

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1 answer now because it's a fairly significant issue. Is that  
2 fair?

3 MR. RAZAI: It's fair, but I would appreciate the  
4 opportunity to be able to provide the proper context for it and  
5 not necessarily do it in the context of just a claim  
6 construction argument here today, but yes, your Honor.

7 THE COURT: That's what I mean. So what I'll do is  
8 since the parties -- it's not very complicated, but I do want  
9 to give both sides a chance to present their position, why  
10 don't we say -- if I was really mean, I would make you do this  
11 next week, but I'm not.

12 MR. RAZAI: Thank you, your Honor. We appreciate  
13 that.

14 THE COURT: I mean, I'll let Mr. Harris dictate the  
15 schedule. You are raising the issue, but I'll give Mr. Harris  
16 the courtesy of offering their views first on timing. It's not  
17 going to be long briefing. It's going to be short letters from  
18 each side. What do you want to put your letter in?

19 MR. HARRIS: We don't think there really is a dispute  
20 here.

21 THE COURT: You may not have much to say.

22 MR. HARRIS: We would prefer a quicker schedule. We  
23 could get something in by next week.

24 THE COURT: Okay. Simultaneous letters are fine. You  
25 know what they are going to say.

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1 MR. HARRIS: Yeah.

2 THE COURT: Mr. Razai, I'll do the following week if  
3 that's better.

4 MR. RAZAI: Following week will be much better, your  
5 Honor.

6 THE COURT: Do you want to say December 30th by 5:00  
7 p.m.?

8 MR. RAZAI: I'd prefer that to December 23rd, your  
9 Honor.

10 THE COURT: Let's keep them less than five pages each.  
11 With that, let's get back to Dr. Pastore. So there is  
12 a motion to exclude Dr. Pastore's testimony on *Daubert* and Rule  
13 702 grounds. This motion is granted in part and denied in  
14 part. It is granted, as to the toothpick test.

15 Mr. Harris, as to the testimony that Dr. Pastore would  
16 offer as to the benefits and importance of the Flyknit  
17 technology and that portion of it, in your briefing what you  
18 said was, "it's technical testimony; it needs a technical  
19 expert, and that's why it's relevant," which doesn't tell me  
20 where it's relevant to the actual issue that is Dr. Pastore is  
21 testifying about. So can you explain why it's relevant?

22 MR. HARRIS: Yes. Thank you, your Honor.

23 I think those paragraphs that Lululemon has cited to  
24 in their motion are paragraphs where Dr. Pastore is explaining  
25 the context of this invention in the real world. The invention

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1 at the time that it was created in 2004, and how that invention  
2 has been used in the real world in the context of Nike's  
3 products.

4 THE COURT: I thought the invention was in the  
5 patents?

6 MR. HARRIS: It is. So I think if their position is  
7 they just don't want him to use the word "Flyknit" --

8 THE COURT: Yeah, you could say 749 patent --

9 MR. HARRIS: Right.

10 THE COURT: -- but he has to talk about the patent. I  
11 think what they are concerned about is perhaps because it is  
12 the starting line of each of your briefs in this case is,  
13 Nike's Flyknit technology is the best ever, and it's the most  
14 important thing in the industry. And they think the jury will  
15 think these patents are basically the sum and substance of that  
16 Flyknit technology, and that's really what's at issue. But I  
17 think that the federal circuit has taught us that what's at  
18 issue are the claims you are asserting and those elements that  
19 are in those claims, and they want to focus everyone on that so  
20 that neither side is either unfairly benefited or unfairly  
21 hurt. I think that's their sole concern.

22 MR. HARRIS: If that's the concern, we are not  
23 necessarily opposed to that. As long as in all of those  
24 paragraphs that they flagged, if he can talk about the  
25 invention as it's disclosed in the patent and his conversations

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1 with the inventors that form the basis of, largely the validity  
2 issues, that's fine. He doesn't have to refer to it as  
3 Flyknit. With the fact witnesses, I think that's a different  
4 issue. But as far as this issue today for Dr. Pastore, if  
5 that's what we are talking about, if he just can't say, hey,  
6 this is Flyknit technology, that's not a big deal.

7 THE COURT: Right. It's a little bit more than just  
8 that. When he is talking about the technology it has to be  
9 anchored in what is in the patents that are at issue and not  
10 something more general. He can't just take the Flyknit  
11 technology term out and say he is going to give the same  
12 testimony. It's just got to be what's in the patents.

13 MR. HARRIS: Yeah, we think his testimony is anchored  
14 in the patents.

15 THE COURT: Mr. Jennings or Mr. Smith. Mr. Smith,  
16 sorry about that.

17 MR. SMITH: I think we're heading in the right place,  
18 your Honor. The parties briefs were talking past each other a  
19 little bit. Our issue is with Dr. Pastore saying all these  
20 benefits are "Flyknit technology."

21 THE COURT: That's out.

22 MR. SMITH: That's out then I don't have any problem  
23 with the rest of his testimony, assuming he's talking about the  
24 benefits that are actually claimed, with the exception of Fink  
25 article that I'm not sure we have gotten to yet.

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1 THE COURT: And what's the issue with the Fink  
2 article?

3 MR. SMITH: The Fink article is all about Flyknit, and  
4 it's dated a year before any shoe that Nike contends practices  
5 the patent was manufactured. So the Fink article necessarily  
6 cannot be talking about benefits of the patents when it's  
7 talking about Flyknit shoes that Nike has not claimed practiced  
8 the patents.

9 THE COURT: Mr. Harris, fair, Fink article?

10 MR. HARRIS: Dr. Pastore won't talk about the Fink  
11 article.

12 THE COURT: Now, I'm going to give you the explanation  
13 of my ruling on these things as to Dr. Pastore.

14 The proponent of expert testimony has the burden to  
15 demonstrate the admissibility of the expert's testimony. Nike  
16 must demonstrate to the Court that it is more likely than not  
17 that Dr. Pastore's scientific, technical, or other specialize  
18 the knowledge will help the trier of fact to understand the  
19 evidence or to determine a fact in issue. Nike must also  
20 demonstrate to the Court that it is more likely than not that  
21 such testimony is based on sufficient facts or data and the  
22 product of reliable principles and methods and that  
23 Dr. Pastore's opinion reflects a reliable application of the  
24 principles and methods to the facts of the case. Trial courts  
25 act as gatekeepers to ensure that any and all scientific

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1 testimony or evidence admitted is not only relevant, but  
2 reliable.

3 Dr. Pastore's toothpick test is excluded under Rule  
4 403 and Rule 702. And, as we will see in a moment, the  
5 reciprocal toothpick test offered by Dr. Brookstein is also  
6 out. If ever there were junk science, it's in a toothpick test  
7 that isn't based on any source or literature whatsoever, and  
8 which has the potential to prejudice a jury given its  
9 presentation which is described in the briefing. The method  
10 applied, using a blade to jam a toothpick into fabric,  
11 purportedly to demonstrate the existence of a tube-like  
12 structure is not the kind of scientific or technical evidence  
13 that *Daubert* and Rule 702 contemplates.

14 Now, second, this gets to the issue that Mr. Razai had  
15 raised. Lululemon complains that Pastore employs inconsistent  
16 claim constructions here. We've talked now about the  
17 surrounding term, and we have a briefing schedule set for that.

18 Now, to be clear, and this is going back so some of  
19 what I was talking about earlier, the issue here is that the  
20 jury is not going to hear about inconsistent claim  
21 constructions. Within the claim constructions fixed by the  
22 Court, the jury will hear the evidence on infringement and  
23 validity and the other issues in the case. As I said now a  
24 couple of times, if either side believes that there are claims  
25 that need to be construed here, they can make an application

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1 with the Court in advance. But what is not going to happen  
2 during trial is to attack experts on differing claim  
3 construction positions they have taken in other proceedings.  
4 That is going to be misleading and confusing to the jury. The  
5 jury is going to be instructed to follow the Court's  
6 instruction. And the parties should present evidence that is  
7 within the bounds of those constructions.

8 We have now addressed the Flyknit issue so the Court  
9 does not need to address that. So that takes care of the  
10 motion as to Dr. Pastore's report.

11 As to the *Daubert* motion directed to Dr. Brookstein,  
12 Nike's motion to exclude certain opinions offered by  
13 Lululemon's expert, Dr. Brookstein is granted in part and  
14 denied in part.

15 Now, no opinions may be offered on non-infringement  
16 concerning practicing the prior art. However, if those  
17 opinions are otherwise relevant to invalidity, then they may be  
18 presented. That was the point of *01 Communique Lab., Inc. v.*  
19 *Citrix Sys., Inc.*, 889 F.3d 735 (Fed. Cir. 2018).

20 While there is no paragraphing the prior art defense  
21 to infringement, a patentee may not re-acclaim one way for  
22 purposes of infringement, and another way for purposes of  
23 invalidity. If a patentee does so, a defendant is within its  
24 rights to point to the discrepancy, not for the purposes of  
25 avoiding infringement, but to demonstrate invalidity of the

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1 claim. Dr. Brookstein and Lululemon should be clear in their  
2 arguments that they are talking about invalidity and not  
3 non-infringement. If an issue comes up concerning the scope of  
4 Dr. Brookstein's testimony and what is permissible, what is  
5 allowed, what is not allowed, it can certainly be handled after  
6 Dr. Pastore has testified concerning infringement. At that  
7 point, it will be clear whether Nike has opened the door to any  
8 additional arguments that are not encompassed by the Court's  
9 ruling here.

10 As for non-infringing alternatives, let me pause here  
11 and inquire with Mr. Razai, or who is going to handle it from  
12 your side?

13 Am I correct that the individuals from Lululemon who  
14 testified as to the alternatives that were contemplated or may  
15 be feasible, are those witnesses who are prepared to testify at  
16 trial?

17 MR. SMITH: Yes, your Honor, we intend to bring them  
18 to try.

19 THE COURT: Is it further correct that Dr. Brookstein  
20 takes those proposed alternatives and then applying his  
21 knowledge and expertise in the field, explains why those are  
22 in, fact, non-infringing alternatives?

23 MR. SMITH: That is absolutely correct.

24 THE COURT: So your response to Nike is, yes,  
25 consistent with Rule 703 he does have this hearsay that he is

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1 recounting concerning his conversations with these witnesses,  
2 but it's of no moment because they are going to be testifying  
3 anyway; right?

4 MR. SMITH: I agree with that.

5 THE COURT: He then uses that not to communicate that  
6 to the jury because just saying that there are alternatives is  
7 neither here nor there. The only way he gets to a  
8 non-infringing alternative is that he explains, using his  
9 expertise, why, in fact, those alternatives would be  
10 non-infringing. Is that all fair?

11 MR. SMITH: Absolutely correct, your Honor.

12 THE COURT: I think that's all consistent with Rule  
13 703. So Lululemon has established that Dr. Brookstein takes  
14 the alternatives from the Lululemon witnesses and then applies  
15 his own expertise to conclude that those alternatives would, in  
16 fact, be non-infringing. That is permissible under Rule 703.  
17 However, if Dr. Brookstein, at trial, does not use his  
18 expertise to connect the dots, then I will be surprised if Nike  
19 does not jump up to make an application, and the testimony will  
20 be stricken and an appropriate limiting instruction will be  
21 given to the jury.

22 As I said, it's not clear if this issue matters  
23 anyway. Because Lululemon has indicated they are going to call  
24 these witnesses and have them testify. So they will be  
25 providing non-hearsay testimony that Dr. Brookstein will be in

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1 the courtroom to hear and evaluate and provide his thoughts on,  
2 assuming that whatever he testifies to was fairly disclosed in  
3 his report.

4 As to the tear downs of the shoes, as to that, the  
5 motion will be denied. It goes to the weight of the testimony,  
6 as opposed to admissibility.

7 That is the same for the smash test. The motion will  
8 be denied as to that portion of Dr. Brookstein's analysis. As  
9 I said previously, the motion will be granted as to the  
10 toothpick test.

11 Now, as to the annotations, and this really goes to  
12 both sides experts. As I understand these annotations, these  
13 are going to be presented to the jury by way of it  
14 demonstratives. Is that right, Mr. Harris?

15 MR. HARRIS: I think that's right, your Honor, yes.

16 THE COURT: Here is what the parties need to do: They  
17 can use those demonstratives. They have to be exchanged in  
18 advance, and if there are any that are prejudicial, you can  
19 point that out. Before you are going to show them to a jury,  
20 you may need to lay a foundation for why they would not be  
21 prejudicial. And there is a new rule on demonstratives, which  
22 everyone should look at, I think it's Rule 107. There is a  
23 standard for when you can use demonstratives in the courtroom.  
24 It's brand new. It may be, to give the example of  
25 Dr. Brookstein, if he is trying to show that a particular

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1 orientation is present in the textile material, he will need to  
2 show the material, explain to the jury what he is pointing to,  
3 and at that point it may be permissible to use as a  
4 demonstrative, his annotated drawings so that the jury  
5 understands where he is going and contract the expert's  
6 analysis. The jury will, of course, be told that the exhibits  
7 are the testimony and the exhibits that go back into the jury  
8 room and not the demonstratives. I think that will resolve the  
9 issue concerning Dr. Brookstein's annotations but that also  
10 goes to Dr. Pastore as well.

11 All right. That leaves us with the Hansen Daubert  
12 motion, which is the toughest one for the Court here.

13 Let me ask, first question, Mr. Harris, what happens  
14 if the Puma agreement is out? I take it that you still forge  
15 on because you have an alternative approach to calculating the  
16 5 percent royalty based on the portion of analysis that  
17 Dr. Hansen conducted.

18 MR. HARRIS: Correct.

19 THE COURT: Is it doctor or mister?

20 MR. HARRIS: Mister.

21 THE COURT: Okay. Mr. Hansen. I promoted him.  
22 Understood.

23 And what is your best case, I've got Westlaw open, but  
24 what's the best case that you have for admissibility of an  
25 agreement that is like this one? I think, in fairness, there

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1 are certain features of the Puma agreement that perhaps have  
2 been found in other agreements that have been allowed in. But  
3 I was not able to find a case in which an agreement that has  
4 all of these variations, that that kind of agreement was  
5 allowed in, meaning not a license, U.S. and foreign litigation.  
6 The list goes on from there, eight other patents. You know, I  
7 don't need to give you the full list, I will when I'm ruling on  
8 this. Litigation circumstances -- there are cases that  
9 identify particular parts of this, but do you have one that is  
10 like this, and this is the case?

11 MR. HARRIS: Spot on, on all fours -- let me confer  
12 with me team to see what they.

13 (Discussion off the record)

14 MR. HARRIS: I was actually anticipating this question  
15 this morning, your Honor, what is our best case, one that is on  
16 all fours? And the Puma agreement -- actually, I have to be  
17 careful about what I say about the Puma agreement because I  
18 think there are some people in the courtroom who can't have  
19 access to this information.

20 THE COURT: Under what? Because it's my protective  
21 order?

22 MR. HARRIS: Because it's Puma's confidential  
23 information.

24 THE COURT: And who is that? Who is in the courtroom?

25 MR. HARRIS: Lululemon's in-house counsel.

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1 THE COURT: Well, we are about to talk about the Puma  
2 agreement. So if someone needs to step outside, they can do  
3 so. There is no way of getting around this. I can  
4 de-designate all this stuff if it's not state secrets. But if  
5 it is, you may, unfortunately, have to take a step out.

6 Wait. Before you leave, you are Mr. Moore; right?

7 MR. MOORE: Yes, your Honor.

8 THE COURT: Getting back to the issue of resolution  
9 for a second. How is it that you haven't been furnished access  
10 to this kind of information in the context of being the  
11 buck-stops-here person and needing to make calls on settlement?  
12 In my experience, people usually go back and forth and agree  
13 this is the guy who has to make all the decisions so he needs  
14 to know this stuff, or else how is he supposed to make a  
15 decision?

16 Mr. Razai, what is going on here?

17 MR. RAZAI: Your Honor, there were actual numbers for  
18 settlement that were exchanged. The reason why this agreement  
19 is not something that we can de-designate is it's Puma's  
20 information. It doesn't belong to the parties. So under that  
21 particular rubric is the reason why we hadn't asked for that to  
22 be shared.

23 THE COURT: Okay. All right.

24 (Mr. Moore exits the courtroom)

25 THE COURT: All right. Mr. Harris?

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1 MR. HARRIS: Your Honor, I don't think there is a case  
2 that analyzed an agreement that is exactly like the Puma  
3 agreement. But, I think that we have cases that, in  
4 combination, get at all of the issues that Mr. Hansen analyzed  
5 when he was considering the similarities and differences in the  
6 Puma agreement. And I think that we would direct your  
7 attention to the *Elbit* case, Federal Circuit 2019.

8 THE COURT: Do you have a citation?

9 MR. HARRIS: 927 F.3d 1292.

10 I don't want to interrupt if you are reading. (pause)

11 Thank you. One other I would like to flag, your  
12 Honor, this is the district court case. The cite is 2015 WL  
13 13547000. We think that case is interesting because one of the  
14 complaints that we see from Lululemon is a lot of these cases  
15 don't deal with settlement agreements in the context of  
16 litigation. But the Court in that case addressed a settlement  
17 agreement in the context of litigation. It involved many IP  
18 assets. I believe it was global. And the damages expert in  
19 that case did what Mr. Hansen did here. He did a fulsome  
20 analysis of the similarities and differences and accounted for  
21 those similarities and differences and the Court, from there,  
22 found that acceptable.

23 THE COURT: Well, here is my dilemma here, because any  
24 expert can provide some explanation of the differences and  
25 similarities. But that doesn't mean that, having given some

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1 explanation, any agreement can be made admissible. That's not  
2 my understanding of the case law. And I don't think you are  
3 suggesting that that's the standard, meaning any agreement is  
4 admissible, as long as the expert trying to grapple with the  
5 difference and similarities. That's not your position; right?

6 MR. HARRIS: That's right. They have to have some  
7 reasonable, reasoned analysis and how it applies to the  
8 hypothetical negotiation at issue in the case on which the  
9 damages expert is opining. There has to got to be some sort of  
10 connection between this analysis of the similarities and  
11 differences to the hypothetical negotiation at hand.

12 THE COURT: So let me just give you the run down of  
13 the differences that Lululemon points to. And maybe that will  
14 inform your explanation of why you think Mr. Hansen's analysis  
15 is sufficient here.

16 First, obviously, is the point that the Puma agreement  
17 was in the context of active litigation and so the argument is  
18 made that it doesn't properly reflect what the parties would  
19 have negotiated in a hypothetical negotiation situation. There  
20 is testimony that the reason Puma paid what it did was to just  
21 get rid of the case. There were all the hallmarks of  
22 litigation that might have been coercive, to some degree in  
23 terms of what the payment was, so that's the headline issue  
24 there.

25 Mr. Fogarty, I think some of your testimony might have

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1     figured into some of the argument that were made on the other  
2     side, so that's the first feature.

3             The second one is that there was no license. As to  
4     that, I understand Nike position and Mr. Hansen's position  
5     which is that is actually a helpful factor, that is a more  
6     conservative factor because Puma would have had to pay more if  
7     they wanted to license the patents and continue selling the  
8     shoes. Instead, they said they couldn't sell the shoes  
9     anymore. So they would obviously pay less if they couldn't do  
10    what they wanted to do in terms of building their business.

11            Then there is the issue of Puma agreement covering  
12    several other patents, covering other technologies such as Nike  
13    Air, Fuse, cushioning, and cleat assembly patents, which do not  
14    apportion any value in terms of Mr. Hansen's analysis.

15            There is the issue about the non-U.S. sales, but there  
16    really is just a failure of evidence in terms of what, if any  
17    non-U.S. sales there were. From what I understand, Puma was  
18    subpoenaed, and they didn't come back with any non-U.S. sales.  
19    Apparently no one followed up or inquired further. Maybe they  
20    weren't very forthcoming. But, in any event, no one brought an  
21    issue to my attention in terms of failure to comply with a  
22    subpoena. So we just don't have any evidence of non-U.S.  
23    sales. If there were evidence of non-U.S. sales, I take it  
24    Mr. Hansen would have accounted for those, but there just  
25    wasn't any evidence of that.

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1 I think I covered most of the waterfront here. There  
2 is a German litigation aspect of it as well. That, I think, is  
3 Lululemon's point. This is just way different than a lot of  
4 the agreements that are settlement agreements, and already are  
5 suspect, but courts have allowed them in. There are a lot of  
6 difference with here. So I'll let you give me your --

7 MR. HARRIS: Mr. Hansen accounted for those in his  
8 analysis. The litigation context, he accounted for that,  
9 acknowledging that would decrease the downward pressure in the  
10 analysis.

11 THE COURT: What does that mean? If you can't account  
12 for it then can't you get anything in? Look, I've got a  
13 license agreement. I've got litigation settlement agreement  
14 between McDonald's and Burger King, but I'm just going to say,  
15 yeah, I understand those are French fries and these are  
16 textiles and shoes, but I understand those are different.

17 MR. HARRIS: He did account for it. He considered it.  
18 He included it in his analysis. And if Lululemon thinks that  
19 it was factually wrong or that he should have considered it  
20 differently, they can cross-examine him on that.

21 THE COURT: Well, especially given the most recent  
22 amendment to Rule 702 which made clear that the -- it goes to  
23 weight, not admissibility way of thinking about Rule 702 has  
24 been discarded as a category issue. Sure, a lot of times  
25 issues will go to weight and not admissibility, but sometimes

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1 they go to admissibility. I think the argument here is this is  
2 a bridge too far. Because there are too many difference here,  
3 and there is a series problem with the jury being presented  
4 with what is at least advocated as, this is a similar agreement  
5 that had effectively a 5 percent royalty rate, and that's what  
6 we are asking you, so that's why it's reasonable. That's the  
7 issue.

8 MR. HARRIS: Understood.

9 Some of the other differences, the no license  
10 difference, he also accounted for that.

11 THE COURT: He did account for that. I agree on that  
12 particular issue he definitely accounted for that.

13 MR. HARRIS: On the sales data, he analyzed all the  
14 data that was available. Puma was asked to provide the sales  
15 data subject to that agreement. They responded and provided  
16 sales data, and he considered all of it, analyzed all of it.  
17 It was part of his fulsome analysis.

18 The German litigation and the other patents at issue,  
19 Mr. Hansen did consider that. He determined that the 749  
20 patent, which is both at issue in this case and was at issue in  
21 that dispute, accounted for, I think it was 68 percent of the  
22 sales of the products that were at issue in that prior case.  
23 Indicating that the 749 was a driving factor, an important  
24 patent in that Puma agreement. So he was able to account for  
25 the other patents that were not as large --

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1 THE COURT: Why did he break it down by that  
2 percentage? First of all, just saying that roughly 70 percent  
3 of the shoes at issue were alleged have infringed this one  
4 patent. Do we note percentages as to the other patents?

5 MR. HARRIS: There's no evidence of that.

6 THE COURT: 70 percent of the shoes were alleged to  
7 infringe this patent, doesn't tell me a lot about the relative  
8 value of this patent versus other patents that were asserted.  
9 That's one issue.

10 Second, if only 70 percent of the alleged accused  
11 products infringe this patent, then why wouldn't he have  
12 adjusted for that percentage? This is just basic -- maybe I  
13 don't know what I'm talking about. But why wouldn't you adjust  
14 for that percentage? If you are saying only 70 percent but  
15 really what's at issue here -- then just make a fair  
16 adjustment, why wouldn't you at least make that adjustment?

17 MR. HARRIS: There were other patents, including other  
18 patents that are at issue here. There was another patent at  
19 issue in this case that was also at issue in the Puma case. I  
20 think if he had said, "I'm only going take the 749" I expect he  
21 would have been criticized for that as well. He tried to  
22 account for the patents that were at issue in this case. And  
23 he recognized the differences. There were other lawsuits,  
24 German lawsuits at issue in that case. And I think in his  
25 testimony, when he was cross-examined on this in deposition, he

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1 said that some of these things would result in a downward  
2 pressure, other things would result in an upward pressure.  
3 When I consider the totality of the circumstances, I think the  
4 5 percent is what two reasonable parties would have agreed to  
5 in a hypothetical negotiation.

6 THE COURT: Okay. Mr. Razai or someone else?

7 And, Mr. Razai, am I pronouncing your name properly?

8 MR. RAZAI: You are, your Honor.

9 MR. JENNINGS: Good afternoon, your Honor. Joe  
10 Jennings for Lululemon.

11 First off, the *Elbit* case referenced, that is  
12 generically saying a settlement agreement could, under proper  
13 circumstances, be used as a comparable but not in the  
14 circumstances here. And in that case --

15 THE COURT: Well, I took the thrust or the reason  
16 counsel talked about *Elbit* is because the nature of the Court's  
17 discussion of why it was okay to have relied on that other  
18 license was at such a high level that I think the suggestion  
19 is, look, if you articulated -- if you dealt with the  
20 differences, meaning Mr. Hansen at least says at sentences in  
21 his report about these various differences that they are saying  
22 that's enough to make it a question of weight. Because he  
23 identified those difference, and he said what he said about  
24 them. So at that point, you can cross-examine him and show the  
25 jury that he is not to be trusted because his opinion has no

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1 basis. I think that's the reason why they are bringing it up.  
2 I don't think it's because that agreement in that case is  
3 factually similar to the agreement here.

4 MR. JENNINGS: He may say that, but to say he dealt  
5 with them, that's a different story. And I suggested the list  
6 is longer than your Honor went through. There's the fact that  
7 the case was settled very early, this Puma case. Before  
8 substantial litigation expenses would have been incurred by  
9 Puma. You can see that from Exhibits 4 and 9 in our case.

10 Something that hasn't been referenced in the  
11 discussion here is the fact that that very agreement says, and  
12 I apologize, I noticed in looking at the briefs here, we cited  
13 to the Court here Section B3, and that was a typo. It should  
14 have been C7 in that agreement. But the agreements states,  
15 this agreement, including the payment and payment amount in  
16 Section C, do not reflect any admission by the parties or their  
17 affiliates regarding the amount of the reasonable royalty or  
18 the economic value of any of the Nike patents. So the parties  
19 explicitly agreed in that case --

20 THE COURT: Isn't that the case in any settlement  
21 license? I mean, it has been my experience that any time there  
22 is a settlement in a patent litigation that results in a  
23 license that typically that agreement will say exactly that.  
24 Because neither side, or at least one side, will not want to  
25 agreement to be brought back up in litigation against them.

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1 nevertheless, it sometimes is --

2 MR. JENNINGS: There is no evidence in this record on  
3 that point. But, yes, parties would not want it to be used.  
4 But right now, Nike agreed it wasn't reflective of value but  
5 yet wants to use it as reflective of value here. The expert  
6 did not really account for the many, many differences: The  
7 differences in the number of patents the Court mentioned, the  
8 differences in the technology, some of them in cleats and not  
9 just knitted footwear --

10 THE COURT: Right. So maybe you can directly address  
11 Mr. Harris's point that the 749 patent was really the main one  
12 that Puma would have been concerned with, and it covered most  
13 of the accused products and so it was fair to attribute the  
14 value that was given to that patent. What's the response  
15 there?

16 MR. JENNINGS: As your Honor pointed out, the expert  
17 did not go through and evaluate to the extent to which the  
18 other patents -- there were 13 -- the other patents may have  
19 also addressed a large portion of the products. So just to say  
20 that the 749 has 75 percent or whatever the number he said,  
21 doesn't mean the other 12 patents were only the remainder, they  
22 would be overlapping, potentially.

23 THE COURT: Did he try to establish that the  
24 technology at issue in the patents in suit was somehow superior  
25 or more important to footwear than the other patented

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1 technologies that you mentioned in your briefing, meaning air,  
2 cushioning, the other technologies?

3 MR. JENNINGS: The expert did not go through that  
4 analysis. The cases we pointed out were *Zimmer*, M2M, and  
5 *Art+Com*. The things that an expert needs to do when they are  
6 relying upon an agreement of that sort.

7 THE COURT: Okay. And what's your best case? Since I  
8 made Mr. Harris give me his best case, what's your best case?

9 MR. JENNINGS: On the failure of the analysis, I think  
10 those are the cases: *Zimmer*, M2M, and *Art+Com*.

11 On the differences between a settlement agreement  
12 that, as in *Puma*, a release in a general litigation standstill,  
13 that's *Fundamental Innovation* from the District of Delaware.

14 THE COURT: I've got *Zimmer*, N2N and I've got  
15 *Fundamental*.

16 MR. JENNINGS: *Art+Com*.

17 THE COURT: And these are all cited in your papers.

18 MR. JENNINGS: Yes, they are, your Honor.

19 THE COURT: It's helpful just to have you highlight  
20 the ones -- we cited a bunch of cases for you, but here are the  
21 ones that are really important. I appreciate that.

22 Mr. Harris, if you wanted to respond to anything that  
23 was just raised, you can, but you don't have to.

24 MR. HARRIS: One quick point. The law federal circuit  
25 law doesn't require absolute certainty and one-for-one

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1 comparison or even similarities between prior agreement and the  
2 negotiation at issue. I think that Lululemon's counsel could  
3 always probably find some difference between a prior agreement  
4 and a hypothetical negotiation. In our case, Mr. Hansen  
5 analyzed all the differences that he was aware of. He  
6 accounted for them. If Lululemon disagrees with those  
7 differences or thinks there are other difference, they can  
8 cross-examine him on that. Thank you.

9 THE COURT: All right.

10 MR. JENNINGS: Your Honor, I overlooked one point I  
11 wanted to make, if I could?

12 THE COURT: Sure.

13 MR. JENNINGS: It's on the foreign sales. Nike seems  
14 to want to excuse Mr. Hansen for not having any foreign sales.  
15 We subpoenaed Puma. They objected to providing any foreign  
16 sales, and they provided them. But they are the proponent of  
17 this expert testimony, and their expert didn't fully evaluate  
18 the foreign sales. And they don't get an excuse just because  
19 we didn't press Puma on their objection to our subpoena.

20 THE COURT: Okay. So your point is -- well, first of  
21 all, just a point of fact, you subpoenaed Puma. They responded  
22 with their U.S. sales data.

23 MR. JENNINGS: And they objected to providing anything  
24 other than U.S. sales.

25 THE COURT: I'm not saying this is relevant to

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1 anything, but why wasn't that brought to me or another court to  
2 adjudicate that objection and see if that information could be  
3 provided?

4 MR. JENNINGS: We didn't expect this to happen, that  
5 an expert would then provide a report like this and use only  
6 the U.S. sales and then seem to offer an excuse that they don't  
7 have the foreign sales.

8 THE COURT: And that gets to your burden point which  
9 is, it's not your job to furnish the appropriate data for use  
10 by your adversary's expert on an agreement that you don't think  
11 should be in the case anyway. So it's their job to satisfy the  
12 standards and *Rescue Net* and other cases, and they just failed  
13 to do so.

14 MR. JENNINGS: Correct, your Honor.

15 THE COURT: Let me ask you this general question. You  
16 can tell where I'm going on this, but on the apportionment  
17 piece on this, I understand Lululemon's arguments, but those  
18 seem to be more classical issues where the arguments that you  
19 are making are fact bound and would go to the weight of  
20 Mr. Hansen's testimony, as opposed to admissibility. I'll give  
21 you the opportunity if you want to set me straight as to why  
22 that is so far out of lines that it goes to admissibility. But  
23 in reviewing the parties' submissions, it appeared that while  
24 there were vigorous disputes, that really they went to the  
25 weight of the testimony and not admissibility. I'll let you

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1 set me straight if you disagree.

2 MR. JENNINGS: I do disagree and want to make a couple  
3 points. First, on the general concept of apportioning based  
4 upon costs. The expert didn't go through the analysis to  
5 justify it, given the facts of this particular case. And I  
6 think the best case for the Court on that is the *NNCrystal* case  
7 from the District of Delaware.

8 And I think what's the more straightforward issue on  
9 this apportionment issue is the fact that he did the cost-based  
10 apportionment and came up with a percentage, 5.4 percent, I  
11 guess. And then he applied that apportionment to the profits  
12 to come up with the 5.4 percent. And then he gave all of those  
13 profits to Nike as part of the reasonable royalty when he  
14 concluded at least 5 percent, and that just fails rudimentary  
15 economics and common sense. And I think the *Contour* case from  
16 the Northern District of California is directly on point on  
17 that.

18 THE COURT: And can you give me just the 30-second  
19 elevator pitch about why it would be improper, just as a matter  
20 of law, to attribute those profits. Once you've done that  
21 analysis and gotten to that 5.4 percent number, why it would be  
22 improper to basically give that all to Nike?

23 MR. JENNINGS: Because you have to apportion to  
24 segregate the patented features from the unpatented features.  
25 He did that to come up with the apportioned profits. But the

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1 case talks about, and in many cases, the rudimentary economics  
2 don't justify simply granting 100 percent of those profits to  
3 the patent owner. Some time ago we lost the old 25 percent  
4 rule when people used to apportion 25 percent of the profits to  
5 the patent owner as part of a reasonable royalty. Now they  
6 want to do 100 percent without doing the economic analysis to  
7 justify it.

8 THE COURT: So what kind of economic analysis would  
9 have been needed in order to come up with this 100 percent  
10 number?

11 MR. JENNINGS: That's quite a hypothetical to say that  
12 the patent owner would license their technology and the accused  
13 infringer or the willing licensor would agree to pay, to the  
14 patent owner, 100 percent of the proffers that I derived from  
15 using this technology. It just fails basic economics and  
16 common sense. And they haven't gone through to say, this is  
17 this unique case where a willing licensee would agree to use  
18 technology of the patent owner and say I'll give you  
19 100 percent of the profits I derive from using this technology.

20 THE COURT: Okay. Understood.

21 Mr. Harris?

22 MR. HARRIS: Quickly on that point, as I read their  
23 brief, they were saying Lululemon wouldn't agree to pay  
24 100 percent of its profit of the shoe, but that is not what we  
25 are talking about here. Hansen's analysis was on a component

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1 of the shoe, not the entirety of the shoe. So I don't think  
2 it's right to say his opinion is 100 percent profit of the  
3 shoe. And in any event, he addressed this and said there is  
4 lots of benefits that Lululemon was getting from this  
5 agreement.

6 THE COURT: Why don't you do me a favor, can you walk  
7 me through, if you can, the apportionment, to make sure I  
8 understand it because I want to make sure everyone is on the  
9 same page in terms of what we are talking. And if you want,  
10 you can even direct me to paragraphs in Mr. Hansen's report,  
11 which I have in front of me and maybe help me to decipher the  
12 economic analysis here so that I can truly understand what he  
13 is referring to.

14 MR. HARRIS: Yes, your Honor. I want to make sure I  
15 have the right paragraphs.

16 THE COURT: He starts, I believe, on Paragraph 92 and  
17 95 he gets into the profit analysis.

18 MR. HARRIS: That's right. It's 97 and 98, 92, 93,  
19 94, through 98.

20 Okay. So he started by identifying --

21 THE COURT: You can give it to me at a high level.  
22 I'm trying to understand at a high level, walk me through the  
23 steps here.

24 MR. HARRIS: He started by identifying the smallest --

25 THE COURT: Sellable unit.

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1 MR. HARRIS: -- sellable unit, right. And I think the  
2 parties agree on that. It's the vamp. So it's a portion of  
3 the shoe, not the entire shoe.

4 THE COURT: The vamp, right.

5 MR. HARRIS: He started identifying that. And then he  
6 looked to the cost to build the materials to find out the cost  
7 of that vamp -- whatever the smallest saleable unit is -- we'll  
8 use the vamp in this case -- to get the cost that Lululemon  
9 paid.

10 THE COURT: The vamp for 749 patent and collar for  
11 the --

12 MR. HARRIS: Exactly.

13 So he determined Lululemon's cost for those  
14 components, relative to the overall costs of all the components  
15 of the shoe. He determined for the vamp that the cost was  
16 \$4.96, which was about 15 --

17 THE COURT: So you get 15.49 percent attributable to  
18 the smallest saleable --

19 MR. HARRIS: Correct.

20 He then took that 15 percent and multiplied it by the  
21 gross profit margin, which was 34 percent, and that gets to the  
22 5.4 percent. So in other words, he wasn't saying this wasn't  
23 analysis Lululemon is going to pay the entire profit of every  
24 component in the shoe.

25 THE COURT: I think you both said the same thing. I

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1 believe that's what Mr. Jennings said as well. You break it  
2 down to the smallest saleable unit. And then the money you are  
3 getting from that smallest saleable unit, that's 5 percent,  
4 essentially. So that is the 5 percent that we're asking for.  
5 And I think what is he is saying is once you get down to the  
6 smallest saleable unit and figure out what the profits are,  
7 even within that smallest saleable unit, there are going to be  
8 patented features and unpatented features. Meaning, sure, they  
9 assemble a knitting method that's stated in the 749 patent but  
10 also they have great materials, and they have a nifty way of  
11 putting it together, stuff that isn't covered by the patents so  
12 no value is attributed to anything else. This is a factual  
13 question, did Mr. Hansen address this particular issue?

14 MR. HARRIS: He did, your Honor.

15 THE COURT: Okay. Which paragraph is that?

16 MR. HARRIS: He addressed this in detail in his  
17 deposition. I'll give you his deposition transcript. His  
18 deposition transcript at page 208, actually that entire page.  
19 He went into this, and what he explained was there were, in his  
20 opinion, lots of reasons why Lululemon would have agreed to  
21 this in the hypothetical negotiation, including Lulu was just  
22 starting out in the footwear business. He also did at least  
23 two qualitative analyses where he looked at internal Lululemon  
24 documents that relate to purchase drivers for Lululemon's  
25 shoes. And he analyzed those purchase drivers, including

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1 through conversations with Nike's technical experts to  
2 understand the importance of the different purchase drivers and  
3 how they relate to the asserted claims. And through all of  
4 that he determined, well, actually the 5 percent is really  
5 conservative. The qualitative analysis that he did suggested  
6 and supported a much higher percentage, which, in the end, he  
7 said supported his 5 percent.

8 THE COURT: Okay. Understood.

9 MR. HARRIS: And Paragraphs 103 and 104.

10 THE COURT: 103 and 104 where in the report he deals  
11 with this. I'll take a look at those.

12 Here is what we are going to do, as to the *Daubert*  
13 motion directed to Mr. Hansen, I'm going to reserve decision,  
14 but I'm going to tell you my tentative thoughts because I think  
15 it's helpful for you to know at least what I'm thinking at the  
16 present time. I'm going to go back and take a look at all the  
17 authorities and citations that the parties have given me to  
18 make sure that I have accounted for the arguments that you've  
19 made today.

20 My tentative decision is that the Puma agreement is  
21 going to be excluded, but the apportionment analysis will be  
22 admitted. However, I will, again, look at the arguments that  
23 have been made and will issue -- what I'll do is I'll either  
24 issue a written decision shortly that will reflect my final  
25 ruling on this *Daubert* motion, or I will alert the parties that

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1 we are going to have a remote hearing, so we don't need to have  
2 30 lawyers in the room, where I will give my oral ruling so you  
3 will know well in advance how this issue is going to be  
4 resolved so you will have enough time to prepare for trial.

5 With that, I think we resolved the pending motions, at  
6 least for the moment. So I guess I'll go back to where we  
7 started which is the issues concerning settlement discussion.

8 And we have Mr. Moore back. I noticed you were still  
9 gone, but hopefully there is some interesting artwork in the  
10 hallway. No, there wasn't.

11 I'm going to go back to where we started, which is you  
12 are engaged in a settlement discussion, you have everyone here  
13 in the room. And I didn't do that without good reason because  
14 I think it is sometimes hard to have discussions, everyone is  
15 really busy, and it's the holiday season. And now that I have  
16 compelled everyone to be here in this room, the question for  
17 the parties is can we make use of this time? It's only 3:30.  
18 I tried to be swift in terms of dealing with the other issues  
19 that we have here today to afford the parties time if it would  
20 be useful to deal with some of these issues.

21 Some general thoughts that I'll just say that are  
22 obvious to everyone. The damages number here in Mr. Hansen's  
23 report is \$2.8 million. Now, I understand as to the two other  
24 patents, not the 749, but the other two patents, that they are  
25 not expired. And there will be a potential for future relief

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1 as to each of those patents going on for some years. However,  
2 this seems like the kind of case that the parties should be  
3 able to resolve. I don't know what the current bid and ask is.  
4 If there is no issue with the parties in open court telling me  
5 that, that might be helpful. But I'll ask, again, given where  
6 we are, I'm happy to give you, like, 20 minutes to talk with  
7 each other and see if there is a way that you think we can be  
8 productive here by sitting down. It doesn't need to be me in  
9 the room. You can use this courtroom. You can use it as long  
10 as you want, and we'll stay late. But I guess the question is  
11 really whether there's something we can do here, given that you  
12 are all here, sitting here.

13 Mr. Razai?

14 MR. RAZAI: Obviously, I can't speak for everyone, but  
15 from our perspective there is always reason to talk and to  
16 explore settlement. That's usually how these cases resolve,  
17 like 98.5 percent of them. We have exchanged offers. I'm not  
18 comfortable --

19 THE COURT: Yeah, you need to talk with each other.  
20 What I mean is you've got big time executives in the room.  
21 You've got big time lawyers in the room on both sides. And I  
22 just hate missing the opportunity to see if we could make  
23 progress. You got two lawsuits that are pending. So we have a  
24 lot of things going on. I'll just ask this general -- I won't  
25 even ask this because I don't want to get out ahead of myself.

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1 But I'm here to help. I don't need to tell the folks in the  
2 room there are risks in every lawsuit, and you have two of  
3 them. The only certainty with a jury trial is uncertainty.  
4 And that's especially true in the patent context. As you all  
5 know, regardless of what happens and this is even more so in  
6 this case than in the normal cases we have here, you have the  
7 federal circuit, and you have whatever they are going to do.  
8 And that's more of a potential risk factor in a patent context  
9 than it is in a normal Second Circuit appeal that we would  
10 have.

11 So why don't I give you 15 minutes. Is that fair,  
12 Mr. Harris? I'll give you some time. You can talk to  
13 Mr. Razai, figure out if there is something that is worth doing  
14 here. And if so, I will come back and see if there is  
15 something we can accomplish here.

16 Or you could also say, hey, can we use your courtroom?  
17 We might be able to talk this out and we can make some progress  
18 while we're all here. You can also say that.

19 MR. HARRIS: Sounds good. Thank you, your Honor, for  
20 the opportunity. I do want to mention that Mr. Fogarty has  
21 another court-ordered appearance tomorrow in Eugene. So he  
22 does need to get out of here by 5:00.

23 THE COURT: You've got an hour and 15 minutes. We  
24 work fast here.

25 MR. HARRIS: Thank you very much.

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1 THE COURT: I'm going to give you this back.

2 (Recess)

3 THE COURT: Please be seated. All right. Whoever  
4 wants to speak.

5 MR. HARRIS: Thanks, your Honor. Brian would like to  
6 say a word.

7 THE COURT: Okay.

8 MR. FOGARTY: Brian Fogarty from Nike. First of all,  
9 thanks for your time today.

10 On the summary judgment issues, Kieran and I met solo,  
11 without outside counsel. We talked conceptually about where we  
12 stand from a settlement prospective. We talked conceptually  
13 about meeting with you. Some of us want to do that. Some of  
14 us don't want to do that. So ultimately we are not going to  
15 meet with you, unless you order us to.

16 THE COURT: No.

17 MR. FOGARTY: We also talked conceptually about having  
18 a mediation. The parties just seem like they are at an  
19 impasse. I think ultimately, at the moment, we are headed  
20 towards trial in this case.

21 THE COURT: Okay. And in terms of a mediation, I take  
22 it that if you agree on a mediation, you will find a good  
23 private mediator to handle this. I'm happy to refer this to a  
24 magistrate judge here, but you all have done this tons of  
25 times. So I take it that you would use a private mediator. Is

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1 that correct, if you were going to do this?

2 MR. FOGARTY: If we were going to do this, we would  
3 use a private mediator. But if your Honor thought it would be  
4 useful if there a particular magistrate judge, whether the one  
5 assigned to this or a different one that your Honor would be  
6 particularly to this situation, Nike is open to that.

7 THE COURT: I'll hear from Mr. Razai.

8 MR. RAZAI: I'm not sure I have anything different  
9 from what Mr. Fogarty said.

10 THE COURT: Having done this many times myself, I know  
11 there are private mediators that parties frequently use who  
12 know the space and understand the typical arrangements that are  
13 agreed to in these circumstances. That's going to be more  
14 helpful to you than someone who is unfamiliar with your case,  
15 and perhaps unfamiliar with patent litigation and how it works.  
16 So I think your two options, and these are totally  
17 discretionary, would be to find a private mediator or to come  
18 back and, say, hey, can we stop by your courtroom and give us  
19 an afternoon one day, which I'm happy to do. Because I think  
20 that now that I've gone through this case and understand the  
21 parties and the issues, and given my background, I think that  
22 might be helpful, but there are people who would have that same  
23 background who come from the private mediation space.

24 Otherwise, we have a schedule for pretrial  
25 submissions. Am I correct about that?

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1 MR. RAZAI: No, your Honor, we do not.

2 THE COURT: We do not. Okay. We will get that in  
3 place.

4 We will issue an order regarding the motions that  
5 we've decided today. We will issue a decision shortly on the  
6 pending *Daubert* motion. We have a schedule for the letters to  
7 be submitted on the construction of surrounding, and the other  
8 issues, if they need to be taken up in advance of trial, I'll  
9 get a letter at some point before the pretrial motions are due,  
10 and then we will set a schedule for that.

11 MR. RAZAI: I have two quick points, your Honor.

12 THE COURT: Yes.

13 MR. RAZAI: One of the issues that we faced in the  
14 context of these motions was the admissibility of certain  
15 products at prior art. I don't believe that is a jury issue to  
16 figure out whether it is prior art or not. Would that be  
17 something that would be handled in the MIL phase of the case?

18 THE COURT: Yes. You could a handle it either in  
19 terms of the motions *in limine* or if there are issues -- we are  
20 going to resolve all the exhibit objections before trial. So I  
21 will literally sit here, and you will throw them up on the  
22 screen, and we'll have argument, and I'll decide them. So you  
23 all can decide if they are issues that require a little bit of  
24 briefing or whether they're issues I'm going to be able to size  
25 up just by looking at the particular alleged prior art pieces.

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1 MR. RAZAI: Thank you, your Honor.

2 And just a question with respect to scheduling, I  
3 understand right now we are pretty much January 6th based on  
4 where we are in terms of the calendar year. And with 60 days  
5 left to trial, and it seems like a pretty enormous amount of  
6 work left to do, I'm trying to ascertain whether the trial date  
7 is going to hold. I have a couple of trials coming up in  
8 April. I just want to see if we have any ideas as to whether  
9 we could going in March or whether there is a possibility to  
10 move it.

11 THE COURT: You said January. I thought I maybe I  
12 missed something --

13 MR. RAZAI: No, I'm saying right now with the holidays  
14 coming up, before any business days it's going to be early  
15 January. So I want to understand better the trial days with  
16 respect to --

17 THE COURT: All my trial dates are firm dates. We  
18 will be going to trial. We don't have you double or triple  
19 stacked with anybody else.

20 MR. RAZAI: Thank you, your Honor.

21 THE COURT: Thank you all for the good argument and  
22 coming out. If there are any further issues going on, you know  
23 where to find us.

24 (Adjourned)  
25