

# EXHIBIT 23



LEXSEE 2008 U.S. DIST. LEXIS 35627

**VERITAS OPERATING CORPORATION, a Delaware corporation, Plaintiff, v. MICROSOFT CORPORATION, a Washington corporation, Defendant. MICROSOFT CORPORATION, a Washington Corporation, Counterclaim Plaintiff and Counterclaim Defendant, v. VERITAS OPERATING CORPORATION, a Delaware Corporation, VERITAS SOFTWARE CORPORATION, a Delaware Corporation, Counterclaim Defendants and Counterclaim Plaintiffs.**

**CASE NO. 2:06-cv-00703-JCC**

**UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON**

*2008 U.S. Dist. LEXIS 35627*

**January 17, 2008, Decided**

**SUBSEQUENT HISTORY:** Approved by, Adopted by, Summary judgment granted by *Veritas Operating Corp. v. Microsoft Corp.*, 2008 U.S. Dist. LEXIS 18820 (W.D. Wash., Mar. 11, 2008)

**PRIOR HISTORY:** *Veritas Operating Corp. v. Microsoft Corp.*, 2006 U.S. Dist. LEXIS 79451 (W.D. Wash., Oct. 31, 2006)

**COUNSEL:** [\*1] For Veritas Operating Corporation, a Delaware corporation, Plaintiff: Belinda Lee, D Inder Comar, Jennifer T Barnett, Mark A Flagel, Renny Hwang, Robert Steinberg, Sean Pak, LEAD ATTORNEYS, Yury Kapgan, LATHAM & WATKINS (L.A.), LOS ANGELES, CA; David A Nelson, LEAD ATTORNEY, LATHAM & WATKINS (IL), CHICAGO, IL; Karen Y Tu, LEAD ATTORNEY, LATHAM & WATKINS (NY), NEW YORK, NY; Lynn M Engel, Ralph H Palumbo, LEAD ATTORNEYS, Philip S McCune, SUMMIT LAW GROUP, SEATTLE, WA; Michael J Schallop, LEAD ATTORNEY, SYMANTEC CORPORATION, CUPERTINO, CA.

For Microsoft Corporation, a Washington Corporation, Defendant: Arthur W. Harrigan, Jr., LEAD ATTORNEY, DANIELSON HARRIGAN & TOLLEFSON,

SEATTLE, WA; Bruce Braun, Dan K Webb, Derek John Sarafa, Raymond C Perkins, Scott Glauber, LEAD ATTORNEYS, WINSTON & STRAWN (IL), CHICAGO, IL; Garth A Winn, Kristin L Cleveland, Richard D McLeod, Todd M Siegel, LEAD ATTORNEYS, KLARQUIST SPARKMAN (OR), PORTLAND, OR; James E Geringer, LEAD ATTORNEY, John D Vandenberg, KLARQUIST SPARKMAN CAMPBELL LEIGH & WHINSTON, LLP, PORTLAND, OR; Michael F Browning, LEAD ATTORNEY, PORZAK BROWNING & BUSHONG LLP, BOULDER, CO; Adam Randal Wichman, KLARQUIST SPARKMAN (SEATTLE), SEATTLE, [\*2] WA; Christopher T Wion, DANIELSON HARRIGAN LEYH & TOLLEFSON, SEATTLE, WA.

For Gale R Peterson, Interested Party: Gale R Peterson, LEAD ATTORNEY, COX SMITH MATTHEWS INCORPORATED, SAN ANTONIO, TX.

For Microsoft Corporation, a Washington Corporation, Counter Claimant: Arthur W. Harrigan, Jr., LEAD ATTORNEY, DANIELSON HARRIGAN & TOLLEFSON, SEATTLE, WA; Bruce Braun, Dan K Webb, Derek John Sarafa, Raymond C Perkins, Scott Glauber, LEAD ATTORNEYS, WINSTON &

STRAWN (IL), CHICAGO, IL; Garth A Winn, Kristin L Cleveland, Richard D McLeod, Todd M Siegel, LEAD ATTORNEYS, KLARQUIST SPARKMAN (OR), PORTLAND, OR; James E Geringer, LEAD ATTORNEY, John D Vandenberg, KLARQUIST SPARKMAN CAMPBELL LEIGH & WHINSTON, LLP, PORTLAND, OR; Michael F Browning, LEAD ATTORNEY, PORZAK BROWNING & BUSHONG LLP, BOULDER, CO; Adam Randal Wichman, KLARQUIST SPARKMAN (SEATTLE), SEATTLE, WA; Christopher T Wion, DANIELSON HARRIGAN LEYH & TOLLEFSON, SEATTLE, WA.

For Veritas Software Corporation, Counter Defendant: Philip S McCune, SUMMIT LAW GROUP, SEATTLE, WA.

For Veritas Operating Corporation, a Delaware corporation, Counter Defendant: Karen Y Tu, LEAD ATTORNEY, LATHAM & WATKINS (NY), NEW YORK, NY; Lynn M Engel, Philip S McCune, [\*3] SUMMIT LAW GROUP, SEATTLE, WA.

For Microsoft Corporation, a Washington Corporation, Counter Claimant: Derek John Sarafa, Scott Glauberman, LEAD ATTORNEYS, WINSTON & STRAWN (IL), CHICAGO, IL; Garth A Winn, LEAD ATTORNEY, KLARQUIST SPARKMAN (OR), PORTLAND, OR; James E Geringer, LEAD ATTORNEY, KLARQUIST SPARKMAN CAMPBELL LEIGH & WHINSTON, LLP, PORTLAND, OR; Michael F Browning, LEAD ATTORNEY, PORZAK BROWNING & BUSHONG LLP, BOULDER, CO; Christopher T Wion, DANIELSON HARRIGAN LEYH & TOLLEFSON, SEATTLE, WA.

For Veritas Operating Corporation, a Delaware corporation, Counter Claimant: Karen Y Tu, LEAD ATTORNEY, LATHAM & WATKINS (NY), NEW YORK, NY; Philip S McCune, SUMMIT LAW GROUP, SEATTLE, WA.

For Veritas Software Corporation, Counter Claimant: Lynn M Engel, Philip S McCune, SUMMIT LAW GROUP, SEATTLE, WA.

For Microsoft Corporation, a Washington Corporation, Counter Defendant: Derek John Sarafa, Scott Glauberman, LEAD ATTORNEYS, WINSTON & STRAWN (IL), CHICAGO, IL; Garth A Winn, LEAD ATTORNEY, KLARQUIST SPARKMAN (OR), PORTLAND, OR; James E Geringer, LEAD ATTORNEY, KLARQUIST SPARKMAN CAMPBELL LEIGH & WHINSTON, LLP, PORTLAND, OR; Michael F Browning, LEAD ATTORNEY, PORZAK BROWNING & BUSHONG LLP, BOULDER, [\*4] CO; Christopher T Wion, DANIELSON HARRIGAN LEYH & TOLLEFSON, SEATTLE, WA.

**JUDGES:** Gale R. Peterson, Special Master. Honorable John C. Coughenour.

**OPINION BY:** Gale R. Peterson

**OPINION**

**SPECIAL MASTER'S REPORT AND RECOMMENDATION ON VERITAS OPERATING CORPORATION'S MOTION FOR SUMMARY JUDGMENT THAT MICROSOFT IS NOT ENTITLED TO RECOVER DAMAGES ON ITS CLAIM FOR INFRINGEMENT OF U.S. PATENT NO. 5,588,147**

**FILED UNDER SEAL CONTAINS INFORMATION DESIGNATED AS "CONFIDENTIAL," "CONFIDENTIAL -- ATTORNEY EYES ONLY," AND/OR "CONFIDENTIAL -- ATTORNEY EYES ONLY -- SOURCE CODE" SUBJECT TO PROTECTIVE ORDER**

**TABLE OF CONTENTS**

---

I. Introduction
A. Nature of the Suit
B. Referral to the Special Master
C. Issued Under Seal
II. Summary Judgment Standard

III. Brief Overview of the Patent-in-Suit	
IV. Damages	
V. Analysis	
A. Overview of the Parties' Arguments	
B. Microsoft's Disclosures Regarding Damages	
1. The Parties' Arguments	
2. Discussion	
C. Mr. Fathi	
1. The Parties' Arguments	
2. Discussion	
a) Disclosure of Mr. Fathi	
b) Mr. Fathi is Not Qualified	
to Testify as Either a Lay	
or Expert Witness	
D. Recommended Disposition	
VI. Report and Recommendation	

## I.

### Introduction

#### A. Nature of the Suit

Veritas alleges in its complaint causes of action for trade secret misappropriation, breach [\*5] of contract, breach of an implied covenant of good faith and fair dealing, unfair competition, unjust enrichment and collective trust, conversion, copyright infringement, and infringement of *U.S. Patent No. 6,826,661* ("the '661 patent") [Dkt. No. 1]. Microsoft alleges in its counterclaim causes of action for breach of contract, breach of an implied covenant of good faith and fair dealing, and for declaratory judgments of invalidity and non-infringement of the '661 patent, and for infringement of *U.S. Patent Nos. 5,588,147* ("the '147 patent"); 6,820,214 ("the '214 patent"); and 6,851,073 ("the '073 patent") [Dkt. No. 32]. Veritas, in response, alleged additional counterclaims seeking declaratory judgments of non-infringement and invalidity of the '147, '214 and '073 patents, declaratory judgments that the '073 and '214 patents are unenforceable due to inequitable conduct, and a counterclaim asserting infringement of *U.S. Patent No.*

5,469,573 ("the '573 patent") [Dkt. No. 39]. Microsoft answered and added counterclaims for declaratory judgments that the '573 patent was invalid and not infringed [Dkt. No. 53]. The parties subsequently stipulated to dismissal of Microsoft's counterclaims [\*6] for infringement of the '214 and '073 patents, and Veritas' corresponding declaratory judgment counterclaims for non-infringement, invalidity and unenforceability of those patents [Dkt. No. 58]. The parties further stipulated to stay the action with respect to the '661 patent after the U.S. Patent and Trademark Office (PTO) granted Microsoft's request for *inter partes* reexamination of the '661 patent [Dkt. No. 63].

Thus, the patents remaining in this action are Veritas' '573 patent and Microsoft's '147 patent. The master issued the Special Master's Report and Recommendation on Claim Construction Regarding *U.S. Patent No. 5,588,147* on May 25, 2007. *See* Dkt. No. 129 ("the *Markman* RR"). The Court adopted the *Markman* RR on September 12, 2007. *See* Dkt. No. 238 ("*Markman* Order").

<sup>1</sup>Veritas now moves for summary judgment that Microsoft should be barred from seeking "monetary damages" for infringement of the '147 patent because it failed to provide any damages analysis of evidence, whether through an expert or otherwise. *See* Motion for

Summary Judgment That Microsoft is Not Entitled to Recover Damages on Its Claim for Infringement of *U.S. Patent No. 5,588,147* [Dkt. No. 215] ("Veritas' Brief") [\*7] at 1.

1 Veritas also separately moves for summary judgment that its accused products do not infringe the '147 patent because its products do not provide "multi-master replication," and that the asserted claims of the '147 patent are invalid over three prior art references. See Counterclaim Defendants Veritas Operation Corp. and Veritas Software Corp.'s Motion and Brief in Support of Summary Judgment of Noninfringement and Invalidity of *U.S. Patent No. 5,588,147* [Dkt. No. 218]. The master addresses that motion in a separate report and recommendation issued concurrently herewith.

Microsoft responds that (1) one of its employees, Mr. Fathi, would testify on damages, (2) Microsoft sought a license to at least Veritas' *U.S. Patent No. 5,469,573*, and (3) there is sufficient evidence on damages to avoid summary judgment. See Opposition to Veritas' Motion for Summary Judgment That Microsoft is Not Entitled to Recover Damages on Its Claim for Infringement of *U.S. Patent No. 5,588,147*, dated September 17, 2007 [Dkt. No. 276] ("Microsoft's Response").

Veritas replies that Mr. Fathi should not be allowed to testify because Microsoft had not previously disclosed him as a witness on damages and because [\*8] Mr. Fathi is not qualified to testify on damages. Veritas also urges that Microsoft should be barred from recovering any damages in light of its failure to provide any damages analysis. See Reply in Support of Motion for Summary Judgment That Microsoft is Not Entitled to Recover Damages on Its Claim for Infringement of *U.S. Patent No. 5,588,147*, dated September 21, 2007 [Dkt. No. 305] ("Veritas' Reply").

## **B. Referral to the Special Master**

This Court's Order of January 18, 2007 [Dkt. No. 76], appointed the undersigned as special master in this action to handle all pre-trial patent-related issues. In the Court's Order of September 10, 2007 [Dkt. No. 235], the Court specifically directed the special master to hear the patent-related motions for summary judgment in this case, including *inter alia*, the above-mentioned motion. In accordance therewith, a hearing was held in San Antonio, Texas, on October 2, 2007. A record of that

hearing has been prepared and filed with the Court.

After reviewing the transcript of that hearing as well as the exhibits and briefs offered by the parties, and pursuant to the foregoing Order and *Rule 53 of the Federal Rules of Civil Procedure*, the master issues the [\*9] following report and recommendation on the foregoing issue of damages with respect to the '147 patent.

For the reasons discussed below, the master recommends that the Court GRANT Veritas' motion.

## **C. Issued Under Seal**

Some of the parties' exhibits were designated as having been filed under seal. Because it references certain of those sealed exhibits, this report and recommendation is likewise designated "FILED UNDER SEAL." However, the public nature of these proceedings should be preserved to the fullest extent possible. Therefore, the parties are strongly encouraged to promptly advise the Court whether this report and recommendation may be released from seal either entirely or with appropriate redaction.

## **II.**

### **Summary Judgment Standard**

Summary judgment is appropriate when there is no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. See *Celotex Corp. v. Catrett*, 477 U.S. 317, 322-23, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247-48, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986); *FED. R. Civ. P. 56(c)* ("*Rule 56(c)*"). "[T]he plain language of *Fed. R. Civ. P. 56(c)* mandates the entry of summary judgment, after adequate time for discovery and upon motion, against a party who [\*10] fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial." *Celotex*, 477 U.S. at 322. The Supreme Court has held that *Rule 56(c)* requires the nonmoving party to go beyond the pleadings, and by affidavits, depositions, answers to interrogatories and admissions on file, to designate specific facts showing that there is a genuine issue for trial. *Id.* at 477 U.S. at 324.

A genuine issue of material fact exists if the evidence

is such that a reasonable jury could find for the nonmoving party. *Anderson*, 477 U.S. at 248; *General Mills, Inc. v. Hunt-Wesson, Inc.*, 103 F.3d 978, 980 (Fed. Cir. 1997). A disputed fact is material if it might affect the outcome of the suit such that a finding of that fact is necessary and relevant to the proceeding. "[T]he dispute about a material fact is 'genuine,' \* \* \*, if the evidence is such that a reasonable jury could return a verdict for the nonmoving party." *Anderson*, 477 U.S. at 248. "Where the record taken as a whole could not lead a rational trier of fact to find for the nonmoving party, there is no 'genuine issue for trial.'" *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587, 106 S. Ct. 1348, 89 L. Ed. 2d 538 (1986). [\*11] Of course, "the mere existence of *some* alleged factual dispute between the parties will not defeat an otherwise properly supported motion for summary judgment; the requirement is that there be no *genuine* issue of *material* fact." *Anderson*, 477 U.S. at 247-48 (emphasis in original). "If the evidence is merely colorable \* \* \* or is not significantly probative, \* \* \*, summary judgment may be granted." *Id.* at 249-50. However, "[t]he evidence submitted by the nonmovant, in opposition to a motion for summary judgment, 'is to be believed, and all justifiable inferences are to be drawn in [its] favor.'" *Keystone Retaining Wall Sys., Inc. v. Westrock, Inc.*, 997 F.2d 1444, 1449-50 (Fed. Cir. 1993)(internal citations omitted)(quoting *Anderson*, 177 U.S. at 255).

The Court's responsibility is not "to weigh the evidence and determine the truth of the matter but to determine whether there is a genuine issue for trial." *Anderson*, 477 U.S. at 249. The inquiry is "the threshold inquiry of determining whether there is the need for a trial -- whether, in other words, there are any genuine factual issues that properly can be resolved only by a finder of fact because they may reasonably be resolved in favor [\*12] of either party." *Id.* at 250; *see also Cooper v. Ford Motor Co.*, 748 F.2d 677, 679 (Fed. Cir. 1984); *see also SRI Int'l v. Matsushita Elec. Corp. of Am.*, 775 F.2d 1107, 1116 (Fed. Cir. 1985)(*en banc*)("[T]he district court must view the evidence in a light most favorable to the nonmovant and draw all reasonable inferences in its favor, \* \* \*, and must resolve all doubt over factual issues in favor of the party opposing summary judgment.") The Federal Circuit has held that "summary judgment is as appropriate in a patent case as in any other \* \* \*." *Barmag Barmer Maschinenfabrik AG v. Murata Mach., Ltd.*, 731 F.2d 831, 835 (Fed. Cir. 1984); *see also Meyers v. Brooks Shoe, Inc.*, 912 F.2d 1459, 1461 (Fed.

*Cir.* 1990)(summary judgment is appropriate in patent cases).

### III.

#### Brief Overview of the Patent-in-Suit

As described in the *Markman* RR, the '147 *patent* overall is "related to replication facilities used within distribution systems." The abstract of the '147 *patent* explains that:

A replication facility provides for the replication of files or portions of files in a distributed environment. The replication facility is able to replicate any subtree within a distributed namespace of the distributed [\*13] environment. The replication facility provides multi-mastered, weakly consistent replication. The replication facility supports both public replication and private replication.

By way of background, the '147 *patent* explains that "[m]any of the conventional replication facilities are limited in terms of what they can replicate," *e.g.*, they "can only replicate one type of logical structure (*i.e.*, a file)," and in how many "logical structures that may be replicated at a time," *e.g.*, they "can only replicate one file at a time." '147 *patent*, col. 1, lines 17-24.

To address those shortcomings, the "preferred embodiment" of the '147 *patent* "provides a replication facility for use in a distributed environment" that includes, *e.g.*, a local area network (LAN) for interconnecting "different data processing resources," such as "workstations," "printers," and "secondary storage devices 26 and 28." According to the '147 *patent*, the workstations each include a "memory" that "holds a copy of a distributed operating system." That "operating system" is said to include a file system for storing the objects "organized into a distributed namespace 19" or "logical tree-like structure."

The "operating system [\*14] 38" is also said to include a "replication facility," as shown in Fig. 4:

GET DRAWING SHEET 4 OF 6

According to the specification, that "replication facility" "includes three primary functional components: a copying component 56, a reconciler component 58 and a control component 60." The "copying component" is for "duplication," the "reconciler component" "ensure[s] that [copies of objects] are consistent with each other," and the "control component" regulates "how replication is invoked," *e.g.*, whether "manually or automatically." *'147 patent*, col. 6, lines 12-29.

The specification describes "two types of replication: public replication and private replication. Public replication refers to a process that may be performed only by appropriately privileged parties to produce a 'public' copy of an object set. In public replication, each of the copies of the object set that are produced cooperates with the other copies to maintain consistency." *'147 patent*, col. 6, lines 45-51. "Private replication refers to a process for producing private copies of an object set," but "[n]ot all members of the replicated sets keep state information to maintain consistency among copies." *'147 patent*, col. [\*15] 6, lines 58-62.

The *'147 patent* discloses two types of reconciliation, namely, "namespace reconciliation" and "content reconciliation." "Namespace reconciliation is performed \* \* \* for any change recorded in a change item that is not strictly a content modification or that is not associated with a system property." "Content reconciliation \* \* \* involves reconciling contents of a local object with a remote object so that the local object includes the modifications made to the remote object." *'147 patent*, col. 7, lines 44-51.

As for private replication, the specification explains that "[p]rivate replication is similar to public replication," except that "the source of changes does not maintain a record of what objects were duplicated or changed. \* \* \* Accordingly, the resources that are required for public replication are not required." *'147 patent*, col. 9, lines 26-34.

#### IV.

##### Damages

*Section 284 of Title 35 of the United States Code* governs damages:

Upon finding for the claimant the court shall award the claimant damages

adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs [\*16] as fixed by the court.

The statute thus allows a patentee to recover actual damages from an infringer, or, at the very least, a reasonable royalty. *See Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002) ("The statute guarantees patentees a reasonable royalty even when they are unable to prove entitlement to lost profits or an established royalty rate.").

As owner of the *'147 patent*, Microsoft bears the burden of proof on damages. *See, e.g., SmithKline Diagnostics, Inc. v. Helena Labs. Corp.*, 926 F.2d 1161, 1164 (Fed. Cir. 1991) ("We agree with the district court that the amount of a prevailing party's damages is a finding of fact on which the plaintiff bears the burden of proof by a preponderance of the evidence.").

#### V.

##### Analysis

##### A. Overview of the Parties' Arguments

Overall, Veritas initially argues that Microsoft failed to produce any evidence or analysis supporting its claim for damages, and thus may not recover "any monetary damages" for alleged infringement of the *'147 patent*. According to Veritas, (1) Microsoft evaded its discovery obligations on damages, (2) Microsoft's Rule 30(b)(6) designee, Mr. Harmon, confirmed that Microsoft has no evidence as to patent [\*17] damages, and (3) Microsoft's supplemental responses on the last day of fact discovery that the value of a license to the *'147 patent* would have at least included a paid-up license from Veritas, including to the *'573 patent*, was devoid of any damages analysis. *See Veritas' Brief* at 1-2.

Microsoft responds that (1) Mr. Ben Fathi would testify about damages, (2) damages may be properly assessed in terms of reciprocal patent rights, *i.e.*, "in light of the real-world practice of cross-licensing, and the open nature of the *Georgia-Pacific* analysis,<sup>2</sup> it would be strange indeed to formulate a rule of law that patent licenses (or covenants, or other grants) cannot be valued in terms of each other," and (3) Microsoft has sufficient

evidence to defeat Veritas' motion. See Microsoft's Response at 3-4.

2 *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), which set out an often-cited list of evidentiary factors by which a reasonable royalty may be evaluated:

A comprehensive list of evidentiary facts relevant, in general, to the determination of the amount of a reasonable royalty for a patent license may be drawn from a conspectus of the leading cases. The following [\*18] are some of the factors *mutatis mutandis* seemingly more pertinent to the issue herein:

1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.

2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.

3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.

4. The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.

5. The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promotor.

6. The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convolved sales.

7. The duration of the [\*19] patent and the term of the license.

8. The established profitability of the product made under the patent; its commercial success; and its current popularity.

9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.

10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.

11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.

12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.

13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or

improvements added by the infringer.

14. The opinion testimony of qualified experts.

15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the [\*20] time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee -- who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention -- would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

Veritas replies that Mr. Fathi is not qualified to testify on damages, and that Microsoft had not previously disclosed him. Veritas again urges that Microsoft has failed to provide any damages analysis. Also, Veritas disputes the relevance of Microsoft's evidence on damages. *See* Veritas' Reply at 4-5. Veritas now appears to rely on Microsoft's failure to disclose damages under *Rule 26(a)* as the primary basis for its motion, and secondarily on the impropriety of Microsoft's intended use of Mr. Fathi.

Accordingly, the primary dispute concerns whether Microsoft's damages-related disclosures were so lacking as to require that Microsoft be barred from presenting evidence on damages. Secondarily, the parties dispute [\*21] whether Mr. Fathi may testify on damages. All other disputes are resolved in the context of those two issues. The parties' arguments are provided in more detail in the context of resolving those disputes.

## **B. Microsoft's Disclosures Regarding Damages**

### **1. The Parties' Arguments**

According to Veritas, Microsoft is precluded from asserting a right to recover damages for its "failure to comply with *Rule 26(a)(1)(C)*, which requires a party to provide a computation of any category of damages that it intends to seek at trial. Microsoft has never provided such a computation or an explanation of its theory. The computation of damages required by *Rule 26* contemplates some analysis. Veritas was entitled to a specific computation of the damages alleged by Microsoft." Veritas' Motion at 3 n.1 (citations omitted). Veritas argues that Microsoft "does not even attempt to address this flagrant discovery violation or distinguish the cases cited in Veritas' moving papers that preclude plaintiffs from presenting damages evidence at trial when they had not complied with *Rule 26(a)(1)(C)*. Throughout the fact discovery period, Microsoft said it cannot provide a computation of damages. Now that discovery is closed, [\*22] and still having failed (even in its Opposition to this Motion) to provide a computation of damages, Microsoft cannot be permitted to seek damages now (even in the form of a cross-license)." Veritas' Reply at 7.

### **2. Discussion**

*Rule 26(a)(1)*, *Federal Rules of Civil Procedure*, requires, *inter alia*:

Except in categories of proceedings specified in *Rule 26(a)(1)(E)*, or to the extent otherwise stipulated or directed by order, a party must, without awaiting a discovery request, provide to other parties:

\* \* \*

(C) a computation of any category of damages claimed by the disclosing party, making available for inspection and copying as under *Rule 34* the documents or other evidentiary material, not privileged or protected from disclosure, on which such computation is based, including materials bearing on the nature and extent of injuries suffered; and \* \* \* \*

Thus, *Rule 26(a)(1)(C)* requires that Microsoft identify, for each damages category claimed, a "computation" of damages, and disclose the evidence on which that "computation" is based.

On August 15, 2006, Microsoft served on Veritas its *Rule 26(a)(1)(C)* disclosure:

Microsoft claims damages relating to Veritas's breach of contract and breach of implied [\*23] covenant of good faith and fair dealing. Microsoft claims damages for Veritas's infringement of Microsoft's '147, '214, and '073 patents. Without the benefit of discovery, Microsoft is not able at this time to provide a computation of damages, but will seek all damages available under law.

Declaration of Philip S. McCune in Support of Veritas' Motion for Summary Judgment that Microsoft Is Not Entitled to Recover Damages on its Claim for Infringement of *U.S. Patent No. 5,588,147* ("McCune Decl."), Exh. 4:8/15/2006 Initial Disclosures at 12.

Microsoft reiterated the foregoing in supplemental *Rule 26* disclosures served on Veritas on September 11, 2006, February 14, 2007 and July 27, 2007. *See* McCune Decl., Exh. 5: 9/11/2006 Supp. Initial Disclosures at 4 & 13, and Exh. 6:2/14/2007 Second Supp. Initial Disclosures at 4 & 15; Supplemental Declaration of Philip S. McCune in Support of Veritas' Reply in Support of Motion for Summary Judgment That Microsoft is Not Entitled to Recover Damages on Its Claim for Infringement of *U.S. Patent No. 5,588,147* ("McCune Supp. Decl."), Exh. 2:7/27/2007 Third Supp. Initial Disclosures at 17.

Fact discovery closed on August 17, 2007. *See* Dkt. No. 127 at 2. Thus, [\*24] even after a full year of discovery, Microsoft continued to assert that it had not had the "benefit of discovery" and was unable to provide the required computation of damages. A year is ample time to identify a damages category, conduct a damages analysis and compute damages. Microsoft's statement that it will "seek all damages available under law" is so broad as to be non-responsive, particularly in light of Microsoft's multiple claims. Not only does that fail to disclose a "computation" of damages, that fails to even identify a "category of damages" at all, much less with respect to damages for infringement of the '147 patent -- not to mention failure to disclose any materials on which a "computation" might be based. At best, Microsoft's disclosure is "evasive or incomplete," and must therefore be "treated as a failure to disclose." *Rule 37(a)(3), Fed. R.*

*Civ. P.* <sup>3</sup>

*3 Rule 37(a)(3)* provides: "For purposes of this subdivision an evasive or incomplete disclosure, answer, or response is to be treated as a failure to disclose, answer, or respond."

Nor has Microsoft, through any response to Veritas' other discovery efforts, provided any computation of damages or other damages analysis with [\*25] respect to infringement of its '147 patent. On June 26, 2006, Veritas served the following interrogatory on Microsoft: "State all facts, assumptions or legal conclusions upon which You base the contention that You have suffered damages as a result of the alleged infringement of the '147, '214 and '073 Patents." McCune Decl., Exh. 1: First Set of Interrogatories, Interrogatory No. 5 at 6.

On August 1, 2006, Microsoft responded to that interrogatory with objections, including objecting that "this interrogatory as premature because discovery is in its initial stages, and Microsoft's investigation is ongoing." McCune Decl., Exh. 2: Response to Interrogatory No. 5 at 21.

On August 25, 2006, Microsoft supplemented its interrogatory response, responding with the same foregoing objections, and adding that it would at least seek a reasonable royalty as assessed by an expert:

Under the governing patent laws, Microsoft is entitled at least to 'damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.' At present, Microsoft expects such damages to include [\*26] at least a reasonable royalty. The exact calculation of damages based on a reasonable royalty will be performed by Microsoft's expert and will be provided to Veritas pursuant to expert discovery deadlines set by the Court.

Microsoft has been damaged by Veritas' infringement of the '147, '214, and '073 patents since the date each of those patents issued through the present. Microsoft anticipates that Veritas will continue to infringe and Microsoft will

continue to suffer damages as a result of that infringement at least through the date of trial in this case.

McCune Decl., Exh. 3: Supplemental Response to Interrogatory No. 5 at 183-84 (emphasis added). Thus, Microsoft at least identified a category of damages by narrowing its infringement damages theory to a "reasonable royalty," but provided no accompanying computation or other damages analysis. Microsoft's supplemental interrogatory response was thus insufficient to satisfy the requirements of *Rule 26(a)(1)(C)*.

Nearly a year later, on the last day of fact discovery, August 17, 2007, Microsoft again supplemented its response to Veritas' damages interrogatory:

Microsoft incorporates its general objections as its objections to this interrogatory. [\*27] Consistent with its general objections, Microsoft objects to this interrogatory to the extent it seeks legal conclusion, prematurely seeks expert testimony, and improperly seeks information protected from discovery by the attorney-client privilege, work-product immunity, and/or other applicable privilege and/or immunity. Microsoft is still investigating its claims and defenses in this action, including documents not timely produced by Veritas, and Microsoft reserves the right to supplement this response.

Subject to its objections, Microsoft provides the following supplemental response regarding Veritas' infringement of the '*147 Patent*:

Seagate's Network and Storage Management Group was acquired by Veritas. This Seagate Group developed and released a product called Seagate Replication Exec in late 1998. Pursuant to *Rule 33(d)*, Microsoft identifies the following documents relevant to the

functionality of Seagate Replication Exec, Veritas Storage Replicator, and Veritas Replication Exec and use of the same products by Veritas and/or its customers:

**Documents Produced By Microsoft**

MS-VRTS  
0037440-37678;

MS-VRTS  
0016895-17028;

MS-VRTS  
0419502-419563

MS-VRTS 0027756

MS-VRTS  
0429459-429466

MS-VRTS [\*28]  
0419395-419400

MS-VRTS 0430609

**Public Documents Produced By Veritas**

VRTS  
00422227-422463;

VRTS  
00421749-421986;

VRTS  
00421685-4217448;

VRTS 00422002

**Confidential and AEO Documents Produced By Veritas**

(Only first page of document Identified)

VRTS 00422656

VRTS 00422994 VRTS 01426577

VRTS 00423057 VRTS 01667577

VRTS 01185988 VRTS 01667607

VRTS 00782333 VRTS 01667631

VRTS 00744626 VRTS 01667850

VRTS 00852428 VRTS 00422682

VRTS 00635302 VRTS 00421987

VRTS 00446457 VRTS 00422123

VRTS 00786445 See also the following  
VRTS 00786465 SEC filings.

VRTS 00786453 **Veritas and  
Symantec's Public SEC  
Filings**

VRTS 01035312

VRTS 00421668 MS-VRTS  
0430610-430958;

VRTS 00421992 MS-VRTS  
0431179-431698;

VRTS 01426577

VRTS 01044311 MS-VRTS  
0431940-432027;

VRTS 01035312 MS-VRTS  
0432265-432376;

VRTS 01036886

VRTS 01044213 MS-VRTS  
0432633-432799

VRTS 00939201

VRTS 01189730 **Seagate's Public SEC  
Filings**

VRTS 01190794 MS-VRTS  
0432382-432468

VRTS 01007805

VRTS 00421614 July 3, 1998 Form  
10-K405

VRTS 00422134 April 29, 1999 Form  
S-4

VRTS 01185901

VRTS 01187024 See also the transcript  
and exhibits of the August  
15, 2007 deposition of Mr.  
William Waldrum and the

VRTS 00421991

August 6, 2007 deposition of Mr. William Harmon, the patent licenses produced in this action, and [\*29] the expert report of Mr. Robert Rogers dated July 17, 2007 (the Rogers Report). The Rogers Report explains the manner and extent to which the use of Seagate Replication Exec, Veritas Storage Replicator, and Veritas Replication Exec infringes the asserted claims of the '147 patent. Microsoft reserves the right to supplement this response as provided by the Rules.

The following documents relate to the licensing of the '147 patent as part of the FRS protocol:

**File Replication Service (FRS)**

MS-VRTS  
0428475-428526;

MS-VRTS  
0429688-429751;

MS-VRTS  
0432475-432485;

MS-VRTS  
0433266-434666;

MS-VRTS  
0435223-435451;

MS-VRTS  
0435462-435526;

MS-VRTS  
0436274-436380;

MS-VRTS 0063261;

MS-VRTS  
0175329-175369;

MS-VRTS  
0254597-254654;

MS-VRTS  
0299891-299966;

MS-VRTS  
0366451-366456;

MS-VRTS 0366467;

MS-VRTS  
0366504-366555;

MS-VRTS  
0378351-378352;

MS-VRTS  
0378425-378426;

MS-VRTS  
0378439-378441;

MS-VRTS  
0378450-378451;

MS-VRTS  
0395215-395229

For the foregoing reasons, Microsoft seeks damages for infringement of the '147 patent in the amount no less than a reasonable royalty determined by the results of a hypothetical negotiation between Microsoft and Veritas in or about the second half of 1998. The value of a license to or covenant [\*30] under the '147 patent at the time of the first infringement by Veritas would be an amount equivalent to the value of the license(s) or covenant(s) Microsoft would have received from Veritas (or from its predecessor in interest) in exchange for a license or covenant to the '147 patent, and would include, at minimum, a paid-up license (or suitable covenant) from Veritas including the '573 patent.

McCune Decl., P 11, Exh. 10: Supp. Response to Interrogatory No. 5 at 2-5 (emphasis added). After

reiterating that it sought reasonable royalty damages, Microsoft further added that it valued a license to the '147 patent as "equivalent to" a patent license from Veritas, including a paid-up license to the '573 patent. As for Microsoft's objection that Veritas' interrogatory "prematurely seeks expert testimony," it is worth noting that the deadline for submitting expert reports was July 17, 2007, *see* Dkt. No. 127 at 2, a full month before Microsoft's final supplemental response. In any event, that is also not a "computation" of damages, nor does it qualify as a damages analysis.

Microsoft contends that Veritas has offered "no reason to discount reciprocity as a means of valuation," and that [\*31] "[f]actfinders are regularly called upon to calculate the value of a license grant or other contract term." Microsoft cites *eBay, Inc. v. MercExchange, LLC*, 547 U.S., 547 U.S. 388, 126 S. Ct. 1837, 1839, 164 L. Ed. 2d 641 (2006) for the proposition that "[e]ven the fact that a patent has been licensed at all -- under whatever terms -- is relevant to whether damages are adequate to compensate for an injury." Microsoft argues that "in light of the real-world practice of cross-licensing, and the open nature of the *Georgia-Pacific* analysis, it would be strange indeed to formulate a rule of law that patent licenses (or covenants, or other grants) cannot be valued in terms of each other. Neither is it difficult to assign an economic value to specific contract terms in the context of this case. Indeed, Veritas has purported to do so itself (albeit in a fatally flawed manner), by asserting a value for the same '573 rights that Veritas would have readily exchanged with Microsoft years before." Microsoft's Response at 4.

Veritas replies that Microsoft "does not attempt to identify any alleged monetary damages, it only states that the *quid pro quo* for Veritas' alleged need to license the '147 patent would have been a cross-license [\*32] to the Veritas '573 patent." Veritas' Reply at 11.

Microsoft's argument must be rejected. Microsoft essentially asserts that it may be compensated for Veritas' infringement of the '147 patent by being given a license to at least Veritas' '573 patent. That, however, compares apples to oranges, and fails as any sort of damages computation or analysis.

Fundamentally, under § 284, Microsoft is entitled to damages "adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer," of the '147 patent

. In other words, "the statute allows the award of a reasonable royalty, or of any other recovery, only if such amount constitutes 'damages' for the infringement." *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505, 84 S. Ct. 1526, 12 L. Ed. 2d 457, 1964 Dec. Comm'r Pat. 760 (1964) (emphasis added). *See Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002) ("In *Aro Manufacturing*, the Supreme Court stated that the statutory measure of 'damages' is 'the difference between [the patent owner's] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred.'" (citing *Aro Manufacturing*, 377 U.S. at 507)). [\*33] That is, "[c]ompensatory damages, by definition, make the patentee whole, as opposed to punishing the infringer." *Id.* at 1312. *See SmithKline Diagnostics*, 926 F.2d at 1164 ("Damages is the amount of loss to a patentee."). *Cf. Bowen v. Massachusetts*, 487 U.S. 879, 910, 108 S. Ct. 2722, 101 L. Ed. 2d 749 (1988) ("That is, since the orders are for specific relief (they undo the Secretary's refusal to reimburse the State) rather than for money damages (they do not provide relief that substitutes for that which ought to have been done) \* \* \*"). That is, a reasonable royalty is evaluated for purposes of compensation for infringement.

"A reasonable royalty is an amount 'which a person, desiring to manufacture and sell a patented article, as a business proposition, would be willing to pay as a royalty and yet be able to make and sell the patented article, in the market, at a reasonable profit.' " *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1157-58 (6th Cir. 1978) (citing *Goodyear Tire and Rubber Co. v. Overman Cushion Tire Co.*, 95 F.2d 978, 984 (6th Cir. 1937)). *See also Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1119 (Fed. Cir. 1996) (generally defining a "reasonable royalty" in terms of "the percentage [\*34] of sales or profit likely to have induced the hypothetical negotiators to license use of the invention."). In the context of § 284, therefore, the "hypothetical negotiation" between Microsoft and Veritas in 1998 is analyzed specifically for the purpose of determining compensatory damages.

It may be that outside of § 284's context, Microsoft would not only have licensed the '147 patent, but would have taken a reciprocal license to one or more of Veritas' patents as consideration -- and perhaps with or without balancing cross-payment. And, it is true that the *Georgia-Pacific* factors are non-exclusive. *See*

*Micro-Chemical, Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1393 (emphasis and alteration added)(stating factors considered in hypothetical reasonable royalty analysis "include those set out in *Georgia-Pacific*"). But although the reasonable royalty analysis is modeled on real-world business considerations, under § 284, the purpose for the reasonable royalty analysis is strictly to determine compensation for infringement. See *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1109 (Fed. Cir. 1996)("The objective of [a] reasonable royalty calculation is to determine the amount necessary to adequately [\*35] compensate for an infringement.").

Any damages that Microsoft may have suffered are particular to its situation. See *Applied Med. Res. Corp. v. U.S. Surgical Corp.*, 435 F.3d 1356, 1361 (Fed. Cir. 2006)("Consistent with our precedent, reasonable royalty damages are not calculated in a vacuum without consideration of the infringement being redressed."). A patent license, after all, is a promise by the licensor not to sue the licensee. See, e.g., *U.S. Philips Corp. v. United States Int'l Trade Comm'n*, 424 F.3d 1179, 1189 (Fed. Cir. 2005)("A nonexclusive patent license is simply a promise not to sue for infringement."); *Hilgraeve Corp. v. Symantec Corp.*, 265 F.3d 1336, 1346 (Fed. Cir. 2001). In other words, a patent license generally looks forward, while damages under § 284 are generally provided to compensate for infringement that has already occurred.<sup>4</sup> In this case, Microsoft has not explained how a patent license with no stated or readily-determined value, is at all related to the harm that Microsoft may have suffered. Without knowing what damages Microsoft may have suffered, it is impossible to determine whether a license to Veritas' '573 patent would compensate for those damages. [\*36] Thus, Microsoft's statement that it seeks as damages a reciprocal license to Veritas' patent cannot be deemed a "computation" of damages, nor a damages analysis.

<sup>4</sup> Other remedies exist, of course. For ongoing infringement, for example, a court may fashion equitable relief in the form of an ongoing royalty. See *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 2007 WL 3024994, at \*34 (Fed. Cir. 2007) (discussing the award under § 283 of an "ongoing royalty for patent infringement"). But Veritas here seeks summary judgment with respect to "monetary damages" under § 284.

That is true even if Microsoft's position is reduced to

a monetary equivalence, i.e., Microsoft seeks whatever amount Veritas seeks in this lawsuit. Presumably, Veritas has provided some analysis and quantification of what a reasonable royalty would be for infringement of the '573 patent. But the '573 patent and the '147 patent are each drawn to different inventions in different technologies, and are used by different companies with different products and different marketing plans. Other differences (or similarities) between the parties' respective situations may exist, but the point is that any damages that Veritas may have suffered [\*37] are peculiar to Veritas' situation, and any damages that Microsoft may have suffered are peculiar to Microsoft's situation. Cf. *Applied Medical*, 435 F.3d at 1361-62 ("Here, the issue of reasonable royalty damages in *Applied II* is not identical to the issue of reasonable royalty damages in *Applied I* because the infringements requiring compensation began at separate and distinct times. The infringement in *Applied II* was caused by sales of Versaport II, which began in 1997, whereas the infringement in *Applied I* was caused by sales of Versaport I, which began in 1994. Because Versaport I and Versaport II caused two separate infringements, and each infringement commenced on a different date, it follows that the reasonable royalties may well be different from each other. Reasonable royalty damages for the infringement caused by Versaport II are tied to sales of Versaport II beginning in 1997. We cannot relate reasonable royalty damages for Versaport II sales back to a separate and past infringement caused by Versaport I sales beginning in 1994. Indeed, the issue of reasonable royalty damages for Versaport II sales could not have been and was not considered, much less decided, in *Applied* [\*38] *I* because that product had not yet been determined to infringe. We conclude that the damages issues in *Applied I* and *Applied II* are not identical, and therefore the jury's award of reasonable royalty damages for infringing sales of Versaport I in *Applied I* does not preclude another jury's evaluation of reasonable royalty damages for infringing sales of Versaport II at a different time in *Applied II*"). Even if Veritas has put a dollar figure on the value of a license to its '573 patent (in the form of a reasonable royalty), Microsoft has made no effort to provide or reference any "computation" of that value, much less explain how that value bears any relationship to Microsoft's alleged harm. It may be, in the end, that the harm suffered by Microsoft for alleged infringement of the '147 patent is equivalent to the harm suffered by Veritas for alleged infringement of the '573 patent. But to reach that point, each party must compute damages in the context of the harm

particular to its circumstances. Microsoft may not simply bypass all analysis and assert that it is entitled to whatever damages Veritas seeks for infringement of the '573 patent.

Microsoft also failed to provide any sort of [\*39] damages computation or analysis when deposed. On June 27, 2007, Veritas noticed Microsoft's Rule 30(b)(6) deposition, seeking testimony on, *inter alia*, damages based on a reasonable royalty:

20. The facts underlying Microsoft's contention that it suffered damages as a result of Veritas' alleged infringement of the '147 Patent, including but not limited to: (a) any lost profits that Microsoft contends it suffered as a result of Veritas' alleged infringement of the '147 Patent, including but not limited to a detailed computation of the amounts of any such lost profits; (b) Microsoft's competitors in the market, if any, for products covered by any claim for '147 Patent; (c) non-infringing substitutes for any Microsoft product or by any claim of the '147 Pat-ent; (d) Microsoft's policies with respect to licensing '147 Patent and its practices with respect to marketing Microsoft products to practice the '147 Patent; (e) in the negotiation in terms of any actual or potential license of the '147 Patent including but not limited to the royalty rate contained in any such actual or potential license; (f) Microsoft's revenues, profits, and expenses associated with licens-ing the '147 Patent; [\*40] (g) Microsoft's contentions regarding a reasonable royalty in connection with the licensing of the '147 Patent; and (h) any alleged notice of the '147 Patent provided by Microsoft to Veritas.

McCune Decl., Exh. 8: Topic No. 20 at 7 (emphasis added). Veritas deposed Microsoft's Rule 30(b)(6) designee on damages, Mr. Bill Harmon, on August 7, 2007, and, *inter alia*, asked Mr. Harmon about quantification of damages for the '147 patent:

Q. Mr. Harmon, what is Microsoft's position regarding the quantification, if any, of damages that Microsoft alleges it

has suffered based on alleged infringement of the '147 patent?

A. So just on the question that -- the actual idea of quantification, I -- I understand and prepared to talk about facts underlying the different topics here, and I can talk to you about facts that would underlie how Microsoft might value infringement of the '147 patent, if that's what you're asking.

Q. No, my question right now -- and I will go to those topics later, Mr. Harmon.

A. Sure.

Q. My question to you now is, what is Microsoft's position regarding the specific quantification of damages that it alleges Microsoft has suffered based on the alleged infringement of the '147 patent; [\*41] does Microsoft have a position on that particular question?

A. Sure. It's my understanding that with respect to quantification, it would be the value that would derive out of a hypothetical negotiation in the September '98 time frame between Microsoft and Seagate considering a number of factors.

Q. What are those factors?

A. Factors that would potentially matter would be the sort of grant terms would be something that would be important of that license that would result from the notification, namely: the property being licensed, the scope of the grant, what would the field of use be, what would the time of the license exist for, things of that nature. And then certainly back in the '98 time frame, it was something Microsoft would consider if people came to them seeking a -- a license of a particular patent, they would stop to think whether, you know, it would be appropriate to ask for only a -- a money level of compensation or whether you would do more of an apples-to-apples

comparison and look at underlying intellectual property that the other party might have, and maybe it would be a situation where the proper quantification of the value would be an exchange of intellectual property [\*42] rights between the parties for, say, patents that Seagate may have held and patents that Microsoft holds.

Q. Any other factors?

A. Those would be the -- the chief factors and consider -- consideration that went in. Of course, you know, patent licenses are usually complex documents, so there would be quite a few terms that, you know, you would wind up talking about. Another term that might be important would be assignability, so that the parties who receive the rights, whether they could pass those license rights downstream to people who might acquire them in the future; the types of products it was permissible to use those patents in or the types of products it would be feasible to build technology in; where and when that technology operated, it may have practiced the patent, things like that.

McCune Decl., Exh. 9: Deposition of Bill Harmon ("Harmon Dep.") at 63:8-65:21 (objections omitted). Upon further questioning, however, Mr. Harmon stated that those factors were only hypothetical, and that Microsoft had not actually negotiated with Seagate <sup>5</sup> regarding the '147 patent back in "the 1998 time frame:"

Q. You listed a number of factors, talked about, quote, a hypothetical negotiation.

A. [\*43] Correct.

Q. Do you know, as a company representative, whether, in fact, there were actual negotiations between Seagate and Microsoft regarding the '147 patent back in the 1998 time frame?

A. I believe there were not.

Q. So these factors that you just talked about, these are speculative factors

based on a hypothetical negotiation, correct?

A. I -- I don't know the factors are speculative. I mean, the factors are pretty standard, they are things people would routinely consider in an IP licensing situation.

Q. Okay. So let me make sure my -- I understand your response to my question to you is clear. The application of these factors that you just mentioned to a hypothetical negotiation, but never actually occurred, that is speculation, correct?

A. Sure. It's a form of speculation. But it's a construct that I think is pretty traditional in trying to assess value in the -- in the IP licensing framework.

Q. Did you speak with anyone at Microsoft to determine whether, in fact, Microsoft had analyzed the '147 patent specifically in the 1998 time frame with respect to each of these factors that you just outlined?

A. I did not speak to anyone who indicated that they had.

Q. So the individuals that you [\*44] had spoken to did not represent to you that Microsoft had, in fact, analyzed these factors that you mentioned specifically with respect to the '147 patent as of 1998, correct?

A. Correct.

Harmon Dep. at 65:25-67:13 (objections omitted). Mr. Harmon testified that he based those factors on his experience and from talking to another Microsoft employee:

Q. Okay. So you've listed a number of factors today that you think may have been relevant to a hypothetical negotiation between Seagate and Microsoft as of 1998, correct?

A. Yes.

Q. And what is that based upon?

A. What is that based upon? Based on a couple things: Based on my practice at Microsoft where I deal with licensing matters sometimes; also based on talking to Bart Eppenauer, who is here in that timeframe and has knowledge of how Microsoft looked at intellectual-property and, specifically, patent matters back in the '98 time frame.

Harmon Dep. at 67:14-68:1.

5 Veritas' predecessor and prior owner of the '573 patent. See Microsoft's Response at 1 n.2.

When Veritas specifically questioned Mr. Harmon about each of the *Georgia-Pacific* factors, Mr. Harmon stated that neither he nor anyone else had analyzed the '147 patent with respect to those [\*45] factors. Mr. Harmon's deposition on those factors was lengthy, but reveals Microsoft's lack of any damages analysis or quantification:

Q. Are you aware of Georgia-Pacific?

A. I am.

Q. Did you consider the Georgia-Pacific factors with respect to the damages allegations regarding 147 patent in this case?

A. I'll answer. I mean, I'm aware of the Georgia-Pacific factors generally. I didn't go factor by factor and apply them, because I'm not here to do a--an expert opinion on it, but obviously, those are factors that are kind of well-known in the law, things that you'll consider in trying to do evaluation and make sure the considerations that's passed is, you know, fair. Whether the consideration comes in dollar form, whether the consideration comes in services, or other goods, or intellectual-property rights.

Q. Okay. And I want this to be clear,

because as you're well aware, you're an attorney, you understand that the purpose of today's deposition is for us to explore into Microsoft's position on these topics. That you've identified and that you had been designated as Microsoft's corporate designee; you understand that?

A. \* \* \* I understand that you want to explore into the topics presented [\*46] in the--the topic numbers that we discussed.

Q. Great. And I just want to be absolutely clear on this, because I'm deposing you now as the company representative on Topic 20, which is dealing with the facts underlying Microsoft's contention that it suffered damages as a result of Veritas' alleged infringement of the 147 patent. Did you or did you not, as a company representative, undertake a Georgia-Pacific factors analysis in order to prepare for today's deposition?

A. That's difficult for me to say, because when we talked -- I gave you a frame-work underlying facts. Those facts tie to a negotiation. Of course, you would consider factors in Georgia-Pacific when you're trying to assess whether you get an equilibrium of value going between the parties, so each party feels that they get the right amount for what they want. If you're asking whether I have some sort of report where I go, Georgia-Pacific factor by factor by factor and see how it's applied, the answer is no. But it's hard not to always be generally aware that that precedent exists when you're thinking about matters like this. So it's in my mind, but there's not a structured term by term by term analysis.

Q. And, Mr. Harmon, [\*47] are you prepared today to discuss at least some of these factors with respect to Microsoft's contention regarding the damages that it alleges it suffered based on the alleged infringement of the 147 patent?

A. So I'm not prepared to offer an opinion, you know, coming to a--an opinion about--evaluation or an opinion about the conclusion of those factors. I am prepared to talk about, you know, facts, and, you know, try to be factually responsive to questions you might ask.

Q. Okay. And just to be clear, you don't intend if you were called at trial, to offer any opinion testimony about any of these factors as it relates to the *147 patent* in the Veritas case, correct?

A. As I'm sitting here now, I'm not aware of a role for me like that.

Q. Are you aware of anyone at Microsoft or anyone hired by Microsoft who has been assigned the role of providing opinion testimony on these factors that you mentioned as it relates to the damages allegations for the *147 patent* in this case?

A. \* \* \* I'm not aware of anyone.

Q. So your sole role here today, if I understand it, is to describe factual underpinnings but you're not going to offer any opinion testimony, correct?

A. That's correct.

Q. And that is your [\*48] understanding with respect to your role, should you be called at trial on behalf of Microsoft, correct?

A. That's correct, that's my understanding.

Q. Have you reviewed any analysis by Microsoft relating to the potential application of each of these factors that you had identified with respect to the *147 patent* and the alleged infringement of that patent by Veritas? Have you reviewed any analysis by Microsoft relating to the potential application of each of these factors that you had identified with respect to the *147 patent* and the alleged

infringement of that patent by Veritas?

A. Sure, no, no.

Q. And as we talked about before, you have not seen any revenue numbers with respect to the revenues of the accused Veritas products that are accused of infringing the *147 patent*, correct?

A. Correct.

Harmon Dep. 68:2-72:21.

Q. Okay. Mr. Harmon, we mentioned Georgia-Pacific factors earlier?

A. Yes, yes.

Q. Does Microsoft have a position on the reasonable royalty rate that it alleges Veritas should pay Microsoft in the event that Veritas is found to infringe the *147 patent*?

A. So the investigation didn't reveal a specific royalty rate, it more revealed, as we talked about before, that the likely royalty [\*49] would be an exchange of intellectual property rights between the parties for intellectual property that Seagate may have had of interest to Microsoft and Microsoft may have had relevant to Sea-gate.

Q. Okay. Just to be crystal clear on the record again, because I don't want to misrepresent what you're saying here today at trial.

A. Sure.

Q. So, Mr. Harmon, I'm going to ask you one more time just on the specific question of does Microsoft have a position on a specific reasonable royalty rate in terms of percentage that it alleges Veritas should pay Microsoft in the event that Veritas is found to infringe the *147 patent*?

A. So there's not a specific royalty rate as the standalone way to compensate,

no.

\* \* \*

Q. Okay. And I'm going to ask you just a follow-up question on that: Does Microsoft have a position on a range for a reasonable royalty rate in terms of percentages that it alleges Veritas should pay Microsoft in the event that Veritas is found to infringe the *147 patent*?

A. So there's not a specific standalone range of rates as the sole compensation between the parties for infringement of the *147 patent*.

Q. And you have not attempted to calculate such range and rates, correct?

A. No.

Q. And, to [\*50] your knowledge, has anyone at Microsoft attempted to calculate the range of reasonable royalty rates that Microsoft alleges Veritas should pay Microsoft in the event that Veritas is found to infringe the *147 patent*?

A. I'm not aware.

Harmon Dep. 96:12-98:15

Q. And all I've heard from you so far, Mr. Harmon, and I just want to be clear on the record, is that you've identified some factors that you think should have been considered as part of a hypothetical negotiation based on your experience. Have you, in fact, gone through any of those hypothetical negotiation factors with respect to the facts in this case and come to any conclusions regarding the damages suffered by Microsoft due to the alleged infringement of the *147 patent* by Veritas?

A. No, I--

A. No, I haven't tried to reach any conclusions.

Q. And, to your knowledge, no one else at Microsoft has done that analysis?

A. I'm not aware of anyone who has.

Q. So a lot of what we're going to talk about now I think we've already covered, but just to set the record straight I'm going to go back and go through each of the Georgia-Pacific factors with you.

A. Okay.

Q. Just to confirm the company's position on that, based on the investigation [\*51] that you've done so far, okay. So the first factor is royalties received by Microsoft for licensing the patent proving or intending to prove an established royalty. With respect to that factor, Mr. Harmon, has anyone at Microsoft analyzed that specific factor with respect to the specific facts of this case in order to determine the reasonable royalty rate?

A. So we produced some documents and talked a little bit today about some underlying facts that could be relevant to that. I'm not aware of someone that came up with an ultimate conclusion on what a royalty rate would be based on that. I know it would probably be relevant information, the stuff -- the facts we talked about to trying to figure that out, and if someone ultimately wasn't wanted to an offer an opinion on that or, you know, a conclusion on that, I'm not aware of an ultimate conclusion on it myself.

Q. And do you as company corporate representative have an opinion or conclusion on the issue of reasonable royalty and that specific factor we just talked about?

A. I don't have a conclusion on that as we sit here today.

Q. Okay. Do you intend to testify on that topic at trial?

A. I--I don't intend to do that today.

Q. And has anyone [\*52] asked you to prepare any analysis with respect to that

issue?

A. No one has. With respect to doing that and testifying at trial on it, you mean?

Q. Yes.

A. No, no one's asked me that.

\* \* \*

Q. So the next factor is the rates paid by the licensee for the use of other similar patents, and my question to you was, has anyone at Microsoft analyzed that specific factor with respect to the specific facts in this case in order to determine a reasonable royalty rate for the *147 patent*?

A. Okay. So in my investigation, I'm unaware of any information about, Sea-gate's licensing of similar technology, or I should say inbound licensing of similar technology.

Q. So I take it, Mr. Harmon, that you, as company corporate representative, does [sic] not have a position on that particular topic today, correct?

A. I'm not--I don't know, we may have produced documents that would have been attorney's eyes only on that topic, I wouldn't have the opportunity to see them. So if we produced documents, they speak for themselves, I don't have any testimony on them.

Q. And, to your knowledge, has anyone been asked to perform similar analysis regarding that specific factor?

A. I'm not aware of anyone who's been asked to do [\*53] that.

Q. And do you intend to testify on that topic at trial?

A. Today, I don't have an intention of doing that.

Q. Next factor is the nature and scope

of the license such as whether it is exclusive or nonexclusive, restricted or nonrestricted in terms of territory or customers. And my question to you, Mr. Harmon, is, has anyone at Microsoft analyzed that specific factor with respect to the facts of this case in order to determine a reasonable royalty rate for the *147 patent*?

A. I would say we've discussed today in answers to questions about whether the license was granted to be exclusive or nonexclusive or the -- the form the license would take, the grant terms, would all be relevant to establishing the actual proper compensation between the parties; whether it be intellectual property right transfer, goods, services, money, things like that, so those things would be relevant.

Q. That's not my question.

A. Okay.

Q. I understand that you think generally speaking these categories of topics or factors could be relevant.

A. Sure.

Q. My question is whether you have, in fact, or whether anyone else at Microsoft has, in fact, analyzed that specific factor to determine the reasonable royalty rate [\*54] for the *147 patent*?

A. And the factor being?

Q. Sure. The nature and scope of the license such as whether it's exclusive or nonexclusive, restricted or nonrestricted in terms of territory and customers?

A. So underlying facts that might be helpful to that, that we may have or may, not have produced, you know, would be if we had other cross-licenses like that and--or other, you know, types of intellectual property licenses like that and they included such terms, so if you're

asking has anyone reached an ultimate conclusion on that, I'm not aware in my investigation of anyone reaching an ultimate conclusion. Is it a proper form of consideration that Microsoft's looking at? Yes, it is.

Q. This is very important, okay, Mr. Harmon? I understand that theoretically speaking some of these factors we're talking about are relevant to determine a reasonable royalty analysis. My question to you is whether anyone at Microsoft has, in fact, attempted to conduct such an analysis with respect to the specific facts in this case for the purpose of determining a reasonable royalty rate for the *147 patent*. Has anyone done that analysis to your knowledge?

A. So I'm not aware of anyone sitting down and doing [\*55] the analysis, but I know that we're producing or gathered documents relevant to it. So it's a bit of a chicken-and-the-egg question, you know. I'm sure Microsoft has an intent--an intent to do that analysis at some point based on the underlying facts and of-fright.

Q. Well, okay. So that's where we have to slow down a little bit.

A. Sure, that's fine.

Harmon Dep. 110:23-118:6.

Q. Because I understand that in response to document requests Microsoft has gathered some relevant documents as produced in this case, I understand that. I also understand that you brought with you a list, which is Exhibit 365<sup>6</sup> [reproduced below], that has some of these documents identified by different categories, I understand that. My question to you is whether Microsoft has done the actual analysis of taking that specific factor of the nature of the licenses for the purpose of determining what a reasonable royalty rate should be for the *'147 patent*. Has anyone done that analysis, to your knowledge, sitting here today?

6 Mr. Harmon explained Exh. 365 as follows: "So we kind of listed out documents here, you know, that relates to licensing of the *'147 patent* as part of the FRS protocol. And then we listed out some [\*56] documents here that are relevant to the functionality of some Seagate and Veritas products that are at issue in the matter. And then we listed here some documents that are relevant to a report by Mr. Rogers that I'm aware we gave. So -- and also some SEC filings, so, factually, these are some documents we, as a company, have identified as responsive to this topic in general. And so we thought it would be good to pass those on to you." Harmon Dep. at 73:21 - 74:6.

## Topic 20

The following documents relate to the licensing of the *'147 patent* as part of the FRS Protocol and include two closed licenses relating to the FRS Protocol:

### File Replication Service (FRS)

MS-VRTS 0428475-428526;  
 MS-VRTS 0429688-429751;  
 MS-VRTS 0432475-432485;  
 MS-VRTS 0433266-434666;  
 MS-VRTS 0435223-435451;  
 MS-VRTS 0435462-435526;  
 MS-VRTS 0436274-436380;  
 MS-VRTS 0063261;  
 MS-VRTS 0175329-175369;  
 MS-VRTS 0254597-254654;  
 MS-VRTS 0299891-299966;  
 MS-VRTS 0366451-366456;  
 MS-VRTS 0366467;  
 MS-VRTS 0366504-36655;

MS-VRTS 0378351-378352;	VRTS 00422656
MS-VRTS 0378425-378426;	VRTS 00422994
MS-VRTS 0378439-378441;	VRTS 00423057
MS-VRTS 0378450-378451;	VRTS 01185988
MS-VRTS 0395215-395229	VRTS 00782333
	VRTS 00744626

The following documents relate to the functionality of Seagate Replication Exec. Veritas Storage Replicator, and Veritas [\*57] Replication Exec and use of the same products by Veritas and/or its customers:

**Documents Produced By Microsoft**

MS-VRTS 0037440-37678;	VRTS 00786445
MS-VRTS 0016895-17028;	VRTS 00786465
MS-VRTS 0419502-419563	VRTS 00786453
MS-VRTS 0027756	VRTS 01035312
MS-VRTS 0429459-429466	VRTS 00421668
MS-VRTS 0419395-419400	VRTS 00421992
MS-VRTS 0430609	VRTS 01426577
	VRTS 01044311

Page 1

CV 06-0703 JCC

**Public Documents Produced By Veritas**

VRTS 00422227-422463;	VRTS 00939201
VRTS 00421749-421986;	VRTS 01189730
VRTS 00421685-4217448;	VRTS 01190794
VRTS 00422002	VRTS 01007805
	VRTS 00421614

**Confidential and AEO Documents Produced By Veritas**

(Only first page of document Identified)

VRTS 00422134
VRTS 01185901
VRTS 01187024

VRTS 00421991

VRTS 01426577

VRTS 01667577

VRTS 01667607

VRTS 01667631

VRTS 01667850<§=I>

Page 2

CV 06-0703 JCC

VRTS 00422682

VRTS 00421987

VRTS 00422123

I also understand that Microsoft's technical expert, Mr. Robert Rogers, submitted a report on July 17, 2007 relating to infringement of the '147 *patent* involving Seagate Replication Exec, Veritas Storage Replicator, and Veritas [\*58] Replication Exec.

The below are Veritas and Symantec's public SEC filings.

**Veritas and Symantec's Public SEC Filings**

MS-VRTS 0430610-0430958;

MS-VRTS 0431179-431698;

MS-VRTS 0431940-432027;

MS-VRTS 0432265-432376;

MS-VRTS 0432633-432799

The below documents are public SEC filings by Seagate. I understand that Seagate's Network and Storage Management Group was acquired by Veritas. I understand that this Seagate Group had developed and released a product called Seagate Replication Exec by late 1998.

**Seagate's Public SEC Filings**

MS-VRTS 0432382-432468

July 3, 1998 Form 10-K405

April 29, 1999 Form S-4

Page 3

CV 06-0763 JCC

A. Right. So I'm not--my best answer is I'm not sure who--if somebody is undertaking that analysis. But I don't want to preclude us from eventually producing that analysis, because I've seen documents that would be relevant to it. So I'm trying to give you a complete answer and be sort of transparent. I don't know of anyone who's undergone that analysis, I haven't talked to someone who went--underwent that analysis, in my investigation, but I saw documents, for example. I believe I saw a patent license document with a company called NTrust that dealt with a patent and some license rights [\*59] back and forth. So when I see a document that has to do with licenses, I believe that maybe there's a possibility. I'm not aware of who might be, though. But -

Q. This is important. We asked for a company representative on this topic, Topic 20?

A. That's correct.

Q. One of the subparts in that topic deals with reasonable royalty?

A. That's correct.

Q. When I asked you before whether anyone has actually done any analysis of the hypothetical negotiation factors to determine the reasonable royalty determination for the '147 *patent* based on the facts of this case, you responded no, that you were not aware of any such analysis. And my question to you now is going through each of the specific factors

and confirming them, so if you are aware of any analysis, please state that on the record so that we have an accurate record. If you're not aware of the analysis, please state that. Whether that has any preclusive effect or not, you know, that's something for us to decide later on.

A. Right.

Q. But I just want you, as the company representative, to tell us if you know of analysis that Microsoft has done on these specific factors, please state that on the record.

Q. If you're not aware of it, then also [\*60] please state that on the record.

A. Yeah, the reason I just want to be careful is because I pointed this out earlier, that the Topic 20 I think we're talking about says facts underlying Microsoft's contentions that it suffered as a result of, you know, including but not limited to the following, and then it gets into those categories. And so the questions you're asking are a little confusing to me, because you're asking me, has anyone formulated these opinions or done this type of analysis and that--I'm not so clear that that's really within the scope of what my investigation should have required me to do, and so I want to be careful that--I want to be careful that you're not--aren't misled by my answers. And maybe just because I haven't, you know, bumped into the person doing that doesn't mean that it might have been done. I'm trying to tell you that there's documents that are produced that are relevant, factual things underlying these categories you gave here. That's what I think I'm trying to be clear with you about.

Q. Mr. Harmon, I'm asking you a very simple question: Are you aware of--are you or anyone else at Microsoft having analyzed these factors related to hypothetical negotiations [\*61] with respect to the specific facts in this case in

order to determine a reasonable royalty rate, are you aware of any such analysis sitting here today?

A. So like I said, no, I'm not aware of that analysis, I haven't reviewed such an analysis.

Q. Okay. And right now, as a company representative, you're not testifying with respect to any positions that Microsoft has with respect to that particular topic, correct?

Q. Let me--let me rephrase my question. As company representative, does Microsoft have a position on the question of the nature and scope of the license such as whether it's exclusive or nonexclusive, restricted or nonrestricted in terms of territory or customers with respect to determining a reasonable royalty for the '147 patent?

A. What do you mean by, does Microsoft have a position on that?

Q. Are you--does Microsoft have a position on that particular issue of whether that factor is a relevant factor and, if so, how it is relevant with respect to the calculation of reasonable royalty for the '147 patent?

A. Well, it's a relevant factor, I mean, under the case law, so I'm--I'm struggling. I mean, you're asking me if it's a relevant factor. It's clearly a relevant factor under [\*62] the case law, and I think we've produced documents that are relevant facts to those, which is what I talked about.

Q. And has Microsoft reached a conclusion with respect to that issue?

A. You know, I--I don't know, and I don't--I don't think it's part of what I was supposed to investigate.

\* \* \*

Q. \* \* \*. Microsoft's policy of

maintaining its patent monopoly by licensing the use of the invention, only under the special conditions designed to preserve the monopoly. Have you analyzed that factor? Has anyone at Microsoft analyzed that factor with respect to the specific facts in this case in order to determine a reasonable royalty rate?

A. So I'll give you before. I, as part of my investigation, didn't see such an analysis; doesn't mean there's not such an analysis.

Q. And you, as a company representative, do not have a position on that particular fact or statement, correct?

A. Except that it--You know it's a relevant--It's a relevant factor, and I think that, you know, if we have other licenses like the WSPP program, I mean, they're going to be maybe underlying records - facts in the record that would be useful in forming an opinion on that.

Q. Mr. Harmon, my question is whether you have a policy--you [\*63] have a company position on that today; do you have a company position on that factor today?

A. On whether the factor is relevant?

Q. And how it's relevant to the specific factors in this case.

A. So, one, the factor is relevant, that's a matter of law, you can--you're entitled to consider it, two, the ultimate conclusion on it and how it bears out, no, I don't have testimony on that today.

Q. Okay. And that's the last part that I'm going after with respect to each of these factors.

A. Okay.

Q. I understand that these are Georgia-Pacific factors--specific factors.

A. Right.

Q. I'm representing to you now that they are, I'm not asking you about whether under the case law they're relevant or not. I'm asking whether you, as the company representative, is aware of any analysis done by Microsoft to date with respect to that specific factor and how it bears on the specific facts of this case and whether Microsoft has a position on that issue right now; do you understand?

A. Sure.

Q. Okay. So next question is, the commercial relationship between Microsoft and licensees such as whether they are competitors in the same territory, in the same line of business, or they're inventor and promoter. Same question, [\*64] Mr. Harmon: Has anyone at Microsoft analyzed that specific factor with respect to the specific facts in this case in order to determine a reasonable royalty rate?

A. Okay, so--Like I said before, I'm not aware of who or if someone has actually analyzed that and how it would bear on an ultimate decision in the case. The same things I said before. I mean, it's a relevant factor, I think we're entitled to consider it, and someone very may -- may well have a complete record, but I'm not aware of it today.

Q. Okay. And you're not, as company representative, prepared to provide a company position on that particular factor as it bears on the facts of the case?

A. No.

Q. Next is the effect of selling the patented specialty and promoting sales with other Microsoft products, the existing value of the invention to Microsoft as a generator of sales of nonpatented items, and the extent of such derivative or conveyed sales. Same question, Mr.

Harmon: Has anyone at Microsoft analyzed that specific factor with respect to the specific facts of this case to determine a reasonable royalty rate for the *147 patent*?

A. And my answer is essentially the same, in that I don't sit here today with an ultimate decision [\*65] on it. I haven't spoken to someone who's performing that analysis or has an ultimate decision, but very well could be relevant when someone looks at the complete factual record of the matter.

Q. And, Mr. Harmon, do you, as company representative, have a position on that particular fact--factor as it relates to the facts of this case today?

A. So I don't have an ultimate position on that factor today, no.

Q. Next factor is duration of the patents and the term of the license. Mr. Harmon, has anyone at Microsoft analyzed that factor with respect to the specific facts of this case in which to determine a reasonable royalty rate for the *147 patent*?

A. So your answer--the answer to your question would be no, not to come to a conclusion on the ultimate reasonable royalty as a final analysis. But as a factor, I think we talked about it, that--that's clearly a factor that would be considered. Exactly how it impacts and what the end result is, that's not something we have a position on right now.

Q. And you're not--and as you just said, you don't have a position on that specific factor as it relates to the specific facts of this case, correct?

A. That's right. Today, no.

Q. Next factor is the established [\*66] possibility of the patented product, its commercial success, and its current popularity. Mr. Harmon, are you aware of

any analysis by Microsoft with respect to that specific factor and how it relates to the specific facts of this case for the purpose of determining a reasonable royalty rate for the *147 patent*?

A. So that--that again--that, again, is one where we, in preparation, haven't spoken to someone who's preparing an ultimate analysis on the exact impact that would have to getting to a reasonable royalty rate number. I don't--you know, I'm not aware of who that person would be or if it's actually going on, and I don't personally have something on that to offer today. But, again, it's a fact, and when someone looks at the complete factual record of the matter, a conclusion could be drawn.

Q. So, as a company representative, you don't have a position on application of that particular factor to the specific facts in this case today, correct?

A. Not today.

Q. Next factor is utility and advantages of the patent property over any old modes or devices that had been used. Mr. Harmon, has anyone at Microsoft analyzed that specific factor with respect to the specific facts of this case for [\*67] the purpose of determining a reasonable royalty rate for the *147 patent*?

A. So, no, again, it's a fair factor to consider, but it--it hasn't had an ultimate conclusion drawn on it how it would play out in this matter haven't spoken to someone who has done that work. But, again, once the whole factual record is there, it's something somebody can consider. We're trying to come up with what would be the right type of royalty.

Q. And, Mr. Harmon, are you prepared to provide a position on behalf of Microsoft on that particular topic today?

A. No.

Q. Next is the nature of the patented invention, its character, and the commercial embodiment owned and produced by the licensor and the benefits to those who uses it. Mr. Harmon, has anyone at Microsoft analyzed that factor with respect to the specific facts of this case to determine a reasonable royalty for the *147 patent*?

A. I will say on that one that I think the innovation reports address generally the benefits of it. Not in the context of this case, though, so that's, again, a different context, and, you know, Georgia-Pacific is a different set of case law than the factual record we're building there. So those documents exist, just to highlight [\*68] them for you, but the ultimate impact they would have on assessing a royalty rate in this matter, that's something that, you know, isn't complete and that we don't, you know, have to present here today and that don't have as I sit here today. But, again, one should look at the entire factual record; it's a fair factor to consider.

Q. As a corporate representative, do you have any position on that particular topic as Microsoft's representative today?

A. I don't, but I would, you know--you know, in fairness, I'd refer you to the innovation reports for the *147 patent* where it talks about its benefits, but I wouldn't have anything to add to the written record on that.

Q. Next is the extent to which the infringer used the invention, any evidence probative of the value of that use. Mr. Harmon, have you or anyone else at Microsoft analyzed that specific factor with respect to the specific facts in this case to determine a reasonable royalty rate for the *147 patent*?

A. So to get to an ultimate conclusion on what the royalty rate is, we don't have a formal position on the--what the royalty rate would be based on that factor. Again,

it's a relevant factor and it's something that when the complete [\*69] factual record's played out, that Microsoft would likely consider, but I don't have an opinion on the exact impact of that royalty rate here today.

Q. Okay. So you don't have a position on that as company representative?

A. That's correct.

Q. Next is the portion of the profit or selling price that is customary in the particular business or in comparable businesses. Mr. Harmon, do you or do you have any knowledge of anyone performing any analysis of that specific factor with respect to the specific facts in this case in order to determine a reasonable royalty rate for the *147 patent*?

A. I'm not aware of anyone who's performing that exact analysis or the results of that exact analysis. It is a proper factor in assessing royalty rate and something that can be considered along with the other things we talked about and maybe facts in the record that are, you know, relevant to that, so it's something that could be done, but I don't have a position on it as I sit here today.

Q. So you don't have a position on that as company representative today, correct?

A. Not today.

Q. Okay. Portion of the realizable profit that should be credited to the invention as distinguished from any nonpatented elements, [\*70] manufactured process, business risks, or significant features or improvements added by the infringer. Has anyone at Microsoft analyzed that factor with respect to the specific facts in this case in order to determine the reasonable royalty rate for the *147 patent*?

A. So no one has actually offered an ultimate conclusion on that, and I didn't speak with anybody who's working on an ultimate conclusion on it in preparation for today. There you know, to the extent that there's facts in the record that are, you know, relevant to that factor, it's fair to consider them. But I don't have any testimony on a conclusion of an ultimate royalty rate and that factor's bearing on it here today.

Q. So you have no company position on that topic today, correct?

A. That's correct. Bless you.

Q. Next topic is or next factor is the opinion testimony of qualified experts. Are you -- are you aware of any such opinion testimony that was prepared on behalf of Microsoft with respect to the specific facts of this case in order to determine a reasonable royalty rate?

A. I know that one of the submissions I gave you referenced an opinion by a Mr. Roberts or a -- I think that's the name, I have to double-check. That's [\*71] the only opinion testimony that I'm aware of that's been in the record. And I didn't speak to anyone else who gave me other opinion testimony.

Q. And that's - believe that's Mr. Rogers?

A. Rogers, I'm sorry, that's right.

Q. And he focused on the infringement aspects of the *147 patent* applications, correct?

A. I didn't actually review it because it has, I think, confidential information in it.

Q. So setting aside that particular report, you're not aware of any other opinion testimony of qualified experts that relate to the specific facts of this case for the purpose of determining the reasonable

royalty rate for the *147 patent*, correct?

A. I'm not.

Q. And the last factor: The amount that Microsoft and a licensee would have agreed upon at the time the infringement began if they had reasonably and voluntarily tried to reach an agreement. Are you aware of anyone at Microsoft performing an analysis of that specific factor to the specific facts of this case to determine a reasonable royalty rate for the *147 patent*?

A. So I'm not aware of an ultimate conclusion or an ultimate conclusion that yields to a--that results in a number. We did talk about, like I said, when I spoke with Bart Eppenauer in [\*72] preparation for this, you know, Microsoft believes that we would have considered a royalty rate under these circumstances. One viable option would have been the exchange of intellectual property rights. So I guess we did have some form of conclusion that the exchange of intellectual property rights--we do have some form of conclusion that the exchange of intellectual property rights to some extent would have been an appropriate mechanism of providing, you know, royalties for use of the *147 patent*.

Q. Beyond that, do you have any other positions on behalf of the company, specifically any royalty rates or range of royalty rates based on that particular factor?

A. So I don't have a specific royalty rate or specific range of royalty rates that's been articulated. There are some facts in the record that, you know, might be relevant to helping draw conclusion on that at a later time, but as I sit here today, no.

7 Veritas also asked Mr. Harmon about lost profits damages. *See* Harmon Dep. at 72:22 - 96:11. However, because Microsoft now only seeks a reasonable royalty, that part of Mr. Harmon's deposition is [\*73] not discussed here.

[SEE Exhibit 366 IN ORIGINAL]

which Mr. Harmon explained as "other notes that I brought, I guess, just some reminders of some of the nonexhausted factors that relate, you know, to a licensing in a hypothetical situation. \* \* \* But so just to say it's not an exhaustive list of factors or anything like that, it's just sort of is to remind my memory of the time frame and some things that might be considered, but it's really -- not a complete list of things." Harmon Dep. at 92:19-93:13.

Mr. Harmon also stated that Microsoft had no position on whether a lump sum amount would suffice to compensate Microsoft for infringement of the '147 patent, and again reiterated that a cross-license would be appropriate:

Q. Okay. Do you have any position as company representative on the question of whether lump sum payment would be sufficient to compensate Microsoft for the use of the 147 patent, assuming the validity and infringement?

A. I do not have a position on whether that would be the only adequate compensation, but I talked about we think the right way to look at it is a -- an IP transaction between the two parties that would include potentially a exchange of intellectual property [\*74] rights.

Q. Have, you done any analysis into the relative value of the patent portfolios as they existed in 1998 time frame with respect to Veritas and Microsoft?

A. I have not done that to come to a conclusion on what the respective values are, no.

Q. Are you aware of anyone in Microsoft doing that analysis?

A. I'm not.

Q. Okay. Do you have any position as company representative sitting here today on the relative values of the patent portfolios for Microsoft and Veritas as they existed in the 1998 time frame?

A. I do not.

Q. Do you have any position as company representative on whether Microsoft should have paid a balancing payment to Veritas or vice versa with respect to their patent portfolios as of 1998?

A. I think that's something that would be dictated by the underlying facts and an analysis to consider the facts of what the portfolios looked like, what the relevant areas of technology interests were in the two companies, so those underlying facts would be important to determining that.

Q You said -- you mentioned analysis there, too, and I just want to understand whether you or anyone at Microsoft has done that analysis with respect to whether a crass-balancing payment should have been [\*75] made between the two parties as of 1998. Have you done that analysis?

A. So I'm not aware of an analysis that reaches a conclusion on that, no.

Q. Are you aware of any analysis, whether it reached a conclusion or not, with respect to that issue?

A. Well, like -- like we said, we talked about the hypothetical negotiation and that's some details about what would be the factors to analyze, but I'm not -- I think your question is more directed to do I know of anybody that did an analysis to reach a lump sum component of that or a standalone lump sum, and in that case, no, I'm not aware of anyone who's reached a number for that.

Harmon Dep. at 108:14-110:22 (objections omitted). Thus, even when deposed, Microsoft steadfastly

maintained that Microsoft had no position on what a reasonable royalty would be, nor had conducted any analysis or computation in that regard -- either in general or with respect to specific *Georgia-Pacific* factors. Mr. Harmon simply reiterated that Microsoft would consider a reciprocal license to Veritas' patent portfolio.

As discussed above, however, an unvalued license to an unrelated patent is not a "computation" of damages. And, without any sense for what damages would [\*76] be "adequate to compensate" for infringement, it is impossible to determine whether a license to Veritas' patents would even be appropriate. This is not a situation in which damages may be incomputable; rather, Microsoft states that "[f]actfinders are regularly called upon to calculate the value of a license grant or other contract term." Microsoft's Response at 4. It is not too much to require Microsoft to do the same and provide that to Veritas under *Rule 26(a)* as required. Simply asserting in conclusory fashion that a "reasonable royalty" should be valued in terms of a license to Veritas' '573 patent (or other patents), is wholly inadequate as any sort of computation of damages or damages analysis. *See, e.g., Teaford v. City of Selah*, No. 2:05-cv-03027, at \*6-7 (E.D. Wash. Nov. 7, 2005)(granting motion to compel because plaintiffs "failed to provide a calculation of the value of their lost benefits" by arguing that "Mr. Teaford is unable to calculate a value for his lost benefits at this point, but claims them and will provide an expert calculation' "); *Clayman v. Starwood Hotels & Resorts Worldwide*, 343 F. Supp. 2d 1037 (D. Kan. 2004)(granting motion to compel for failure to [\*77] provide "calculation of damages in support of its demand for \$ 50,000); *Majdalani v. Legacy Bank*, No. 06-1317, 2007 U.S. Dist. LEXIS 67365, \*5 (D. Kan. Sept. 11 2007) ("The amount of damages requested is subject to variables; therefore, *Rule 26(a)(1)(C)* requires a party to provide his or her 'computations' rather than merely state a number.")

Microsoft does not dispute that it has failed to provide any computation of damages or any other damages analysis. Rather, Microsoft argues that it can provide such analysis through Mr. Fathi, and that it has supplied evidence relevant to its damages claim sufficient to avoid summary judgment. Whether Microsoft may rely on Mr. Fathi is discussed separately below.

With respect to the evidence that Microsoft now urges in its brief, and any other evidence that Microsoft

may offer in support of damages claim, even accepting all of those facts as true and relevant to Microsoft's damages claim, mere recitation and bare analysis of those facts does not, at this stage, cure Microsoft's failure to disclose any computation of damages or any other damages analysis as required by the rules.

*Rule 37(c)(1)*, *Federal Rules of Civil Procedure*, provides that "[a] party that without substantial [\*78] justification fails to disclose information required by *Rule 26(a)* \* \* \* is not, unless such failure is harmless, permitted to use as evidence at trial, at a hearing, or on a motion any witness or information not so disclosed." *Rule 37(c)(1)* "gives teeth" to the requirements of *Rule 26(a)* "by forbidding the use at trial of any information required to be disclosed by *Rule 26(a)* that is not properly disclosed." *Yeti by Molly, Ltd. v. Deckers Outdoor Corp.*, 259 F.3d 1101 (9th Cir. 2001). In *Yeti*, the defendants had identified its only expert on damages, but failed to provide his expert report for two and a half years. The defendants argued that the expert was for rebuttal only, and that his report would be disclosed if the defendants decided to have him testify. The district court excluded the expert from testifying even though defendants had violated no court order and the record showed no evidence of bad faith or willfulness. The Ninth Circuit affirmed, noting that "[t]he Advisory Committee Notes describe [*Rule 37(c)(1)*] as a 'self-executing,' 'automatic' sanction to 'provide[] a strong inducement for disclosure of material' \* \* \* *Fed.R.Civ.P.* 37 advisory committee's note (1993)," and [\*79] that "[c]ourts have upheld the use of the sanction even when a litigant's entire cause of action or defense has been precluded." *Id.* at 1106 (alterations in original) (citing *Ortiz-Lopez v. Sociedad Espa-nola de Auxilio Mutuo Y Beneficiencia de Puerto Rico*, 248 F.3d 29, 35 (1st Cir. 2001) (although the exclusion of an expert would prevent plaintiff from making out a case and was "a harsh sanction to be sure," it was "nevertheless within the wide latitude of *Rule 37(c)(1)*)). *See also Mealing v. City of Ridge-field*, 2007 U.S. Dist. LEXIS 33786 2007 WL 1367603, at \*1 (W.D. Wash. 2007) (following *Yeti*).

The Ninth Circuit explained that "[t]wo express exceptions ameliorate the harshness of *Rule 37(c)(1)*: The information may be introduced if the parties' failure to disclose the required information is substantially justified or harmless." *Yeti*, 259 F.3d at 1106. *See also Mealing*, 2007 U.S. Dist. LEXIS 33786, 2007 WL 1367603, at \*2 ("What the district court must find under *Rule 37(c)* is

that the offending parties were not 'substantially justified' in failing to disclose information required by *Rule 26(a)* or *Rule 26(e)* and that the failure to disclose was not harmless."); *Lim v. Franciscan Health Sys.*, 2006 U.S. Dist. LEXIS 89487, 2007 WL 3544605, at \*2 (W.D. Wash. 2006) ("Counsel's [\*80] purported justification is unsubstantial. Counsel's personal difficulties do not provide good cause for a total lack of compliance with discovery rules."). Moreover, the burden is on the party facing sanctions to show harmlessness. *Id.* Here, Microsoft has made no attempt to justify its failure to disclose any "computation" of damages, nor has Microsoft argued or otherwise shown that its failure to disclose was harmless. Veritas, on the other hand, has argued that Microsoft's lack of disclosure has "thwarted Veritas' discovery efforts for over a year." Veritas' Brief at 1. Microsoft still has not provided any "computation" of damages, and has just now identified Mr. Fathi as its damages witness. The time for discovery has passed, of course, and Veritas now cannot go back and question Mr. Fathi about his proposed testimony.

In light of Microsoft's failure to disclose any computation of damages or any other damages analysis under *Rule 26(a)(1)(C)*, and lack of any justification or showing of harmlessness, the "automatic" sanction of *Rule 37(c)(1)* must apply. Microsoft may not submit any evidence regarding any "computation" for damages for infringement of the '147 patent, whether via motion [\*81] or at trial. Again, Microsoft's intent to use Mr. Fathi is addressed separately below.

Without such evidence, Microsoft will be unable to carry its burden of proof on damages arising from infringement of the '147 patent. Accordingly, Veritas' motion should be granted.

### C. Mr. Fathi

The foregoing disposes of Microsoft's intent to use Mr. Fathi as its witness on damages. Nevertheless, the master addresses the parties' dispute in that regard.

#### 1. The Parties' Arguments

Microsoft argues that "*Federal Rule of Evidence 701* permits opinion testimony by lay witnesses." Microsoft's Response at 3. Microsoft also urges that "expert testimony can also be provided by employees" and that "employee experts whose duties do not 'regularly involve giving expert testimony' are not required to submit

written reports." *Id.* Microsoft claims that "[t]here is no reason that Mr. Fathi (for example) should be prevented from giving opinion testimony at trial under any of the applicable standards of the rules of evidence," and that "precedent for using employees in this regard is found in the *Georgia-Pacific* case itself, in which the court discounted the opinion of the infringer's outside experts in favor of the opinion [\*82] testimony of the patent owner's general counsel and retired vice president, expressly finding that testimony 'realistic.'" *Id.* Microsoft also cites to *Analytical Controls v. American Hospital Supply Corp.*, 518 F.Supp. 896, 913 (S.D. Ind. 1981) and *Norfin, Inc. v. International Business Machines Corp.*, 81 F.R.D. 614, 617 (D. Colo. 1979), affirmed 625 F.2d 357 (10th Cir. 1980), in support of that proposition. Microsoft's Response at 3.

Veritas contends that Mr. Fathi cannot give "lay testimony" because (1) patent licensing and reasonable royalty rates are not proper subjects for "lay opinion testimony," (2) Microsoft never identified Mr. Fathi as having discoverable information on patent licensing or reasonable royalty rates and (3) Microsoft failed to comply with *Rule 26(a)(1)(C)*'s requirement to provide a computation of damages.

Veritas further contends that Mr. Fathi cannot give expert testimony because (1) he is not qualified, (2) Microsoft's *Rule 30(b)(6)* witness, Mr. Harmon, represented that Microsoft had no expert witness for damages and (3) Microsoft repeatedly represented that it had no analysis regarding damages or a reasonable royalty. Veritas' Reply at 3-10.

#### 2. Discussion

Generally, [\*83] Microsoft is correct that damages under § 284 need not be proved through expert testimony. Under § 284, a court "may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances." 35 U.S.C. § 284. See also *Dow Chem. Co. v. Mee Indus., Inc.*, 341 F.3d 1370, 1382 (Fed. Cir. 2003) ("Further, section 284 is clear that expert testimony is not necessary to the award of damages, but rather 'may [be] receive[d] \* \* \* as an aid.'" (emphasis and alterations by the court)).

However, the specific issue here is whether Mr. Fathi may provide testimony on patent damages, and in particular a reasonable royalty, whether as a lay witness or as an expert witness. The answer is no, because

Microsoft failed to disclose Mr. Fathi as a having information regarding patent damages and because Mr. Fathi is not qualified to testify regarding damages.

**a) Disclosure of Mr. Fathi**

*Rule 26(a)(1), Federal Rules of Civil Procedure*, requires, *inter alia*:

Except in categories of proceedings specified in *Rule 26(a)(1)(E)*, [\*84] or to the extent otherwise stipulated or directed by order, a party must, without awaiting a discovery request, provide to other parties:

(A) the name and, if known, the address and telephone number of each individual likely to have discoverable information that the disclosing party may use to support its claims or defenses, unless solely for impeachment, identifying the subjects of the information

Thus, Microsoft was required to disclose both the identity of individuals having "discoverable information," as well as the "subjects of the information."

On August 15, 2006, pursuant to *Rule 26(a)(1)(A)*, Microsoft identified a number of individuals likely to have discoverable information. One such individual was Ben Fathi, whom Microsoft identified as potentially having discoverable information concerning:

Negotiation of, and performance under, the Agreement(s) between Microsoft and Veritas; Logical Disk Manager and/or Logical Volume Manager; Microsoft's Virtual Disk Service and/or Volume Shadow Copy Service.

McCune Decl., Exh. 4:8/15/2006 Initial Disclosures at 3.

On July 17, 2007, the deadline for expert reports, Microsoft identified its witnesses who may provide trial testimony under *Fed. R. Evid. 702*, [\*85] 703 or 705:

Pursuant to the Court's Order dated May 22, 2007 (Dkt. No. 127), and *Fed. R. Civ. P. 26(a)(2)*, Defendant Microsoft Corporation hereby identifies the following individuals who may be used at

trial to present evidence under *Fed. R. Evid. 702, 703, or 705*:

Richard Larry (retained expert)

Mark Morrissey (retained expert)

Gary Liao (retained expert)

Robert Rogers (retained expert)

Gary Nutt (retained expert)

Marco Jansiti (retained expert)

Marc Rochkind (retained expert) (rebuttal only)

David Kaplan (retained expert) (rebuttal only)

Ben Fathi (Microsoft employee)

Dan Stevenson (Microsoft employee)

Vinnie Flynt (Microsoft employee)

In accordance with the Court's May 22, 2007 Order, Microsoft is separately providing Veritas with its initial expert reports today. Microsoft expressly reserves the light, as set forth in *Fed. R. Civ. P. 26(a)(2)(C)*, to identify additional rebuttal experts on August 20, 2007, the date on which the parties are required to exchange their respective rebuttal expert reports. [Emphasis added.]

Monkress Declaration in Support of Microsoft Corporation's Opposition to Veritas' Motion for Summary Judgment that Microsoft is Not Entitled to Recover

Damages on its Claim for [\*86] Infringement of U.S. Patent No. 5, 588,147 ("Monkress Decl."), Exh. A: Defendant Microsoft Corporation's Identification of Witnesses Who May Provide Trial Testimony under *Fed. R. Evid. 702, 703 or 705* at 1. Thus, Microsoft designated Mr. Fathi as a potential witness on some undisclosed topic.

Microsoft did not, however, provide any report on damages. Accordingly, Veritas' counsel emailed to Microsoft's counsel the next day, on July 18, 2007:

Hi folks,

We received Microsoft's expert reports last night, and noted that there is no report regarding damages as to Microsoft's claims regarding the '147 patent. Can you please confirm that Microsoft will not be seeking damages as to that claim?

Thanks,

Yury [Kapgan]

McCune Decl., Exh. 7:7/18/2007 email from Yury Kapgan. Microsoft's counsel responded:

Hi Yury.

Microsoft will be seeking damages on its '147 patent claim, but will not be offering an affirmative opinion on '147 patent damages from an outside retained expert.

Regards,

Todd [Siegel]

McCune Decl., Exh. 7:7/18/2007 email from Todd Siegel. Throughout this exchange, therefore, Microsoft left open the possibility of employee damages testimony, *i.e.*, Mr. Fathi, Mr. Stevensen and/or Mr. Flynt.

Later, [\*87] however, during a deposition on August 7, 2007, of Microsoft's *Rule 30(b)(6)* expert on damages, Mr. Harmon, Veritas continued to question whether Microsoft had any damages witness. Mr. Harmon reiterated that to his knowledge, Microsoft had not

retained an expert to testify on damages in connection with the '147 patent:

Q. Mr. Harmon, you understand that Microsoft has not submitted an expert report on the issue of damages with respect to their '147 patent allegations in this case, correct?

A. I'm not sure if I was aware of that. I don't--I don't recall being aware of that.

Q. Okay.

A. I'll take you at your word on it.

Q. Okay. To your knowledge, has Microsoft engaged an expert to conduct analysis with respect to the damages portion of the '147 patent allegations?

\* \* \*

A. No.

(Harmon Dep.) at 17:1-18:2 (objections omitted). When asked why Microsoft had failed to submit an expert report, Mr. Harmon responded that he did not know:

Q. Do you know why Microsoft failed to submit an expert report on damages that it alleges it has suffered due to the alleged infringement of the '147 patent in accordance with the court schedule?

A. You know, I--I actually don't know what Microsoft's done with respect [\*88] to submitting expert reports.

Q. So you don't have a position on that on behalf of the company, do you?

A. No.

Harmon Dep. at 135:20-136:6. At best, Mr. Harmon identified the opinion of Mr. Rogers, Microsoft's infringement expert, as being the "only opinion testimony that I'm aware of that's been in the record." Harmon Dep. at 133:23-25.

Mr. Harmon also stated that none of the people he

talked to in preparation for his deposition (which did not include Mr. Fathi) would testify regarding damages:

Q. You talked to a number of individuals that you identified on the record for today's deposition. To your knowledge, are any of those individuals planning to testify at trial with respect to any of the issues that we talked about today in terms of calculation of reasonable royalty rates?

A. I'm not aware of that.

\* \* \*

Q. Are you aware of whether any of those individuals will testify with respect to any aspect of damages alleged by Microsoft for the '147 patent at trial?

A. And I'm not aware.

Harmon Dep. at 136:7-137:11. Finally, Mr. Harmon stated that he did not and would not serve as Microsoft's witness regarding patent damages, or testify on damages with respect to the '147 patent:

Q. And, Mr. Harmon, [\*89] you're not here today as an expert witness on the topic of damages with respect to the '147 patent, correct?

A. Correct.

Q. Have you ever served as an expert witness on the issue of patent damages?

A. No.

Q. Do you believe that you have any qualifications to serve as an expert witness on the issue of patent damages?

A. So I do have experience in dealing with assessing values of patents. Whether I would qualify as an expert, I think I'd have to look at it in the circumstances of the whole matter and probably discuss that with counsel, whether I qualify for this matter as an expert. I'm not appearing here today as an expert, but your question is just a little broad to give just a yes/no answer.

Q. Well, do you consider yourself to be an expert on the issue of patent damages?

A. Not at this point with respect to this suit, no.

Q. Okay. And do you have any intent to testify as an expert witness in this case?

A. No.

Q. To your knowledge, does Microsoft has any intent to present an expert witness on the issue of damages for the '147 patent?

A. [no answer upon instruction of counsel].

Q. And, Mr. Harmon, have you been asked to prepare any reports under *Rule 26* with respect to this case?

A. No.

Q. And do [\*90] you have any intent to prepare any reports on *Rule 26* with respect to this case?

A. No.

\* \* \*

Q. And just to clarify, Mr. Harmon, sitting here today, you have no intention of testifying on the issue of damages at trial with respect to any opinion analysis or the calculation or the application of any of these factors to the specific facts in this case; is that correct?

A. Well, I haven't discussed with anyone testifying at trial, but I, you know, I'm not going to say that, you know, whatever happens in the future someone may come forward to testify to how the facts apply to a damages theory in the case. But I'm not aware of myself being asked to be a trial witness, no.

Q. And as we've established on the

record, you haven't prepared any expert reports with respect to those set of issues, correct?

A. That's correct.

\* \* \*

Q \* \* \* [Y]ou're not aware of any other opinion testimony of qualified experts that relate to the specific facts of this case for the purpose of determining the reasonable royalty rate for the '147 patent, correct?

A. I'm not.

Harmon Dep. at 18:3-21:10, 137:12-138:6, 134:9-13 (objections omitted). Thus, Mr. Harmon refused to answer whether Microsoft would present an expert witness [\*91] on damages. However, Mr. Harmon later stated that he did not know of anyone who would offer any opinion testimony on damages or the *Georgia-Pacific* factors.

Q. And, Mr. Harmon, are you prepared today to discuss at least some of these factors with respect to Microsoft's contention regarding the damages that it alleges it suffered based on the alleged infringement of the '147 patent?

A. So I'm not prepared to offer an opinion, you know, coming to a--an opinion about--evaluation or an opinion about the conclusion of those factors. I am prepared to talk about, you know, facts, and, you know, try to be factually responsive to questions you might ask.

Q. Okay. And just to be clear, you don't intend if you were called at trial, to offer any opinion testimony about any of these factors as it relates to the '147 patent in the Veritas case, correct?

A. As I'm sitting here now, I'm not aware of a role for me like that.

Q. Are you aware of anyone at Microsoft or anyone hired by Microsoft who has been assigned the role of

providing opinion testimony on these [*Georgia-Pacific*] factors that you mentioned as it relates to the damages allegations for the '147 patent in this case?

A. \* \* \* I'm not aware of [\*92] anyone.

Q. So your sole role here today, if I understand it, is to describe factual underpinnings but you're not going to offer any opinion testimony, correct?

A. That's correct.

Q. And that is your understanding with respect to your role, should you be called at trial on behalf of Microsoft, correct?

A. That's correct, that's my understanding.

Harmon Dep. at 70:9-72:1. Thus, Mr. Harmon, speaking for Microsoft, foreclosed the possibility that Mr. Fathi might testify on damages. Throughout his deposition, Mr. Harmon had the opportunity to, but never identified Mr. Fathi as a witness on damages with respect to the '147 patent, much less an expert witness. Microsoft nowhere identified Mr. Fathi as having discoverable information on patent damages, or as Microsoft's witness on that subject.

As noted above, fact discovery closed on August 17, 2007. See Dkt. No. 127 at 2. Even in its final supplemental disclosures under *Rule 26(a)(1)*, Microsoft did not change its description of the discoverable information that Mr. Fathi might have. Microsoft has offered no justification for that failure, nor has Microsoft shown that its failure to disclose was harmless. Rather, as noted above, it is now too late [\*93] for Veritas to conduct further discovery regarding Mr. Fathi's testimony.

Also as noted above, *Rule 37(c)(1)*, *Federal Rules of Civil Procedure*, provides that "[a] party that without substantial justification fails to disclose information required by *Rule 26(a)* \* \* \* is not, unless such failure is harmless, permitted to use as evidence at trial, at a hearing, or on a motion any witness or information not so

disclosed." For reasons similar to those discussed above in connection with Microsoft's failure to provide any "computation" of damages, Microsoft may not use Mr. Fathi to testify regarding damages for infringement of the '147 patent, whether via motion or at trial.

**b) Mr. Fathi is Not Qualified to Testify as Either a Lay or Expert Witness**

Under *Federal Rule of Evidence 701*,

If the witness is not testifying as an expert, the witness' testimony in the form of opinions or inferences is limited to those opinions or inferences which are (a) rationally based on the perception of the witness, (b) helpful to a clear understanding of the witness' testimony or the determination of a fact in issue, and (c) not based on scientific, technical, or other specialized knowledge within the scope of *Rule 702*.

*Fed. R. Evid. 701*. [\*94] "Given the Rule's first two limitations, opinion testimony of lay witnesses must be 'predicated upon concrete facts within their own observation and recollection -- that is facts perceived from their own senses, as distinguished from their opinions or conclusions drawn from such facts.'" *U.S. v. Durham*, 464 F.3d 976, 982 (9th Cir. 2006), quoting *U.S. v. Skeet*, 665 F.2d 983, 985 (9th Cir. 1982). See also *Asplundh Mfg. Dip. v. Benton Harbor Eng'g*, 57 F.3d 1190, 1201 (3d Cir. 1990) ("*Rule 701*'s requirement that the opinion be rationally based on the perception of the witness demands more than that the witness have perceived something firsthand; rather, it requires that the witness's perception provide a truly rational basis for his or her opinion. Similarly, the second requirement -- that the opinion be helpful to a clear understanding of the witness's testimony or the determination of a fact in issue -- demands more than that the opinion have a bearing on the issues in the case; in order to be helpful, an opinion must be reasonably reliable. In other words, *Rule 701* requires that a lay opinion witness have a reasonable basis grounded either in experience or specialized knowledge for [\*95] arriving at the opinion that he or she express.").

The final limitation of *Rule 701* -- excluding lay opinion testimony of the type that would normally fall under the purview of *Rule 702* - was added in 2000. See

*Asplundh*, 57 F.3d at 1201. The advisory committee notes to *Rule 701* explain:

*Rule 701* has been amended to eliminate the risk that the reliability requirements set forth in *Rule 702* will be evaded through the simple expedient of proffering an expert in lay witness clothing. Under the amendment, a witness' testimony must be scrutinized under the rules regulating expert opinion to the extent that the witness is providing testimony based on scientific, technical, or other specialized knowledge within the scope of *Rule 702*. By channeling testimony that is actually expert testimony to *Rule 702*, the amendment also ensures that a party will not evade the expert witness disclosure requirements set forth in *Fed. R. Civ. P. 26* \* \* \* by simply calling an expert witness in the guise of a layperson.

*Fed. R. Evid. 701* (citation omitted), Advisory Committee's Note. When considering lay witness testimony requiring specialized expertise or training, the trial judge, functioning as a gatekeeper, [\*96] determines the witness's qualifications to opine on the issue. *Asplundh*, 57 F.3d at 1201-02. When a lay witness seeks to opine on technical matters, the trial judge should "rigorously examine the reliability of the lay opinion by ensuring that the witness possesses sufficient special knowledge or experience which is germane to the lay opinion offered." *Id.* at 1201.

Nothing in Mr. Fathi's background of record suggests experience in assessing patent damages, or more particularly in determining a reasonable royalty via licensing negotiations, or even in licensing at all. During his deposition, Mr. Fathi testified that he joined Microsoft as a software architect and has worked solely in engineering and engineering management roles at Microsoft, and that he presently serves as "corporate vice president in the Core Operating System group," in which role he is "responsible for developing technologies that are in the core of the operating system, including kernel, networking, file system, security, virtualization, several other areas:"

Q. Mr. Fathi, can you walk me through your employment history at Microsoft, and maybe we can start with the first time

you were employed by Microsoft, and if [\*97] you could walk me through your titles, responsibilities, and who you reported to and who reported to you, up until the present day.

A. Sure. It's going to be a long list.

Q. Take your time.

A. I'll try to make it short.

Q. Take your time.

A. So I was hired in I believe May of 1998 by Microsoft. My initial title was architect. I came into the Core Operating System group, and I reported to Lou Perazzoli, who was -- at the time I believe his title was director. He was responsible for development of the core operating system features. When I initially came in I was an individual contributor, and I was asked to look at various areas that Windows needed leadership and technical contribution. I spent about a month or two talking to various people in the group and around the company, and in discussions with Lou, we decided that the file system and storage space was the area that he wanted me to concentrate on. So I became responsible for the development of several areas of technology, including file systems and storage -- low-level storage technology in Windows. This was when Windows 2000 was being developed, and a lot of the projects had already started, so I took on and inherited a lot of the [\*98] development. At the time I believe my direct reports initially were Mark Zbikowski, who was an architect responsible for the file systems, NTFS, FAT, full -- several other technologies, Felipe Cabrera, who was responsible for the block-level storage technologies and backup, and I'm sure there were several others -- individual contributors and architects but those were the two main manage -- managers and architects. Several months later I also took on what we call the remote file system

technologies, which are several technologies that were reorganized from the Server Division into my group, and the person managing them at the time was Isaac Heizer, and those included technologies that are, again, file system related but for communication between two different computers -- or multiple computers as opposed to on a single computer. So this went on for about, I would say, couple of years. We shipped Windows 2000, we started development of Windows XP and Windows Server 2003. And I will preface this by saying that my memory for dates is horrible. At some point, probably around 2001, my team was reorganized into the Server Division -- I'm sorry. One other comment. Lou Perazzoli retired at [\*99] some point in probably 2000, and I reported to Rob Short, who was -- his title was the same, director of Core -- Core Operating System group. And my title at the time I believe was still architect. We reorganized into the Server Division, I basically had the same set of technologies, but I also took on testing and program management as well as development. So more teams reported to me. Let's see. At some point my title was probably changed to general manager, and I started taking on more responsibilities, including things like the clustering and high-availability technologies in Windows. Rod Gamache was the person who reported to me managing that group. Then I also -- So let me think here. Yeah, at some point in probably 2003 I also picked up some business responsibilities, so running the file server and storage businesses in the server group, in addition to the technologies. And so my team grew and - but it was basically centered around file system storage and remote file system protocols, both in terms of technology delivery and business. And I reported to several managers. Initially in the Server group I reported to Dave Thompson, who was the vice-president for the Server Division. [\*100] He left -- or moved to a different position, I ended up reporting to

Bill Veghte, who was the VP for the Server Division. Then Bill Veghte left and I reported to I believe Yuval Neeman, who -- at the same time we started a division called the Enterprise Storage Division, run by Bob Muglia, that had some similar technologies but outside of Windows, that we wanted to productize and sell separately, and around probably 2004 we merged that division back into the Windows Server Division so Bob Muglia became the senior VP of the Server Division. Reporting to him was Yuval Neeman, who was the vice-president for storage-related technologies. I reported to him. And when he left I ended up reporting directly to Bob Muglia, and -- Let's see. So in about September of 2005 I went on a sabbatical, and, in discussions with Bob Muglia, decided that I wanted to move to a different position. So when I came back in December of 2005, I stayed on for a couple months and I was discussing possible future positions with Bob Muglia and Jim Allchin, and we agreed that I would run the Security Technology Unit, STU, so I moved into that role as general manager, and then I was promoted several months later to [\*101] corporate vice-president of Security Technology. So from roughly February of 2006 until October of 2006 I was in that role, and then I came -- there was another reorganization -- at the time I reported to Brian Valentine, then Brian left the company, and I ended up reporting to Jon DeVaen, who is currently the senior vice-president for Core Operating Systems Division, and as of October of 2006 my new role is corporate vice-president for development in the Core Operating System group, so I -- I'm responsible for developing technologies that are in the core of the operating system, including kernel, networking, file system, security, virtualization, several other areas.

Mr. Fathi's background indicates any support for offering any lay opinion testimony concerning patent licensing or reasonable royalty rates.

At best, Microsoft disclosed Mr. Fathi as a fact witness having discoverable information regarding "[n]egotiation of, and performance under, the Agreement(s) between Microsoft and Veritas; Logical Disk Manager and/or Logical Volume Manager; Microsoft's Virtual Disk Service and/or Volume [\*102] Shadow Copy Service," but again, nothing in Mr. Fathi's background appears to support that, nor has Microsoft provided any evidentiary support for such qualification. Rather, Microsoft designated Mr. Fathi as its *Rule 30(b)(6)* representative concerning Microsoft's efforts to clean room LVM and "bugs" identified for each Microsoft Operating System Product, and did not designate Mr. Fathi as its *Rule 30(b)(6)* representative concerning any potential damages resulting from the alleged infringement of the '*147 patent*. Veritas' Reply at 5. Instead, Microsoft designated Mr. Harmon as its *Rule 30(b)(6)* representative concerning '*147 patent* damages topics. Thus, any opinion by Mr. Fathi on reasonable royalty would not be "helpful to a clear understanding of the witness' testimony or the determination of a fact in issue" with respect to the topics for which he was designated. Any testimony by Mr. Fathi on the topic of patent damages, including determining a reasonable royalty, would not satisfy the requirements of *Rule 701*.

That leaves the possibility of testifying as an expert under *Rule 702*, *Federal Rules of Evidence*, which governs the admissibility of testimony by qualified experts. *Rule 702* [\*103] requires that:

If scientific, technical, or other specialized knowledge will assist the trier of fact to understand the evidence or to determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training, or education, may testify thereto in the form of an opinion or otherwise, if (1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case.

"knowledge, skill, experience, training, or education" provides no apparent basis for any opinion on patent damages or assessing a reasonable royalty. Nor has Microsoft shown in any way that Mr. Fathi is so qualified. Thus, any expert testimony by Mr. Fathi on the topic of patent damages, including determining a reasonable royalty, would not satisfy the requirements of *Rule 702*, either.<sup>8</sup>

<sup>8</sup> Thus, the master does not reach the issue of whether Mr. Fathi was required to submit an expert report. *See* Microsoft's Response at 3; Veritas' Reply at 9 n.3. Nevertheless, it is worth noting that although many courts have [\*104] adopted the reasoning in *Day v. Consol. Rail Corp.*, 1996 U.S. Dist. LEXIS 6596 (S.D.N.Y. May 15, 1996), that employee experts are required to submit expert reports (which Veritas notes), not all courts have done so. *See, e.g., Navajo Nation v. Norris*, 189 F.R.D. 610 (E.D. Wash. 1999).

Again, that is not to say that an employee cannot provide opinion testimony on patent damages. For example, in *Georgia-Pacific Corp.*, as Microsoft notes, the court considered the testimony of two employee witnesses from United States Plywood ("USP") on the issue of a reasonable royalty. *Georgia-Pacific*, 318 F. Supp. at 1142. One witness, Raymond Heilpern had served as USP's general counsel, and had extensive experience in licensing negotiations:

[N]ot only did Mr. Heilpern participate in more than a dozen license or royalty agreements in the course of his services for USP, but he actively practiced law, in connection with which he represented other clients in matters involving the formulation of license agreements providing for royalties for the use of various products.

In addition to his general familiarity with the various factors entering into the determination of a royalty to be paid under a license [\*105] agreement to manufacture a given product, he was intimately familiar with the business and legal factors involved in USP's marketing of Weldex under the Deskey patent. He would have been personally and significantly involved in the decisions and

negotiations concerning the hypothetical licensing of Deskey patent to GP in February 1955. He was preeminently qualified, on the basis of his first-hand knowledge as well as his expertise, to state the factors that would have been taken into account by USP and the ensuing conclusions by USP in determining the amount of the royalty to be required from GP in February 1955 for a license under the Deskey patent.

*Id.* Similarly, with respect to the other witness, Sol Antoville, the court noted that he "had been vice president in charge of sales of USP from 1944 to 1953, and was the company's president and chief executive officer in early 1955, at the time of the hypothetical negotiations. He thus would have made the final decision concerning the hypothetical royalty to be negotiated with GP." *Id.* The court concluded that "[t]he Heilpern and Antoville testimony was factually supported, authoritative, forthright, realistic, reasoned and specifically [\*106] and concretely directed to the subject of striated fir plywood." *Id.* Neither of those individuals appears to have been designated as experts; nevertheless, given their experience, they were clearly qualified to opine on what a reasonable royalty would be. In other words, the qualifications and experience of those witnesses satisfied both *Rules 701* and *702*. Here, however, unlike the two employee witnesses used in the *Georgia-Pacific* case, Mr. Fathi does not have any experience dealing with patent licensing negotiations or reasonable royalty rates.<sup>9</sup>

<sup>9</sup> The two other cases cited by Microsoft, namely, *Analytical Controls* and *Norfin, Inc.* are inapt. Those two cases recite the jury instructions, which instructed that "The owner of a patent is permitted to express his opinion as to a reasonable royalty; so may an infringer." Those cases provides no analysis of whether the "owner of a patent" is qualified to opine.

#### **D. Recommended Disposition**

In view of the foregoing, therefore, the master recommends that the Court GRANT Veritas' Motion for Summary Judgment That Microsoft is Not Entitled to Recover Damages on Its Claim for Infringement of *U.S. Patent No. 5,588,147*.

**VI.****Report and Recommendation**

This [\*107] is the master's report and recommendation. Under *Rule 53(g)(2), Fed. R. Civ. P.*:

(2) Time To Object or Move. A party may file objections to -- or a motion to adopt or modify -- the master's order, report, or recommendation no later than 20 days from the time the master's order, report, or recommendation are served, unless the court sets a different time. [Emphasis added.]

The parties are encouraged to review *Rule 53(g)(3), (4), Fed. R. Civ. P.*, relating to the Court's *de novo* review of findings of fact and conclusions of law. The parties may, of course, seek further comment or clarification

through motions directed to the Court.

Pursuant to the Court's order of January 18, 2007, the Court required that the master make findings of fact and conclusions of law, and make a recommendation to the Court. The foregoing constitutes the master's findings of fact and conclusions of law, and the master's recommendations to the Court.

SIGNED in San Antonio, Texas on January 17, 2008.

/s/ Gale R. Peterson

Gale R. Peterson

Special Master