IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

PERSONALIZED USER MODEL, L.L.P., Plaintiff, v. GOOGLE, INC., Defendant.	)	
GOOGLE, INC., Counterclaimant, v. PERSONALIZED USER MODEL, L.L.P. and YOCHAI KONIG, Counterclaim-Defendants.	)	C.A. No. 09-525 (LPS)

REPLY BRIEF IN SUPPORT OF PUM'S MOTION FOR JUDGMENT AS MATTER OF LAW ON GOOGLE'S BREACH OF CONTRACT CLAIMS

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July 10, 2014

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I. Google Failed To Present Legally Sufficient Evidence That Its Breach of Contract Claim Was Inherently Unknowable.

Since this Court's April 7, 2014 Opinion Letter,[1] Google has failed to identify any additional record evidence that SRI's injury was inherently unknowable. Instead, Google contorts the inherently unknowable standard to fit its legally insufficient facts. Under the correct legal standard, Google did not and could not meet its burden and JMOL should be granted.[2]

A. Google Failed To Prove That SRI Lacked Inquiry Notice.

In evaluating whether SRI had inquiry notice, the Court correctly noted that "[t]he pertinent inquiry is not whether the claimant would know to a certainty that it had a claim, but rather at what point it had (or through reasonable diligence, would have had) a basis to begin to investigate whether it had a claim" (D.I. 677 at 7). Google turns this standard on its head, claiming PUM "fail[ed] to show that . . . SRI was put on inquiry notice" because Dr. Konig (1) "never told SRI he was launching a new company," nor (2) disclosed his Personal Web technology to SRI before he left (D.I. 714 at 6-7).

Google's argument distorts the inquiry notice standard in two ways. First, Google casts its own burden of proving that SRI lacked inquiry notice onto PUM, demanding that PUM "conclusively show that SRI was put on 'inquiry notice'" (D.I. 714 at 4). But the burden remains on Google at all times. *See Norman v. Elkin*, 726 F. Supp. 2d 464, 470 (D. Del. 2010).

Second, Google tries to convert the inquiry notice standard into an actual notice requirement by arguing that SRI lacked inquiry notice because Dr. Konig did not expressly inform SRI of his allegedly breaching conduct (and thereby give SRI actual knowledge of its

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[1] In the Opinion Letter, the Court tentatively found that "no reasonable jury would have a legally sufficient evidentiary basis to find that the injury to SRI was 'inherently unknowable' until after February 2008" (D.I. 677 at 7).

[2] Although Google refers throughout its brief to the "discovery rule," this again is the incorrect standard. Rather, it is well established that the statute of limitations will run even if the wrong is unknown. Medtronic *Vascular, Inc. v. Advanced Cardiovascular Sys., Inc.*, No. 98-80-SLR, 2005 WL 46553, at *4 (D. Del. Jan. 5, 2005) ("Medtronic I").

potential claim). If that were necessary to avoid tolling, limitation periods would never run until the claimant has actual knowledge of its claim and the inherently unknowable exception would be null. That is not the law. Instead, as this Court noted, the limitation period begins to run as soon as a claimant would—if exercising reasonable diligence—have a basis to begin to investigate whether it has a claim (D.I. 677 at 7). To meet its burden, Google thus had to prove there was not even a single "observable or objective factor" that *could* have put SRI "on notice of an injury." *Cent. Mortg. Co. v. Morgan Stanley Mortg. Cap. Holdings LLC*, No. 5140-CS, 2012 WL 3201139, at *22 (Del. Ch. Aug. 7, 2012) (requiring that there were "***no*** observable or objective factors") (emphasis added); *see also Gregorovich v. E.I. du Pont de Nemours*, 602 F. Supp. 2d 511, 518 n.7 (D. Del. 2009) (for inherently unknowable doctrine to apply, "[n]o objective or observable factors may exist that might have put plaintiff on notice of an injury"). Google failed to meet its burden here and facts showed conclusively otherwise.

"[O]nce a plaintiff is in possession of facts sufficient to make him suspicious, or that ought to make him suspicious, he is deemed to be on inquiry notice." *In re Dean Witter P'ship Litig.*, No. Civ. A. 14816, 1998 WL 442456, at *7 n.49 (Del. Ch. Jul. 17, 1998). Record evidence in this case shows multiple observable and objective factors that put SRI on inquiry notice. SRI knew or easily could have known that Dr. Konig's left his employment at SRI to start a new technology company called Utopy. (Trial Tr. 1020:2-11). A few months later, Dr. Konig filed a patent application covering technology, which Google contends was within the scope of SRI's work (D.I. 677, 7-8; D.I. 663 at 49). At the very latest, SRI actually knew these facts in 2001, when it "beta tested Utopy's product, which was an embodiment of the Patents-in-Suit"[3] (D.I. 677 at 7). Additional information about the products' functionality and the timing of

[3] Google claims that there was no evidence at trial that the beta tested products were the patented products. (D.I. 714 at 9). But Dr. Konig testified that the beta tested products were

their development became publicly available when the '040 patent issued in 2005 (D.I. 677 at 7-8); *See* PTX 1; *Medtronic Vascular, Inc., v. Advanced Cardio. Sys. Inc.,* No. 98-80-SLR, 2005 WL 388592, at *1 n.4 (D. Del. Feb. 2, 2005) ("Medtronic II") (patents provide notice to the world of their contents). Each of these factors was observable to SRI, a research and development company whose business depends on protecting its intellectual property, even from its employees. (Trial Tr. 1017:19-25). At a minimum, SRI was in possession of enough facts that should have made it at least "suspicious" that Dr. Konig might be commercializing technology that he might have conceived while employed at SRI. *Dean Witter*, 1998 WL 442456, at *7 n. 49. Under Delaware law, that was inquiry notice.

B. Google Failed To Prove SRI Diligently Investigated Its Potential Claim.

Because SRI was on inquiry notice, SRI had a duty to investigate a potential breach of contract claim against Dr. Konig to toll the statute of limitations (D.I. 677 at 7) ("SRI, through reasonable diligence, would have had basis to begin to investigate whether Dr. Konig breached his SRI employment agreement."); *Coleman v. Pricewaterhousecoopers, LLC*, 954 A.2d 838, 842 (Del. 2004); *Pomeranz v. Museum Partners, L.P.*, No. 20211, 2005 WL 217039, at *13 (Del. Ch. Jan. 24, 2005). Yet SRI did nothing and eventually sold what it considered to be, at most, "speculative" patent rights to Google more than a decade later.

Faced with SRI's undisputed failure to conduct even a basic investigation, Google again tries to recast the inherently unknowable standard. Google argues that, under *Coleman*, SRI was excused from conducting any investigation because—in Google's hindsight—it likely would have been futile (D.I. 714 at 4-5). But *Coleman* recognizes that inquiry notice "imposes on the

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embodiments of the patents. (Trial Tr. 1079:21-1080:4; 468:15-470:35). Moreover, Google repeatedly pointed to the July 1999 Personal Web PowerPoint (DTX 151) and the May 1999 Personal Web White Paper (DTX 161), which discuss the beta tested products, as evidence of the conception date (*e.g.*, D.I. 714 at 18-19). Google cannot have it both ways.

plaintiff[] a duty to conduct a further inquiry." 854 A.2d at 842. Google cannot erase this duty. Moreover, the law does not require a showing that the inquiry would have been successful.[4]

Delaware Courts have squarely rejected Google's position that SRI had no obligation to investigate a potential claim unless and until Dr. Konig affirmatively disclosed the conception date to SRI (D.I. 714 at 5-6). In *Pomeranz*, for example, investor plaintiffs asked the court to toll the statute of limitations despite their failure to timely investigate a potential cause of action, because the defendant did not disclose all the material facts he should have. 2005 WL 217039, at *13. The court held that the statute was not tolled because, despite signs of trouble, the plaintiffs failed to "start asking questions" when rational investors would have. *Id.* The court noted that "[c]ontrary to the plaintiffs' assertion here, they may not simply wait until the details of the harm are provided to them before the statute begins to run . . . Delaware law expects some initiative from plaintiffs . . . ." *Id.* at 12; *see also Estate of Stiles v. Lilly*, No. 09C-07-198, 2011 WL 5299295, at *5 (Del. Super. Ct. Oct. 27, 2011) (refusing to toll statute of limitations in legal malpractice action because plaintiff failed to follow-up with counsel after signs of problems).

Likewise, SRI failed to "start asking questions" when a rational research institution, seeking to protect intellectual property rights in a time of rapid technological innovation, could and would have. Despite multiple signs of a potential contract claim (Dr. Konig's departure, formation of a new company in an area Google contends is related to SRI's work, subsequent filing of patent applications, SRI's beta test of the patented product, issuance of patents, etc.), Google asks the Court to excuse SRI's total failure to take any initiative. It is undisputed that:

[4] Google relies on language in *Coleman* that is inapplicable here, because—unlike SRI—the plaintiff in *Coleman* actually conducted an inquiry. *Id.* at 843 ("Upon receiving the January 6, 1999 e-mail, the plaintiffs did, in fact immediately inquire into the contents."). The *Coleman* court then considered "whether a more diligent investigation" was necessary. *Id.* at 842-43. It never held—as Google suggests—that once on inquiry notice, circumstances could relieve a plaintiff of its obligation to conduct any inquiry whatsoever. *Id.*

- SRI could have but did not ask Dr. Konig about the invention.
- SRI could have but did not ask Roy Twersky or Michael Berthold, named co-inventors, about the invention.
- SRI could have but did not ask for documents regarding the invention's origination and development.
- SRI could have but did not review publicly available documents, such as the patents and Utopy's organizational documents.

In short, Google cannot show that the alleged wrong was "inherently unknowable" because it was not. Because SRI took no steps to investigate its potential claim, SRI is not the "blamelessly ignorant" plaintiff the "inherently unknowable" exception was meant to protect (D.I. 677 at 7). No reasonable jury could conclude based on the record evidence that SRI was not on at least inquiry notice of an alleged wrong. The analysis should end here.[5]

C. Inquiry—If Conducted—Did Not Have To Uncover The Conception Date.

Google further misconstrues the inherently unknowable exception arguing that any inquiry by SRI had to establish a pre-August 6, 1999 conception date (D.I. 174 5-6). If that were true, all causes of action would be tolled until a plaintiff discovers all material facts necessary to conclusively establish its claim at trial.

Delaware courts have made clear that "having all the facts necessary to articulate the wrong is not required." *In re Dean Witter*, 1998 WL 442456, at *7. Rather, a plaintiff need only "facts constituting the basis of a cause of action." *Coleman*, 854 A.2d at 842. A basis exists when the plaintiff can plead sufficient facts—even on information and belief—that could entitle it to relief under any "reasonably conceivable set of circumstances." *Cent. Mortg. Co. v. Morgan Stanley Mortg. Cap. Holdings* LLC, 27 A.3d 531, 536 (Del. 2011). SRI thus did not have to

[5] Google argues that *Coleman* establishes a "two-step" inquiry for the inherently unknowable exception, and focuses on the "second step" – *i.e.*, whether the inquiry would have been successful. As explained in footnote 4, there is no such standard. But even if there were, Google did not provide a legally sufficient basis to satisfy the "first step" – namely that SRI fulfilled its duty to inquire.

uncover the actual conception date, but only a "reasonably conceivable set of circumstances" that Dr. Konig conceived the invention while employed by SRI.

Even if Dr. Konig had refused to disclose the conception date to SRI or give SRI confidential documents, SRI already had all the information it needed to assert a breach of contract claim well before February 2008. As of that date SRI knew (or could have known, had it reviewed public records) that Dr. Konig (1) started a new company before leaving SRI; (2) filed a patent application shortly after leaving SRI that had issued into a patent; and (3) developed patented technology that—according to Google—fell within SRI's scope of work and that SRI itself beta tested. As a result, the "inherently unknowable" exception does not apply.

II. Section 8117 Does Not Apply.

Google also conflates Delaware's non-resident tolling statute under 10 Del. C. § 8117 ("Section 8117"), with Delaware's Borrowing Statute under 10 Del C. § 8121 ("Borrowing Statute") to strip both statutes of their meaning and produce absurd results. Google's argument is that Section 8117 enables Google to buy a claim that arose in California more than a decade ago, turns on California law, and expired years ago in California, and then bring that claim to Delaware, and resurrect it simply by injecting it into this case.[6] Google's interpretation would prevent the statute of limitations from *ever* running under the Borrowing Statute, except in the remote instance where a non-resident defendant is amenable to service-of-process in Delaware despite having left or having never entered the state (D.I. 714 at 11). That is not the law.

Delaware courts have rejected Google's current argument since the Borrowing Statute's very inception. Only two years after the legislature enacted the Borrowing Statute, Delaware courts cautioned that Section 8117 "should not be read into [the Borrowing Statute to] stultify

[6] Google does not dispute that without the "inherently unknowable" exception, its contract claim had otherwise already expired in California by the time Google bought it from SRI.

the effect of the borrowing provision." *Glassberg v. Boyd*, 116 A.2d 711, 718 (Del. Ch. 1955); *accord D'Angelo v. Petro. Mexicanos*, 398 F. Supp. 72, 80 (D. Del. 1975). Instead, the statutes should be "considered as a whole, rather than in parts," and "each section should be read in light of all others . . . ." *Del. Bay Surg. Servs., P.C. v. Swier*, 900 A.2d 646, 652 (Del. 2006). They should not be read so literally that it "would undercut [their] overriding purpose," *Saudi Basic Indus. Corp. v. Mobil Yanbu Petrochem. Co.*, 866 A.2d 1, 17 (Del. 2005), nor should they be "construed to produce an absurd . . . result." *In re Swanson*, 623 A.2d 1095, 1099 (Del. 1993).

Google's proposed reading of Section 8117 ignores the Borrowing Statute's intent to (1) protect Delaware courts from having to adjudicate "stale out of state claims," *Glassberg*, 116 A.2d at 718, and (2) prevent shopping for the forum with the most favorable statute of limitations, *Saudi Basic*, 866 A.2d at 16. The legislature designed the Borrowing Statute to shorten the statute of limitations—not extend it. *Id.* Yet Google now asks the Court to apply Section 8117 contrary to the Borrowing Statute by adjudicating a stale claim that Google imported into this forum to take advantage of its longer, more favorable statute of limitations.

Google cannot justify evisceration of the Borrowing Statute by arguing it gives effect to Section 8117. It does not. Instead, courts nationwide recognize the mandate of Section 8117 is to protect Delaware-interested claimants from non-residents avoiding service of process. *See, e.g., Portfolio Recovery Assocs., LLC v. King*, 927 N.E.2d 1059, 1062 (N.Y. 2010) (noting that "Section 8117 was meant to apply only in circumstances where the defendant had a prior connection to Delaware"); *Resurgence Fin., LLC v. Chambers*, 173 Cal. App. 4th Supp. 1, 5 (2009) ("[t]he purpose of section 8117 is to protect persons seeking to file suit in Delaware from defendants who have made filing suit in Delaware difficult or impossible."); *Williams v. Congregation Yetev Lev*, No. 01CV2030, 2004 WL 2924490, at *7 (S.D.N.Y. 2004) (same).

It is undisputed that SRI never attempted to serve process on Dr. Konig in any state—including California, where SRI is located and Dr. Konig resided—so Dr. Konig never avoided service of process (and to the contrary, consented to service in Delaware). While Google selectively quotes dicta from *McCorriston v. L.W.T., Inc.* to support its misreading of *Hurwitch v. Adams* as endorsing the application of 8117 whenever non-resident defendants are not amenable to service in Delaware,[7] *McCorriston rejected* application of 8117 because the defendant was subject to service in Florida where plaintiff filed suit. 536 F. Supp. 2d 1268 (M.D. Fla. 2008),

Because Delaware has no interest in hearing SRI's California-based cause of action, Section 8117 has no application. Delaware's lack of connection to this case also distinguishes this case from Google's other cited cases:

- In *Hurwitch*, the basis for the cause of action—a car accident—occurred in Delaware. 155 A.2d 591 (Del. 1959).
- In *Brossman*, the defendant had contracted with a Delaware resident and agreed that Delaware law would control any claims. *F.D.I.C Corp. v. Brossman*, C.A. No. 81C-DE-116, 1984 WL 553542, at *2 (Del. Super. June 1, 1984) (noting that because the original note holder was a Delaware resident, it was entitled to the benefit of Section 8117).
- In *Saudi Basic*, the parties formed a Delaware joint-partnership whose partnership agreement had been breached, and the defendant engaged in gamesmanship to avoid being sued anywhere in the United States. *Saudi Basic Indus.*, 866 A.2d at 16 ("the two joint venture partnerships were 'resident[s] of this State' at the time the cause of action originally accrued").

In each case applying Section 8117, Delaware had a substantial interest—either in the parties or the cause of action—in overseeing the claims. That is not the case here.

To apply Section 8117 as Google suggests would produce absurd results. Under Google's construction, a statute of limitations for a cause of action arising anywhere else in the world between parties residing anywhere else in the world is tolled—into perpetuity—until the

[7] Google ignores that the central premise of Hurwitch is that § 8117 cannot be applied just because it "is plain on its face and [appears to] appl[y] in any action in which the defendant is a non-resident," but instead must be read so as not to abolish the statute of limitations defense. 155 A.2d at 593-94.

non-resident defendant becomes amenable to service of process in Delaware. The Delaware Supreme Court rejected such a broad reading of Section 8117 because it would abolish the statute of limitations defense for non-residents. *Hurwitch*, 155 A.2d at 593-94. Courts across the country have rejected Google's proposed interpretation. *Lehman Bros. Holdings, Inc. v. First Cal. Mortg. Corp.*, No. 13-cv-20113, 2014 WL 1715120, at *4 (D. Colo. Apr. 30, 2014) (declining to apply 8117 as it "would lead to an absurd result: tolling the limitations period in perpetuity"); *Resurgence Fin.*, 92 Cal. Rptr. 3d at 5 (same).

Google recognizes the absurdity of its own position and proposes an alternative and slightly narrowed interpretation: limit Section 8117 to permit stale counterclaims against non-resident plaintiffs solely because they filed suit in Delaware (D.I. 714 at 14). But this interpretation would encourage defendants to do exactly what Google did here: buy a stale cause of action that has no connection to Delaware and assert it as leverage in litigation. *Saudi Basic* admonishes against this exact type of gamesmanship. *See* 886 A.2d at 16-17. Rather than supporting Google, *Saudi Basic* forbids Google's attempt to manipulate these statutes to produce a result that neither Delaware's courts or legislature intended.

III. Google Did Not Acquire SRI's Breach of Contract Claim.

Google does not dispute that causes of action must be expressly conveyed, yet identifies no language in the grant clause transferring SRI's interest in its breach of contract claim to Google. Instead, Google points to Section 6.1 of the contract (D.I. 714 at 16; DTX 412 at § 6.1.). This is not a grant clause and does not, in fact, convey anything.

Despite ample precedent holding causes of actions must be *expressly* conveyed, Google asks this court to *infer* SRI intended to convey its breach of contract claim to Google because it was necessary for Google to perfect its interest in the patent. Even if the Court could infer transfer of a property interest, there is no basis to draw that inference here. Utopy–not Dr.

Konig—owned the patents. Thus, any breach of contract claim against Dr. Konig would have been purely a damages claim—not for patent rights. Because Google and SRI knew Utopy/PUM owned the patents, it cannot be inferred they intended the contract claim to be conveyed.

IV. Google Failed to Prove Dr. Konig Conceived the Invention While Employed at SRI.

Throughout trial, Google maintained that "conception" as used in Dr. Konig's employment agreement required less than the patent law definition of conception, and it presented evidence accordingly. But the Court ruled that Google had the burden to prove that while Dr. Konig was still employed at SRI, one skilled in the art could practice his invention. (Trial Tr. 1858:3-7). Google's evidence did not meet this standard.

The only documentary evidence of conception that Google introduced is the May 1999 Personal Web White Paper (DTX 161) and the July 1999 Personal Web Documents (DTX 151) (D.I. 174 at 17-18). Google does not even contend that these documents would permit one skilled in the art to practice the patent's claims (D.I. 174 at 18-19). Instead, Google relies on interrogatory responses and testimony (since corrected) gleaned from these less-than-sufficient documents to suggest that a reasonable jury could have inferred a pre-August 1999 conception date (D.I. 174 at 17-18). In other words, Google admits that the jury verdict is based on inferences drawn from legally insufficient evidence. The only document to actually establish conception under the patent law definition was dated September 21, 1999.[8] (PTX 532; Trial Tr. 1090:5-12; 1091:13-1095:15). Indeed, Google does not point to a single document prior to September 1999 that it contends actually shows conception.

[8] Dr. Konig testified that the approximate date is September 21, 1999, and that he created it after working for more than a month on his invention after leaving SRI. (Trial Tr. 1090:22-1091:14).

Conclusion

For all the foregoing reasons, PUM respectfully asks that the Court grant PUM's Motion for Judgment as a Matter of Law on Google's Breach of Contract Claim.

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July 10, 2014
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CERTIFICATE OF SERVICE

I hereby certify that on July 10, 2014, I caused the foregoing to be electronically filed with the Clerk of the Court using CM/ECF which will send electronic notification of such filing to all registered participants.

Additionally, I hereby certify that true and correct copies of the foregoing were caused to be served on July 10, 2014, upon the following individuals in the manner indicated:

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