UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

I/P ENGINE, INC. Plaintiff, v. AOL INC., *et al.*, Defendants.	Civil Action No. 2:11-cv-512

DEFENDANTS' MEMORANDUM IN SUPPORT OF THEIR MOTION TO DISMISS ALL CLAIMS AGAINST AOL INC., GANNETT CO., INC., IAC SEARCH & MEDIA, INC., AND TARGET CORPORATION

Introduction

Pursuant to Federal Rule of Civil Procedure 12(b)(1), Defendants AOL Inc., Gannett Co., Inc., IAC Search & Media, Inc., and Target Corporation move to dismiss all claims against them. For these Defendants, there is no actual "case" or "controversy" necessary for subject matter jurisdiction. Specifically, Plaintiff I/P Engine, Inc. has failed to identify any "injury in fact" that the Court may redress. I/P Engine has never sought an injunction with respect to any of the Defendants in this case. And in its contentions and expert reports, I/P Engine seeks damages only from Google, and not from any of the other Defendants. Without any request for a remedy or cognizable relief from the Court, there is no injury in fact, and I/P Engine has no standing to maintain its claims against these Defendants. Thus, there is no subject matter jurisdiction, and all claims against AOL, Gannett, IAC, and Target should be dismissed with prejudice.

Legal Standard

Article III, § 2 of the Constitution limits the jurisdiction of federal courts to matters involving actual "Cases" or "Controversies." *WiAV Solutions LLC v. Motorola, Inc.*, 631 F.3d

1257, 1263-64 (Fed. Cir. 2010). "The doctrine of constitutional standing serves to identify which disputes fall within these broad categories and therefore may be resolved by a federal court." *Id*. at 1264 (citing *Elk Grove Unified Sch. Dist. v. Newdow*, 542 U.S. 1 (2004); *Lujan v. Defenders of Wildlife*, 504 U.S. 555 (1992)).

Standing requires "at an irreducible minimum an injury in fact." *Biotechnology Indus. Org. v. Dist. of Columbia*, 496 F.3d 1362, 1370 (Fed. Cir. 2007) (quoting *Virginia v. Am. Booksellers Ass'n*, 484 U.S. 383, 392 (1988)). An injury in fact is a harm that must be (1) "'concrete' and actual or imminent, not 'conjectural' or 'hypothetical,'" (2) "'fairly traceable' to the defendant's conduct," and (3) "redressable by a favorable decision." *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1338 (Fed. Cir. 2008) (quoting *Steel Co. v. Citizens for a Better Env't*, 523 U.S. 83 (1998)). "Thus, the touchstone of constitutional standing in a patent infringement suit is whether a party can establish that it has an exclusionary right in a patent that, if violated by another, would cause the party holding the exclusionary right to suffer legal injury. *WiAV Solutions*, 631 F.3d at 1265.

The question of standing is essential to subject matter jurisdiction. As such, it is not subject to waiver, and any party, and even the court *sua sponte*, may raise the issue for the first time at any stage of the litigation. *FW/PBS, Inc. v. City of Dallas*, 493 U.S. 215, 230-31 (1990) (issue of standing raised *sua sponte* on appeal to Supreme Court); *Apple, Inc. v. Motorola, Inc.*, 1:11-CV-08540, 2012 WL 2376664 (N.D. Ill. June 22, 2012) (dismissing *sua sponte* a patent infringement case based on the parties' failure to establish any admissible evidence of an injury in fact). Therefore, if standing is found to be lacking, the case must be dismissed. *See* Fed. R. Civ. P. 12(h)(3). "The burden of demonstrating standing falls to [the plaintiff] . . . ." *Ortho Pharm. Corp. v. Genetics Inst., Inc.*, 52 F.3d 1026, 1032 (Fed. Cir. 1995) (citations omitted).

Argument

In this case, I/P Engine has failed to allege any injury in fact with respect to AOL, Gannett, IAC, and Target. I/P Engine has never sought an injunction with respect to any activities of any of the Defendants. And I/P Engine's damages contentions are directed only to Google. There are no compensable damages traceable to any other Defendant. Without the requisite injury in fact, I/P Engine lacks standing to bring its claims against AOL, Gannett, IAC, and Target. Accordingly, the claims against these Defendants should be dismissed for lack of subject matter jurisdiction.

In the Complaint, filed on September 15, 2011, I/P Engine "seeks compensatory damages" for alleged patent infringement. (D.N. 1, ¶ 1; *see also id.*, ¶¶ 103-104, 133-134, Prayer for Relief ¶ 2.) Specifically, I/P Engine alleges that Google's search advertising systems – such as AdWords and AdSense for Search – infringe the asserted patents. (*Id.*, ¶ 44.) I/P Engine further alleges that Google uses certain systems – such as AdSense for Search – to serve ads for websites operated by each of the Defendants. (*Id.*, ¶¶ 45, 57-58, 69, 75, 77.) I/P Engine does not seek an injunction against any Defendant. (*See* D.N. 1, Prayer for Relief.)[1]

During fact and expert discovery, I/P Engine only identified an injury in fact traceable to Google's operation of its accused systems. As compensation for this alleged injury, IP Engine claims damages in the form of a reasonable royalty from Google, and not from any of the other Defendants. The expert report of I/P Engine's expert, Stephen L. Becker, sets forth I/P Engine's damages theory. (*See* Declaration of Emily C. O'Brien in Support of Defendants' Motion to

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[1] In the Complaint, I/P Engine also accused AOL's Advertising.com Sponsored Listings and IAC's Ask Sponsored Listings of separately infringing the asserted patents. (D.N. 1 at ¶¶ 55-56, 68.) I/P Engine and AOL subsequently settled the claims regarding Advertising.com Sponsored Listings. (*See* D.N. 202.) And during discovery, I/P Engine agreed to withdraw its claims against IAC's Ask Sponsored Listings. (D.N. 203.)

Exclude, Ex. 1 (7/25/12 Expert Report of Stephen L. Becker, Ph.D. ("Becker Report")), ¶ 11(b).) Dr. Becker bases his calculation of a reasonable royalty on a hypothetical negotiation in 2004 between Google and Lycos Inc. (the predecessor in interest to the patents in suit). (*Id.*, ¶ 11(b).) In the context of this hypothetical negotiation, Dr. Becker determines a royalty base that is calculated using Google's incremental revenue generated from the accused systems – AdWords, AdSense for Search, and AdSense for Mobile. (*Id.*, ¶ 11(d), Ex. SLB-1.) He also identifies a royalty rate that he contends Google would have been willing to pay to license the asserted patents. (*Id,* ¶ 11(e).) Applying this rate to the royalty base, Dr. Becker calculates the amount of damages that he contends Google owes I/P Engine for the alleged infringement. (*Id.*, ¶ 11(f).) As Dr. Becker explains in his expert report, a license resulting from this hypothetical negotiation would cover "not only Google, but Google customers, such as AOL, IAC, Gannett and Target, for whom Google served search-based ads through the accused Google Systems." (*Id.,* ¶11(b).) And Dr. Becker identifies the figures in his Reasonable Royalty Summary as "inclusive of AdSense for Search revenues (and associated damages) that Google shares with published websites such as co-defendants AOL, IAC, Gannett, and Target." (*Id.,* ¶ 191.)

Nowhere in his report does Dr. Becker undertake a separate damages analysis for any of the other Defendants. He does not perform a reasonable royalty calculation based on a separate hypothetical negotiation involving any other Defendant. And he does not base any damages claim on any revenue from any Defendant, other than Google.[2]

At most, in his report, Dr. Becker attempts to allocate Google's revenue by website. He calculates the portion of Google damages attributable to the Google revenue he believes is

[2] Additionally, I/P Engine does not contend that any other Defendant is jointly and severally liable for the damages attributed to Google's operation of its accused systems. Indeed, I/P Engine has no factual or legal basis to do so.

derived from serving advertisements to each of the other Defendants' websites. (Becker Report, ¶ 191.) And he reports those calculations in charts titled "Accused Revenue, Royalty Base and Reasonable Royalty Detail" for AOL, Gannett, IAC, and Target. (*Id.,* Ex. SLB-2A.) But this allocation of Google revenue is not the basis for a separate claim for damages. Indeed, Dr. Becker explicitly notes that "the damages reflected in [the allocation] in Exhibit SLB-2a are not additive with the overall damages reflected in [his calculation of total damages] in Exhibit SLB-1. (*Id*., ¶ 191 n.245 (emphasis in original).) Accordingly, this analysis is merely an apportionment of Google revenue that Dr. Becker attributes to Google's partnerships with the other Defendants. These amounts are already captured in Dr. Becker's royalty base and his calculation of reasonable royalty damages against Google.

Moreover, in response to interrogatories asking for I/P Engine's damages contentions with respect to Gannett, IAC, and Target, I/P Engine provided no additional allegations. Instead, I/P Engine merely incorporated by reference the expert report of Dr. Becker.[3] But as Dr. Becker's report makes plain, I/P Engine claims damages from Google only. He does not make any separate claim for damages against any other Defendant. Without any alleged damages traceable to AOL, Gannett, IAC, and Target, there is no injury in fact, and the claims as to these Defendants should be dismissed.

I/P Engine's damages contentions are not surprising. If Google pays a reasonable royalty for the use of the accused systems to serve advertisements on its website as well as the websites of the other Defendants, I/P engine has been fully compensated for the alleged infringement.

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[3] *See* Kammerud Dec., Ex. A, Plaintiff I/P Engine, Inc.'s Responses and Objections to Defendant Gannett Company, Inc.'s First Set of Interrogatories; Kammerud Dec., Ex. B, Plaintiff I/P Engine, Inc.'s Responses and Objections to Defendant IAC Search & Media, Inc.'s First Set of Interrogatories; Kammerud Dec., Ex. C, Plaintiff I/P Engine, Inc's Responses and Objections to Defendant Target Corp.'s First Set of Interrogatories.

Seeking additional damages from the other Defendants would be double dipping by claiming damages twice – once against Google and again against the other Defendants – for the same allegedly infringing activity.

Earlier this year, Judge Posner, sitting by designation in the Northern District of Illinois, dismissed with prejudice a similar patent infringement case for lack of subject matter jurisdiction because the parties had failed to identify admissible evidence necessary to prove monetary damages or justify injunctive relief. *See Apple, Inc. v. Motorola, Inc.*, 1:11-CV-08540, 2012 WL 2376664 (N.D. Ill. June 22, 2012). In that case, Judge Posner excluded the opinions of damages experts for both Apple and Motorola as unreliable under *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993). *Apple*, 2012 WL 2376664 at *1-*11. And he determined that neither party was entitled to an injunction. *Id.* at *12-*22. In light of those rulings, Judge Posner dismissed the case with prejudice because neither party could establish a cognizable basis for relief. *Id.* at *23. He concluded that – even assuming the asserted patents were valid and infringed – the inability to prove an injury in fact arising from any accused activities warranted dismissal with prejudice. *Id.* ("It would be ridiculous to dismiss a suit for failure to prove damages and allow the plaintiff to refile the suit so that he could have a second chance to prove damages."). Similarly, here, Plaintiff has failed to identify any evidence in its contentions or expert reports of any injury in fact against Defendants AOL, Gannett, IAC, and Target, as it is required to do. Thus, there is no subject matter jurisdiction, and the claims against these Defendants should be dismissed with prejudice.

Conclusion

For the foregoing reasons, Defendants respectfully request that the Court dismiss with prejudice Plaintiff's claims against Defendants AOL, Gannett, IAC, and Target for lack of subject matter jurisdiction.

DATED: September 21, 2012

/s/ Stephen E. Noona

Stephen E. Noona
Virginia State Bar No. 25367
KAUFMAN & CANOLES, P.C.
150 West Main Street, Suite 2100
Norfolk, VA 23510
Telephone: (757) 624.3000
Facsimile: (757) 624.3169
senoona@kaufcan.com

David Bilsker
David A. Perlson
QUINN EMANUEL URQUHART &
SULLIVAN, LLP
50 California Street, 22nd Floor
San Francisco, California 94111
Telephone: (415) 875-6600
Facsimile: (415) 875-6700
davidbilsker@quinnemanuel.com
davidperlson@quinnemanuel.com

Counsel for Google Inc., Target Corporation, IAC Search & Media, Inc., and Gannett Co., Inc.

By: */s/ Stephen E. Noona*

Stephen E. Noona
Virginia State Bar No. 25367
KAUFMAN & CANOLES, P.C.
150 W. Main Street, Suite 2100
Norfolk, VA 23510
Telephone: (757) 624-3000
Facsimile: (757) 624-3169

Robert L. Burns
FINNEGAN, HENDERSON, FARABOW, GARRETT &
DUNNER, LLP
Two Freedom Square
11955 Freedom Drive
Reston, VA 20190
Telephone: (571) 203-2700
Facsimile: (202) 408-4400

Cortney S. Alexander
FINNEGAN, HENDERSON, FARABOW, GARRETT & DUNNER, LLP
3500 SunTrust Plaza
303 Peachtree Street, NE
Atlanta, GA 94111
Telephone: (404) 653-6400
Facsimile: (415) 653-6444

Counsel for Defendant AOL Inc.

CERTIFICATE OF SERVICE

I hereby certify that on September 21, 2012, I will electronically file the foregoing with the Clerk of Court using the CM/ECF system, which will send a notification of such filing (NEF) to the following:

Jeffrey K. Sherwood
Kenneth W. Brothers
DICKSTEIN SHAPIRO LLP
1825 Eye Street NW
Washington, DC 20006
Telephone: (202) 420-2200
Facsimile: (202) 420-2201
sherwoodj@dicksteinshapiro.com
brothersk@dicksteinshapiro.com

Donald C. Schultz
W. Ryan Snow
Steven Stancliff
CRENSHAW, WARE & MARTIN, P.L.C.
150 West Main Street, Suite 1500
Norfolk, VA 23510
Telephone: (757) 623-3000
Facsimile: (757) 623-5735
dschultz@cwm-law.cm
wrsnow@cwm-law.com
sstancliff@cwm-law.com

Counsel for Plaintiff, I/P Engine, Inc.

/s/ Stephen E. Noona
Stephen E. Noona
Virginia State Bar No. 25367
KAUFMAN & CANOLES, P.C.
150 West Main Street, Suite 2100
Norfolk, VA 23510
Telephone: (757) 624.3000
Facsimile: (757) 624.3169
senoona@kaufcan.com