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 OPPOSITION TO PLAINTIFF I/P ENGINE, INC.'S MOTION TO EXCLUDE OPINIONS AND TESTIMONY OF KEITH R. UGONE

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I. INTRODUCTION

I/P Engine's motion to exclude the expert testimony of Keith Ugone, Ph.D., on the issue of damages is a misguided attack on the well-established *Georgia-Pacific* patent damages methodology that the Federal Circuit has repeatedly endorsed. Dr. Ugone's thorough and detailed report employs the standard fifteen-factor analysis first announced in that seminal decision and concludes that a reasonable royalty for the patents in suit is a lump-sum payment of between [redacted]. That range is consistent with all the relevant licenses in the record, the fair market value of the patents themselves, and the licensing practices of the parties to the *Georgia-Pacific* hypothetical negotiation. I/P Engine's motion misrepresents Dr. Ugone's methodology, report, and opinion and seeks to impose a standard for the admission of expert damages testimony its own proffered expert fails to meet it in numerous respects. Its motion should be denied.

II. FACTUAL BACKGROUND

Defendants provided an expert rebuttal report from Dr. Keith Ugone, Ph.D. on the issue of damages. (O'Brien Dec., Ex. D.) Dr. Ugone is well-qualified to opine on damages in a patent case. He holds a B.A., M.A. and Ph.D. in economics and has served as an assistant professor of economics at California State University, Northridge, a partner at PricewaterhouseCoopers LLP, and managing principal of Analysis Group. (*Id.* at Ex. 1.) He has testified as an expert on patent infringement damages in numerous cases. (*Id.*)

To determine the damages to which I/P Engine would be entitled if it prevailed on the merits, Dr. Ugone employed the well-accepted "hypothetical negotiation" analysis described in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970). (O'Brien Dec., Ex. D, *passim* & Appendix A.) The *Georgia-Pacific* hypothetical negotiation attempts to determine "[t]he amount that a licensor (such as the patentee) and a licensee (such as

the accused infringer) would have agreed upon (at the time the alleged infringement began) if both had been reasonably and voluntarily trying to reach an agreement." *Georgia-Pacific*, 318 F. Supp. at 1120. Both Defendants and I/P Engine agree that, at the time of the hypothetical negotiation, the patents in suit were owned by a different company, Lycos, and that Google would have negotiated for a license that covered all the defendants. Dr. Ugone therefore considered what license agreement Google and Lycos would have arrived at in the hypothetical negotiation. (O'Brien Dec., Ex. D, 3.)

Consistent with *Georgia-Pacific*, Dr. Ugone examined many patent license and purchase agreements that either Google or Lycos entered into. (O'Brien Dec. Ex. D, 9-10, 40-47, 72-80.) Based on an examination of these agreements, Lycos's and Google's licensing practices, and [redacted] and Lycos executives, Dr. Ugone found that Lycos and Google would have entered into a license agreement that required a one-time, lump-sum royalty payment. (O'Brien Dec., Ex. D, 45-47, 72-80, & 89-91.)

Dr. Ugone then further looked to two agreements in which Google had licensed or purchased patents from [redacted] related to internet search or internet advertising related technology for [redacted] respectively. (O'Brien Dec., Ex. D, 75-77 & Appendix A at 2.) Of all the licenses produced in this litigation, the [redacted] Agreement marked the most Google had ever paid for a patent license or acquisition. (O'Brien Dec., Ex. D, 75-76 & Appendix A at 2.) Based on conversations with Defendants' technical expert, Dr. Ugone understood the [redacted] Agreement involved technology most comparable to the patents-in-suit. (O'Brien Dec., Ex. D, 78; O'Brien Dec., Ex. E, 177-78 & 181.) Dr. Ugone then considered the various *Georgia-Pacific* factors to adjust this royalty amount as appropriate. (O'Brien Dec., Ex. D, Appendix A.)

III. LEGAL STANDARD

Federal Rule of Evidence 702 provides that an expert witness with "scientific, technical, or other specialized knowledge" may testify in the form of an opinion "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." Fed. R. Evid. 702, *see also Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993). Simply disagreeing with a patent damages expert's conclusions, not his methodology is insufficient to support a motion to exclude under Rule 702. *See i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 854 (Fed. Cir. 2010). "*Daubert* and Rule 702 are safeguards against unreliable or irrelevant opinions, not guarantees of correctness." *Id.* Where "the parties' experts rely on conflicting sets of facts, it is not the role of the trial court to evaluate the correctness of facts underlying one expert's testimony." *Micro Chem., Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1392 (Fed. Cir. 2003) (affirming denial of motion for new trial based on district court's admission of expert damages testimony). Where an expert in the particular field would reasonably do so, the expert need not limit his opinion to consideration solely of evidence that would be admissible at trial. Fed. R. Evid. 703.

IV. DR. UGONE'S METHODOLOGY IS WELL-ACCEPTED

Although Dr. Ugone relies on the same *Georgia-Pacific* analysis as I/P Engine's own damages expert, I/P Engine's motion quixotically attacks that methodology as unreliable and contrary to Federal Rule of Evidence 702. In doing so, I/P Engine would have the Court impose standards for admissibility that no court has previously adopted and that its own expert does not meet. Far from being inadmissible, Dr. Ugone's opinion is consistent with all the real-world patent transactions in the record, the licensing preferences and practices of Lycos and Google, and the *Georgia-Pacific* methodology.

A. Dr. Ugone Properly Employed the *Georgia-Pacific* Factors, a Well-Established Methodology For Determining a Reasonable Royalty

I/P Engine argues that Dr. Ugone "did not use the well-established methodologies for determining a reasonable royalty." (*See* D.N. 340, 1 & 3.) That contention is simply false. Dr. Ugone employed the same very well-established *Georgia-Pacific* analysis used by I/P Engine's own expert. (O'Brien Dec., Ex. D, Appendix A.) His report addresses each of these factors in extensive detail and explains how they support his reasonable royalty opinion. (*Id.*, 30-83 & Appendix A.)

I/P Engine nevertheless focuses on an analogy Dr. Ugone made during his deposition between a *Georgia-Pacific* analysis used to value a patent license and the valuation of a house in a real estate market. Dr. Ugone analogized a portion of the *Georgia-Pacific* analysis he performed to looking for what for "what other houses sold for" in the same neighborhood, using that as a "proxy" or "yardstick," and adjusting for various factors, such as differing numbers of bedrooms or bathrooms. (D.N. 340-1 at 33, 87 & 139.) Despite I/P Engine's objections, this is precisely the analysis contemplated by *Georgia-Pacific*.

Georgia-Pacific instructs the expert to look to comparable license agreements and use them as a benchmark for the hypothetical negotiation, including: "[t]he royalties received by the patentee for the licensing of the patent in suit," "[t]he rates paid by the licensee for the use of other patents comparable to the patent in suit," and "[t]he 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." 318 F. Supp. at 1120. The royalties provided for in these other license agreements must then be adjusted in light of, among other factors, "[t]he nature and scope of the license," "[t]he nature of the patented invention," and "[t]he portion of the realizable profit that should be credited to the invention." *Id.* Dr. Ugone's

consideration of these factors and use of them to determine a benchmark and adjust it accordingly, consistent with *Georgia-Pacific*, is thoroughly detailed in his report. (O'Brien Dec., Ex. D, 30-83 & Appendix A.)

Indeed, I/P Engine's expert, Dr. Becker, relies on his own preferred license agreements as a "proxy" or "yardstick." (O'Brien Dec. ISO Motion to Exclude Becker (D.N. 323), Ex. 1, 37-45.) Dr. Becker uses as his starting point licenses entered into by Yahoo!, a non-party to this case, to license patents that are not at issue in this litigation to other third parties. He then, like Dr. Ugone, adjusts those royalty rates based on other *Georgia-Pacific* factors.[1]

B. I/P Engine's Attack on Dr. Ugone's Lump-Sum Opinion Is Misguided and Inaccurate

I/P Engine devotes a large part of its motion to challenging the fact that Dr. Ugone's analysis did not do sufficient "math." (D.N. 340 at 1, 3-4, 6, & 10-12.) For example, I/P Engine argues that Dr. Ugone's testimony is inadmissible because he did not "compute Defendants' revenues, or costs, or . . . determine an appropriate royalty base; . . . calculate a royalty rate; . . . [or] use the well-established methodologies for determining a reasonable royalty." (D.N. 340 at 1.) That argument is based on fundamental misrepresentation of Dr. Ugone's report and misunderstanding of patent damages law. The *Georgia-Pacific* analysis is a fifteen factor standard for determining a reasonable royalty. None of those factors requires use of a particular algorithm, calculation, or equation, and Plaintiff points to no case to the contrary.

The primary source of I/P Engine's fundamental disagreement with Dr. Ugone is that he, unlike I/P Engine's expert, opined that the hypothetical negotiation for a license to the patents-in-

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[1] As detailed in Defendants' Motion to Exclude the Testimony of Stephen L. Becker, while relying on license agreements is a proper methodology, Dr. Becker's reliance on the Overture agreements in particular was improper and unsound. (D.N. 317, 17-21.)

suit would result in a one-time, lump-sum royalty payment, and not a running royalty tied to Google's revenue. A lump-sum agreement eliminates the need for the parties to perform the types of calculations that I/P Engine identifies because it does not require determining a royalty base, apportioning that royalty base, and applying a royalty rate. Indeed, this is one of the primary advantages that parties achieve by agreeing on a lump-sum—instead of a running—royalty.

A lump-sum payment is a well accepted way of structuring a reasonable royalty. As the Federal Circuit has noted, "[r]oyalties are *ordinarily* computed based upon the sales of a patented product or process. *However, parties may choose other methods* to compute the amount that a licensee may pay for the right to use a patented product or process, *such as flat fees* . . . ." *Embrex, Inc. v. Serv. Eng'g Corp.*, 216 F.3d 1343, 1350 (Fed. Cir. 2000) (emphases added). I/P Engine's own expert, Dr. Becker, states in his report that "the lump-sum approach" is one of "two primary approaches to specifying a patent royalty." (O'Brien Dec. ISO Motion to Exclude Becker (D.N. 323), Ex. 1, 15.); *see also Lucent*, 580 F.3d at 1326.

As Plaintiff's expert Dr. Becker explains, in a running-royalty approach, "a licensee makes continuing, periodic payments based on the extent of use of the licensed patents," while in a lump-sum approach, the licensee makes a single payment "for a paid-up license to use the asserted patents." (O'Brien Dec. ISO Motion to Exclude Becker (D.N. 323), Ex. 1, 15.) A determination of whether the form of the royalty would be a lump-sum or a running royalty is an appropriate consideration under *Georgia-Pacific* factor two. *Lucent*, 580 F.3d at 1326 ("Subsumed within this factor is the question of whether the licensor and licensee would have agreed to a lump-sum payment or instead to a running royalty based on ongoing sales or

usage."). There is therefore nothing unusual or improper about Dr. Ugone's determination that the hypothetical negotiation would result in a lump-sum payment.

The determination that the hypothetical negotiation would have resulted in a lump-sum payment and not a running royalty is not only a permissible opinion supported by substantial evidence, it is uniformly compelled by every material licensing agreement in the record. Indeed, Dr. Becker admitted at his deposition that in the hypothetical negotiation Google would "obviously have a preference for lump sums." (D.N. 323, Ex. 2, 121:20-122:7.) The only Google agreement that Dr. Becker considered in his analysis was for a lump-sum amount. (D.N. 323, Ex. 1 at 21-22.) In addition, the record contains numerous examples of Google entering into lump-sum patent licenses. (*See* D.N 317 at 25 (listing many of Google's lump-sum patent agreements).) It is further undisputed that that there are only two agreements explicitly involving the patents-in-suit, [redacted]. (O'Brien Dec. ISO Motion to Exclude Becker (D.N. 323.), Ex. 1, 18.) [redacted]. (*Id.* at 18-20.) Indeed, where there is no evidence that the parties would have entered into a running royalty agreement, awarding a running royalty is reversible error. *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1561-63 (Fed. Cir. 1983).

Contrary to I/P Engine's argument, where a lump-sum payment is made, there is no need for the parties to perform the "math" that I/P Engine identifies. A lump-sum payment need not be tied to the licensee's royalty base or a royalty rate. Indeed, there is no requirement that a patent damages expert must calculate the expected sales or expected use of the infringing product at the time of the hypothetical negotiation when calculating a lump-sum royalty. *Personal Audio, LLC v. Apple, Inc.*, No. 9:09-cv-111, 2011 WL 3269330, at *8-10 (E.D. Tex. July 29, 2011) (rejecting argument that expert was required to "present . . . evidence of [defendant's]

expected sales of infringing products at the time of the hypothetical negotiation" when offering a lump-sum opinion); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F. Supp. 2d 147, 151-52 (D.R.I. 2009) (denying motion to exclude expert damages testimony on lump-sum royalty where expert "failed to account for [defendant's] use of the invention and the immense cost-savings and revenue generated"). There is therefore no requirement that Dr. Ugone determine an expected royalty base or a royalty rate at the time of the hypothetical negotiation.[2]

I/P Engine also attacks Dr. Ugone's opinion for not "apportion[ing] the value of the patented technology." (D.N. 340 at 10.) The rule of apportionment applies when a *running* royalty is used. Where a running royalty is used, the expert typically cannot apply the royalty rate against the entire revenue obtained from use or sale of the accused product. Instead, the expert must apportion the revenue base between that which is attributable to the patented technology and that which is attributable to the unpatented components of the accused product. *See Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011); *Lucent*, 580 F.3d at 1338. Dr. Ugone's lump-sum opinion does not, however, involve applying a royalty rate against a royalty base that must be apportioned. Where a lump-sum royalty is applicable, no apportionment of the revenue base is necessary. *LaserDynamics, Inc. v. Quanta Computer, Inc.*, -- F.3d --, 2012 WL 3758093, at *14 (Fed. Cir. Aug. 30, 2012) (use of lump-sum royalty avoids "difficulty in precisely identifying the value of the [patented technology]" relative to the value of

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[2] *Wordtech Systems, Inc. v. Integrated Network Solutions, Inc.*, 609 F.3d 1308 (Fed. Cir. 2010), is not to the contrary. In that case, the plaintiff attempted to rely on its *own* license agreements to the patent in suit to justify a lump-sum royalty. Eleven of the thirteen licenses that plaintiff relied on for the lump-sum royalty were incomparable running royalty agreements. *Id.* at 1320. With respect to the two lump-sum agreements for the patented technology, there was no evidence even of the licensees' intended product. *Id.* In the case at bar, however, the [redacted] agreement upon which Dr. Ugone relied related to Google's internet search business and therefore would implicate similar search advertising revenue as the hypothetical negotiation between Google and Lycos. (O'Brien Dec. Ex. D at 77-78.)

the entire product). I/P Engine's position that apportionment of the royalty base is required for a lump-sum agreement is, therefore, incorrect and contrary to *LaserDynamics*.

V. DR. UGONE PROPERLY RELIES ON PATENT LICENSE AND PURCHASE AGREEMENTS

As described above, Dr. Ugone considered numerous Google and Lycos patent license and acquisition agreements in forming his opinion. The lump-sum nature of many of these agreements supported his conclusion that Lycos and Google would likely have agreed to a lump-sum royalty agreement at the hypothetical negotiation. (O'Brien Dec., Ex. D, 45-47 & 72-75.) For the amount of the royalty payment, Dr. Ugone looked principally to the lump-sum patent license and acquisition agreement between Google and [redacted], which he determined based on conversations with Dr. Ungar was for patents that were the most technologically comparable to the patents in suit. (*Id.*, Appendix A at 2.) Dr. Ugone also determined that, among the agreements produced in the case, the most Google had ever paid in a patent license or acquisition agreement was the [redacted] (*Id.*) Finally, Dr. Ugone considered Lycos's transactions involving the patents in suit, including a sale of a portfolio of patents including the patents in suit for [redacted] (*Id.*, 1 & 10.)

Repeating arguments made in its motions in limine, I/P Engine challenges Dr. Ugone's opinion as relying on agreements that it contends are not sufficiently "comparable" to the hypothetical negotiation between Google and Lycos for a license to the patents-in-suit. (D.N. 340 at 5-9.) Notably, I/P Engine bases its own damages theory on license agreements not entered into by either Google or Lycos for patents that are not at issue in this case. (O'Brien Dec. ISO Motion to Exclude Becker (D.N. 323) Ex. 1 at 37-45.) The agreements upon which I/P Engine would have the jury rely therefore enjoy an even more tenuous relationship to the hypothetical negotiation. (*See* D.N. 317 at 17-21.)

A. Dr. Ugone Properly Relies on Evidence that Lycos and Google Would Have Agreed to a Lump Sum-Royalty

To support his opinion that the hypothetical negotiation would have resulted in a lump-sum royalty payment, Dr. Ugone analyzed several patent license agreements entered into by Google. (O'Brien Dec. Ex. D at 72-80.) Dr. Ugone found that, based on Google's and Lycos's licensing practice, the two companies would have agreed upon a lump-sum royalty. (O'Brien Dec. Ex. D at 74.) Because, however, many of these agreements did not license patents that were technologically comparable to the patents-in-suit or were entered into to settle litigation, Dr. Ugone did not rely on many of them to determine the specific amount of the royalty. I/P Engine nevertheless contends that even this limited consideration of these agreements is unreliable.

1. Dr. Ugone Properly Considered Google's Practice of Entering Into Lump-Sum Agreements

I/P Engine contends that it was improper for Dr. Ugone to look to Google's patent agreements even to discern whether Lycos and Google would have agreed to a lump-sum royalty during the hypothetical negotiation instead of a running royalty. (D.N. 340 at 6.) I/P Engine cites no authority—and Defendants are aware of none—that holds that such license agreement cannot give insight into a party's preferred *form* of royalty payment.

I/P Engine's position that these agreements are not relevant to whether Lycos and Google would have agreed to a lump-sum royalty makes little sense. I/P Engine does not dispute that testimony about Lycos's and Google's preference or practice of entering into lump-sum agreements admissible. I/P Engine's own damages expert, for example, cited testimony from Google's 30(b)(6) representative on this subject. (*See* O'Brien Dec. ISO Motion to Exclude Becker (D.N. 323) Ex. 1 at 51 n.244.) If such arguably self-serving testimony is sufficiently

trustworthy for a damages expert to rely upon, then documentary evidence recording Lycos's and Google's actual practice is even more so.

Further, many of the reasons that companies often prefer lump-sum agreements are independent of the factors that I/P Engine contends renders these agreements not comparable. *See Lucent*, 580 F.3d at 1326 (describing reasons companies may prefer a lump-sum royalty). Some of the benefits of a lump-sum agreement include that it caps liability, allows the licensee freedom to operate without further expenditure or budgetary uncertainty, removes the need to report confidential revenue information to the licensor, thereby preserving the licensee's confidentiality, and eliminates ongoing administrative burdens and potential disputes. *Id.* None of these advantages substantially turn on any measure of "comparability" between the hypothetical negotiation and the real-world license in question.

2. Dr. Ugone Properly Relies on Lycos's Settlement Agreements to Confirm that a Lump Sum Royalty Is Warranted

Dr. Ugone also considered three agreements entered into by Lycos to license its patents. (O'Brien Dec., Ex. D, 45-47.) Each of these three licenses was for [redacted] (*Id.*) Dr. Ugone did not rely on these agreements to determine the specific amount of a reasonable royalty in this case because he found the agreements not comparable for various reasons. He did, however, find the agreements to be evidence that Lycos would have been willing to agree to a lump-sum license agreement with Google.

I/P Engine contends that even this limited consideration of these agreements is improper because they are settlement agreements and because they were entered into after what I/P Engine contends was the date of the hypothetical negotiation. (D.N. 340 at 8-9.) Neither contention has merit. Although litigation can skew the results of the hypothetical negotiation, there is no rule

that settlements are per se irrelevant for all purposes. *See ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 872 (Fed. Cir. 2010) (holding that, under the circumstances, district court erred by not relying on license entered into to settle litigation in determining amount of damages). This is especially so where, as here, the settlement agreements are relied on solely to show the willingness of the participants in the hypothetical negotiation to enter into a lump-sum licensing agreement, and not to show the amount of a reasonable royalty. Although during litigation, the fact that infringement or validity are likely to be disputed may skew the amount of the royalty downward, I/P Engine does not explain why the fact of litigation would affect whether the license payment is a lump-sum or running royalty.

Nor does the date of these settlement agreements render them inappropriate for Dr. Ugone to consider. As an initial matter, I/P Engine is incorrect when it asserts that the hypothetical negotiation date would be in 2004. As stated in Defendants' motion to exclude the testimony of I/P Engine's damages expert, Dr. Becker, I/P Engine's infringement theory is based on aspects of Google's system that were not implemented until 2010. (D.N. 317, 7-9.) The alleged infringement, therefore, did not begin until 2010, which marks the appropriate date for the hypothetical negotiation and is only two years after the [redacted] Agreement. I/P Engine's motion fails to reconcile its proposed 2004 date of first infringement with its own infringement allegations.

The dates of Lycos's settlement agreements are all very near the 2010 date of the proper hypothetical negotiation. Lycos's agreement with [redacted] was entered into in 2009, (O'Brien Dec., Ex. B), and its agreement with [redacted] in 2010, (O'Brien Dec., Ex. C). I/P Engine contends that the [redacted] agreements were entered into in 2011, (D.N. 340, 9), but that is not correct. I/P Engine's own expert, Dr. Becker, acknowledges in his report that Lycos's

[redacted] occurred in 2008. (O'Brien Dec. ISO Motion to Exclude Becker (D.N. 323, Ex. 1, 18; O'Brien Dec., Ex. A.) Therefore, all of these agreements occurred near the date of the hypothetical negotiation.

Regardless of which date is appropriate, however, Lycos's settlement agreements are relevant to whether Lycos would agree to a lump-sum royalty payment. I/P Engine cites no authority that the passage of a few years renders them irrelevant to whether Lycos would have agreed to a lump-sum royalty during the hypothetical negotiation with Google.

B. Dr. Ugone Properly Relies on Google's License Agreements With [redacted] and [redacted] to Determine the Lump-Sum Royalty Amount

For the amount of the royalty payment, Dr. Ugone principally relies, first, on a patent purchase agreement where Google bought [redacted], and second, on a [redacted] patent assignment and license agreement between Google and [redacted] that represents the largest Google patent agreement in the record. (O'Brien Dec., Ex. D, 9-10.) I/P Engine is incorrect when it argues that these real-world Google agreements involving technology similar to the patents in suit are irrelevant to a *Georgia-Pacific* analysis. (D.N. 340, 5-7.) Unlike the agreements upon which I/P Engine's expert bases his opinion, Dr. Ugone has at least relied on agreements to which a participant in the hypothetical negotiation is actually a party.

1. The [redacted] Agreement Is Comparable to the Hypothetical Negotiation

The 2008 [redacted] Agreement is comparable to the hypothetical negotiation. Defendants' technical expert, Dr. Lyle Ungar, explained at length in his expert report how the [redacted] disclose comparable technology to the Asserted Patents. (Kammerud Dec., Ex. K, 124-26.) I/P Engine provides *no* evidence rebutting Dr. Ungar's analysis or the fact that the [redacted] are technologically comparable to the patents-in-suit.

I/P Engine nevertheless argues that the [redacted] Agreement is not comparable because, I/P Engine contends, "it occurred four and half years after the hypothetical negotiation." (D.N. 340 at 7.) That argument fails because, as described above, the correct date of the hypothetical negotiation is 2010, not 2004. The factual premise for I/P Engine's argument is therefore incorrect. Even assuming that a 2004 date for the hypothetical negotiation was warranted, there is no rule that events that occur after the date of the hypothetical negotiation cannot be considered. *Lucent*, 580 F.3d at 1333 ("Similarly, our case law affirms the availability of post-infringement evidence as probative in certain circumstances."); *Fleming v. Escort, Inc.*, No. 09-105, 2012 WL 2254191, at *1 (D. Idaho June 15, 2012) ("[T]he case law sets up no automatic bar, and in fact allows such evidence if appropriate.")

2. The [redacted]-Google Agreement Is Comparable to the Hypothetical Negotiation

The [redacted] Google agreement is also sufficiently comparable to be relied on in a *Georgia-Pacific* analysis. Dr. Ugone opined that the [redacted] Agreement's [redacted] amount represented a conservative measure with which to compare the hypothetical negotiation because, in the [redacted] Agreement, Google received—not merely a license to two patents—but instead [redacted] applications. (O'Brien Dec., Ex. D, 12 n.22; 75-76; & 79.)

The [redacted] Agreement involves technology similar to the patents in suit. For example, the [redacted] while the patents-in-suit claim "searching for information relevant to a query." (*Compare* O'Brien Dec. Ex. D, ¶124(a) *with* Chen Dec. ISO Motion for Summary Judgment, Ex. 24, claim 26.) The [redacted] while the

Asserted Patents cover methods of presenting content-filtered information to a user. (*Compare* O'Brien Dec., Ex. D, ¶124(a) *with* Chen Dec. ISO Motion for Summary Judgment, Ex. 24, claims 26 & 28.) Indeed, I/P Engine's motion does not provide any non-conclusory argument or evidence that the [redacted] Agreement involves patents that are not technologically comparable to the patents-in-suit.

I/P Engine argues without citation to any authority that the [redacted] Agreement may not be relied upon unless Dr. Ugone explains "how the parties calculated the purchase price; Google's intended products; or how many products in which Google expected to use the licensed technology." (D.N. 340, 6.) Not only is there no authority for such exacting requirements, I/P Engine's own damages expert report would not satisfy them. Dr. Becker concedes that he has no information about how the terms of the agreements upon which he relies were arrived at. (D.N. 323, Ex. 2, 88:1-21.)

C. Dr. Ugone Properly Relies on Lycos's Sale of the Patents in Suit to Confirm the Lump-Sum Royalty Amount

Unlike I/P Engine's damages expert, Dr. Ugone looked to and considered transactions that actually involved the patents-in-suit. One such transaction was the sale of the patents by Lycos in 2011 to Smart Search Labs (the predecessor to I/P Engine). (O'Brien Dec., Ex. D, 9-10 & 43-45.) In that agreement, Lycos sold eight patents, including the patents-in-suit, for a lump-sum payment of [redacted]. (*Id.*, 43.) Dr. Ugone therefore relies on this arms-length transaction as evidence to support his opinion that a royalty payment of [redacted] for a license to a subset of those patents is reasonable. (*Id.*, 12, 83, 91, & 114-116.)

I/P Engine contends that Dr. Ugone's reliance on the 2011 agreement for the sale of the patents in suit is unreliable. It cites absolutely no authority for that proposition, and it has been rejected many times. For example, in *Endress & Hauser, Inc. v. Hawk Measurement Systems*,

892 F. Supp. 1123, 1131-32 (S.D. Ind. 1995), the court held "Where, as here, the current patent owner purchased the patent, the value of the consideration given in exchange for the patent may be relevant to the determination of a reasonable royalty because it may bear on the amount that might have been accepted by a prudent patentee who was engaging in a hypothetical licensing negotiation." Similarly, in *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 871 (Fed. Cir. 2003) (vacated on other grounds by *Merck KGaA v. Integra Lifesciences I, Ltd.*, 125 S.Ct. 2372 (2003)), the Federal Circuit reversed the denial of a motion for judgment as a matter of law to overturn a $15 million verdict. The Federal Circuit reasoned:

> The $15,000,000 royalty also does not appear to take into account numerous factors that would considerably reduce the value of a hypothetical license. For example, [plaintiff] purchased Telios (together with all of its products, patents and know-how) for $20,000,000 in 1996. A $15,000,000 award figure to compensate for infringement of only some of Telios' patents before [plaintiff]'s acquisition seems unbalanced in view of the overall acquisition price.

Id.

I/P Engine's argument that the sale of the patents occurred after the date of the hypothetical negotiation does not change that result. As stated above, I/P Engine is incorrect about the date of the hypothetical negotiation. But even crediting I/P Engine's incorrect date for the hypothetical negotiation, Dr. Ugone's reliance on the sale of the patents to Smart Search Labs is nevertheless proper. There is no rule that courts or damages experts must limit themselves to evidence in existence at the time of the hypothetical negotiation. The law is to the contrary. *See, e.g., Lucent*, 580 F.3d at 1333 ("Similarly, our case law affirms the availability of post-infringement evidence as probative in certain circumstances."); *Fleming*, 2012 WL 2254191, at *1 ("[T]he case law sets up no automatic bar, and in fact allows such evidence if appropriate."). For example, in *Oracle America, Inc. v. Google Inc.*, No. 10-03561, 2012 WL 877125, at *3 (N.D. Cal. Mar. 15, 2012), the court held that it was perfectly appropriate for the defendant's

damages expert to rely on the plaintiff's valuation of an entire patent portfolio including the patents in suit at the time it acquired them, even though that valuation and acquisition post-dated the hypothetical negotiation. Similarly, in *Personal Audio, LLC v. Apple, Inc.*, No. 9:09-cv-111, 2011 WL 3269330, at *10-11 (E.D. Tex. July 29, 2011), the court held that it was appropriate for the jury to give substantial weight to the inventor's offer to sell the patent in suit for $5 million, even though that offer was made seven years after the hypothetical negotiation date.[3]

The same reasoning applies here. Further, in this case, the increasing popularity of the internet during between 2004 and 2011 would mean that the patents would have *increased* in value during that period, rendering reliance on the 2011 sale-price a *conservative* indicator of value. (O'Brien Dec., Ex. D, 114.) Moreover, just as in 2004, Lycos was aware of the Google accused products in 2010. Indeed, Lycos became a Google partner in AdSense before 2004. (O'Brien Dec., Ex. D, 38.) Thus, the fact that Lycos sold the patents in 2010 for [redacted] with the same knowledge of Google Adwords it had in 2004, shows that the purchase is relevant at both times.

VI. DR. UGONE'S SUMMARY OF THE TECHNICAL ASSUMPTIONS UNDERLYING HIS OPINION IS APPROPRIATE AND SUPPORTED

To explain the basis for his damages opinion, Dr. Ugone summarized his understanding of the technology at issue that supports it. As described in his report, that understanding is based on Google's internal documents, the parties technical expert reports (O'Brien Dec., Ex. D,

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[3] I/P Engine's reliance on *Alcatel USA, Inc. v. Cisco Sys., Inc.*, 239 F. Supp. 2d 660 (E.D. Tex. 2002), is not to the contrary. In that case, the plaintiff sought to inflate its claimed damages in a trade secrets case to over half a billion dollars in damages by attributing the entire purchase price of *a company* to the trade secrets it had misappropriated, which the court reasoned "contravenes fundamental notions of reasonableness." *Id.* at 668-71. Here, by attributing the entire purchase price of the Lycos patent portfolio to the patents in suit, Dr. Ugone, if anything, overstates the value of the patents in suit, which is to I/P Engine's benefit.

Appendix A at 7.) the depositions of various witnesses (*id.* at 6.) and interviews with engineers and Defendants' technical expert (*id.* at 17.). Although I/P Engine concedes that Dr. Ugone may rely on others for his understanding of the technology at issue, it nevertheless argues that his testimony is inadmissible because Dr. Ugone is not a technical expert. (D.N. 340 at 12-15.) I/P Engine fundamentally fails to explain how a patent damages expert can opine on the value of a license to a patent without gathering an understanding of the technology at issue from persons of skill in the art and explaining to the jury how that understanding informed his damages opinion.

It is well-settled that a damages expert witness may testify to the technical facts and assumptions that underlie his opinion. *Oracle Am., Inc. v. Google Inc.*, No. 10-3561, 2011 WL 5914033 (N.D. Cal. Nov. 28, 2011) (denying motion to strike portions of damages expert report because expert was entitled to rely on technical, non-infringement experts and "foundational facts" supplied by engineers). At trial, Defendants will introduce underlying factual testimony and exhibits that support Dr. Ugone's understanding of the technology. I/P Engine will be free to cross-examine those witnesses and introduce its own evidence. Dr. Ugone will then be entitled to present his testimony on the assumption that the foundational facts to which I/P Engine objects are accepted by the jury.

I/P Engine's contention that Dr. Ugone's technical assumptions are not supported by citation to evidence fails factually and legally. I/P Engine's Motion contains extensive block quoting of Dr. Ugone's report but inexplicably excludes the citations from those parts of the report through creative use of ellipsis. (D.N. 340, 12-13.) For example, I/P Engine moves to exclude testimony that it is Dr. Ugone's understanding that pCTRs "play a broader role in Google's Accused Products beyond their use as an [redacted]. . . ." (D.N. 340 (ellipsis in motion).) I/P Engine uses an ellipsis to omit Dr. Ugone's citation to numerous

documents supporting that understanding. (O'Brien Dec. Ex. D at 27.) Similarly, Dr. Ugone states that it is his understanding that the accused functionality is "limited to Google's use of certain [redacted]." (D.N. 340, 13.) Dr. Ugone cites I/P Engine's infringement expert report for this proposition, but I/P Engine omits that citation without even including an ellipsis. (*Compare* O'Brien Dec., Ex. D, 34 *with* D.N. 340, 13.)

I/P Engine also challenges Dr. Ugone's statement that "pCTRs are used (in combination with advertisers' bids and other factors) during the auction itself to determine the ranking and pricing of ads." (D.N. 340, 13.) Dr. Ugone cites Google's "Ad System Overview" and the Federal Circuit's decision in *Bid for Position, LLC v. AOL, LLC.*, 601 F.3d 1311, 1313 (Fed. Cir. 2010),[4] both of which address the operation of these Google systems. (O'Brien Dec. Ex. D, 63.) Yet I/P Engine omits these citations, again without even using an ellipsis. (*Compare id. with* D.N. 340, 13.) I/P Engine then boldly and incorrectly claims that Dr. Ugone "cites nothing in the foregoing paragraphs to support his substantive technical analysis." (D.N. 340, 14.) Needless to say, a motion to exclude Dr. Ugone's testimony cannot be based on misrepresentations and misquotations from his report.

To the extent that I/P Engine argues that Dr. Ugone has not included a citation after each and every sentence in his report, the law imposes no such requirement. The portions of Dr. Ugone's report challenged by I/P Engine are supported by the citations provided in the relevant

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[4] I/P Engine argues that this Federal Circuit "decision is not an appropriate basis for substantive support," but fails to provide any explanation or authority for that position. An examination of the *Bid for Position* decision demonstrates that it was based on undisputed evidence. I/P Engine does not contend that either the Federal Circuit's opinion or the evidence in the record in that case was not the type of information ordinarily relied upon to determine a reasonable royalty, or that the Federal Circuit's description of the use of pCTRs differs in any way from the Google Ad System Overview.

paragraphs and surrounding context, which I/P Engine omitted from its motion. *See Oracle*, 2011 WL 5914033, at *2-3 (denying motion to strike portions of damages expert report that were not supported by citations where "[t]he allegedly unsupported sentences in the expert reports were actually part of broader discussions with citations").

I/P Engine also objects that some of the information that Dr. Ugone relied on "is not admissible at trial" because it is hearsay, in particular testimony under oath from a previous trial. (D.N. 340 at 14.) Federal Rule of Evidence 703 explicitly allows experts to rely on evidence that would not usually be admissible at trial, such as hearsay. I/P Engine does not contend that the information it claims is hearsay is not the type reasonably relied on by an expert in the field. *See* Fed. R. Evid. 703. Indeed, testimony presented at trial under oath is quintessentially the type of evidence that testifying experts commonly rely on.

VII. CONCLUSION

For the foregoing reason, I/P Engine's motion should be denied.

DATED: September 27, 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 27, 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