

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

_____)	
I/P ENGINE, INC.,)	
)	
	Plaintiff,)	
	v.)	Civ. Action No. 2:11-cv-512
)	
AOL, INC. et al.,)	REDACTED VERSION
)	
	Defendants.)	
_____)	

**PLAINTIFF I/P ENGINE, INC.’S REPLY IN FURTHER SUPPORT OF ITS
MOTION TO EXCLUDE OPINIONS AND TESTIMONY OF KEITH R. UGONE**

Dated: October 2, 2012

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I. INTRODUCTION

Dr. Ugone's awkward attempt to fit various points from his report into a *Georgia-Pacific* chart, appended to his report, does not mean that he followed or even applied *Georgia Pacific*. Notably, given another attempt to provide any authority permitting Dr. Ugone's "proxy" approach, Defendants again fail to cite to a single case that support the use of this methodology.

Dr. Ugone's neighborhood house analogy shows the infirmity of his methodology. He claims to compare houses in a neighborhood, but then ignores that the houses on which he is relying are not comparable. Dr. Ugone has picked the houses in the hypothetical neighborhood with the smallest square footage, no insulation, leaky roofs and some being in foreclosure. He then asserts that these houses are comparable and of the same value to the house with five bedrooms, recently remodeled, with lake views. This is not proper under *Georgia Pacific* or any other methodology. This is the "fundamental disagreements" that I/P Engine has with Dr. Ugone's inclusion of the lump-sum agreements, not that Dr. Ugone says that a lump sum, rather than a running royalty, is the proper structure. [See Dkt. No. 459 at 5.]

Contrary to Defendants assertion, Dr. Ugone is placing a value of [REDACTED] on the patents-in-suit by relying upon these admittedly non-comparable agreements. Not only does he include the amounts of these lump-sum agreements in his report, he states that those "[a]greements provide guidance to the royalty payment structure and **amount** Google would have negotiated with Lycos for a license to the Patents-in-Suit." [Exh. 1 (Excerpt of Aug. 29, 2012 Rebuttal Expert Report of Keith R. Ugone, Ph.D, ¶ 125).] There is no application of the *Georgia-Pacific* factors where this is proper.

Georgia Pacific requires that the licenses that an expert relies upon be comparable—not just any licenses that happen to exist with absolutely no connection to the technology, terms or

events of the hypothetical negotiation. This is something that the Federal Circuit has made repeatedly clear—licenses that a damages expert relies upon must be of like technology and like circumstances—arms length transactions, around the hypothetical negotiation date (which is 2004, not 2010 as newly asserted by Defendants in their pretrial motions). *See, e.g., Wordtech Sys. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1320 (Fed. Cir. 2010); *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 870 (Fed. Cir. 2010). Defendants are attempting to pull a reverse-*LaserDynamics*—cherry picking non-comparable licenses to decrease the reasonable royalty rate below rates more clearly linked to the economic demand for the claimed technology. *LaserDynamics, Inc. v. Quanta Comp., Inc.*, ___ F. 3d ___, 2012 U.S. App. LEXIS 18441, at *24 (Fed. Cir. Aug. 30, 2012). Dr. Ugone admits that the “lump-sum agreements” are not comparable and that his damages analysis would not be affected if the Court determined that he could not use them. [Exh. 2 (Excerpts of Sept. 14, 2012 Deposition Transcript of Keith R. Ugone, Ph.D., at 49-50.) Accordingly, they should be excluded from evidence in this case.

The [REDACTED] and [REDACTED] agreements fare no better. Indeed, Defendants (for the first time) argue that the [REDACTED] agreement relates to comparable technology. [Dkt. No. 459 at 14.] But Defendants’ experts do not make this claim. To the contrary, Dr. Ugone testified that the [REDACTED] technology was *not* comparable, and that he did not rely upon [REDACTED] as a comparable license. [Exh. 2 at 181-82.] Neither does the Summary Judgment Declaration of Howard Chen, an attorney at Quinn Emanuel, cited by Defendants in their opposition, stand for this premise.¹ [Dkt. No. 240.]

Regardless of whether a lump-sum or running-royalty structure is used to establish a reasonable royalty under § 284, there has to be a connection to the case. Google does not

¹ Dr. Ugone does not claim to have relied upon the Chen Declaration.

address or even argue that any of the licenses Dr. Ugone relies upon are connected to the accused products, have the same benefits as the patented technology, that the same terms and circumstances existed or even that eight of the nine are technologically similar. The only connection Google's lump-sum agreements have to this case is that Google entered into them sometime (often many years) after the hypothetical negotiation, and they relate to patents.

The issue relating to the admissibility of technical statements made by Dr. Ugone is much simpler than posited by Defendants. [Dkt. No. 459 at 17-20] To the extent that Dr. Ugone relied upon either a Google engineer/employee or Dr. Ungar (Google's technical expert), I/P Engine has no issue. But this is not what Dr. Ugone is doing in several parts of his report. He is relying on *his own interpretation* of technical materials to provide *his technical opinion* as to what those materials mean. He is not qualified to do this under FRE 702. Neither is Dr. Ugone (as intimated by Defendants) permitted to rely on any evidence under FRE 703 that he sees fit. Any such evidence must be capable of verification and cross-examination.

These fundamental flaws in Dr. Ugone's methodology, which Defendants fail to adequately address, are several and too significant to be cured by cross-examination during trial. Accordingly, and as also set forth below and in I/P Engine's moving papers, Dr. Ugone's report should be struck or substantially limited.

II. ARGUMENT

A. Dr. Ugone Does Not Apply the *Georgia-Pacific* Factors.

Defendants devote considerable attention to arguing that lump-sum royalty structures have been accepted by courts and touting various benefits of a lump-sum structure. [Dkt. No. 459 at 6-7, 11.] I/P Engine does not argue to the contrary. I/P Engine takes issue with Dr. Ugone's analysis using his proxy/yardstick methodology, instead of applying the *Georgia-Pacific* factors. Specifically, I/P Engine challenges his analysis because he (1) relies upon

inapposite agreements, and (2) fails to perform any meaningful analysis to account for the value of the patented technology or the extent of Defendants' infringing use of that technology.

Instead, he relies on nine licenses, eight of which are admittedly not comparable. Dr. Ugone completely ignores the requirements under 35 U.S.C. § 284 requiring that damages adequately compensate I/P Engine for the infringement, “[b]ut in no event less than a reasonable royalty *for the use made of the invention by the infringer*” as well as the *Georgia-Pacific* factors. Instead, Defendants argue that because Google paid between [REDACTED] for the licenses that it “produced in this litigation” (at 2), the patents-in-suit are also worth [REDACTED]. This is not a proper analysis under any of the 15-*Georgia Pacific* factors.

Georgia Pacific requires an expert to consider such factors as “[t]he royalty rates paid by the licensee for the use of other patents comparable to the patents in suit” (factor 2); “the utility and advantages of the patented technology over other modes or devices” (factor 9); “the extent to which the infringer has made use of the invention and evidence of the value of that use” (factor 11); and “the portion of the realizable profit credited to the invention as distinguished from non-patented elements” (factor 13). *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970). Dr. Ugone’s decision to use a lump-sum structure does not allow him to forego any meaningful analysis of the value of the patented technology or the extent of Google’s infringing use as required by these factors and § 284.

1. **Dr. Ugone’s Improperly Relies on Non-Comparable Agreements in His Damages Analysis**

Defendants argue that I/P Engine cites no authority – and Defendants are aware of none – that holds that non-comparable license agreements can permissibly provide guidance about a party’s preferred *form* of a royalty payment. [Dkt. No. 459 at 10.] The plain language of *Georgia-Pacific* factor two requires consideration of “[t]he royalty rates paid by the licensee for

the use of other patents **comparable to the patents in suit.**” *Georgia-Pacific*, 318 F. Supp. at 1120. Dr. Ugone ignores this language and includes all nine Google licenses, including the eight admittedly non-comparable ones, in his damages analysis under *Georgia-Pacific* factor 2. [Exh. 1, Appx. A at 2.] Defendants proffer no support that it is proper to consider non-comparable agreements in determining the amount or even the form of a reasonable royalty under the *Georgia-Pacific* factors.

Federal Circuit cases requiring that the licenses be comparable in a reasonable-royalty determination are legion.² Thus, there can be no dispute that licenses considered by the experts must be comparable. There is no exception to this rule that would permit a party to rely on non-comparable licenses for some purposes and not others. The Federal Circuit requires that the licenses considered under *Georgia-Pacific* factor 2 be “comparable,” period. Defendants cite to no authority in support of any such carve out. [Dkt. No. 459 at 10.] And contrary to Defendants’ intimation, Defendants bear the burden of proving the reliability of Dr. Ugone’s testimony, not I/P Engine. *Cooper v. Smith & Nephew, Inc.*, 259 F.3d 194, 199 (4th Cir. 2001).

Defendants’ argument that many of the reasons that parties prefer lump-sum agreements are independent of “comparability” does not change this result. [Dkt. No. 459 at 11.]³ To be sure, there are certain benefits associated with a lump-sum royalty structure for both the licensee and licensor. But the advantages cited by Defendants are applicable to every licensee in every

² See, e.g., *ResQNet.com*, 594 F.3d at 872 (“This court should not sustain a royalty award based on inapposite licenses”); *Wordtech*, 609 F.3d at 1320 (“We stressed that comparisons of past patent licenses to the infringement must account for ‘the technological and economic differences’ between them.”); *Lucent Techs. v. Gateway, Inc.*, 580 F.3d 1301, 1325 (Fed. Cir. 2009) (“This factor examines whether the licenses relied on by the patentee in proving damages are sufficiently comparable to the hypothetical license at issue in suit.”).

³ Significantly, Lycos testified that it would have preferred a running royalty at the time of the hypothetical negotiation, thus demonstrating the fallacy of Google’s “one size fits all” argument. [Exh. 4 (Excerpt of the 7/31/2012 Deposition Transcript of Mark Blais (“Blais Tr.”) at 57:2-16).]

license negotiation. If those advantages ruled the day, every license agreement would have a lump-sum structure. To avoid such a nonsensical result, the Federal Circuit requires that agreements relied upon by a damages expert be comparable to ensure that they “carefully tie proof of damages to the claimed invention’s footprint in the market place.” *Uniloc USA, Inc. v. Microsoft, Corp.*, 632 F.3d 1292, 1317 (Fed. Cir. 2011), something Defendants admit they have not done here.

Importantly, Defendants are not merely offering these admittedly non-comparable licenses as evidence that Google would only take a lump sum payment structure, which again is not the issue here. Dr. Ugone discusses in detail the lump-sum amounts of each of these non-comparable licenses and states in his report that those licenses “[p]rovide guidance to the . . . **amount** Google would have negotiated with Lycos for a license to the Patents-in-Suit.” [Exh. 1 at 125.] Dr. Ugone’s attempt to conflate a lump sum with a low sum, by relying on non-comparable agreements is methodologically flawed and unreliable.

2. **The Lycos Settlement Agreements are Not Informative as to the Royalty Structure in this Case.**

The Lycos settlement agreements are not reliable evidence of a reasonable royalty for many of the same reasons as discussed above in Section II(A)(1). They are admittedly not comparable agreements under the Georgia-Pacific factors; too remote in time and have no value as a data point in determining either the structure or amount of any reasonable royalty in this case. *See ePlus, Inc. v. Lawson Software, Inc.*, 764 F. Supp. 2d 807, 813 (E.D. Va. 2011) (“The minimal probative **value** that can be attributable to settlement agreements that ensue litigation is even less where, as here, the settlement agreements occurred years after the hypothetical negotiation called for by *Georgia-Pacific* analysis would have occurred.”).

Dr. Ugone states that he relies on this settlement only for the purpose of showing that Lycos would have been willing to accept a lump sum license back in 2004, not on the amounts (which he claims he gives no weight (Exh. 2 at 52)). He also testified that exclusion of these agreements would not impact his damages analysis. [*Id.*] Dr. Ugone fails to explain how these settlement agreements are not comparable for valuation purposes, but are comparable for other reasons—i.e., the payment structure of those amounts. Defendants do not address this.

Further, Defendants’ brand new theory (in their pretrial motions, but not in the expert report) that these remote-in-time settlement agreements are now timely because the hypothetical negotiation date is 2010, not 2004 “as claimed by I/P Engine”, is ridiculous.⁴ In his report, Dr. Ugone—Defendants’ damages expert—states that “[t]he hypothetical negotiation for a license to the patents-in-suit would have taken place in or around **March 2004** between Lycos and Google.” [Exh. 1, ¶ 64.] Defendants’ current attempt to make agreements timely by shifting the negotiation date is meritless. The initial infringement is and always has been, 2004⁵. Instead of attempting to try to explain how these settlement agreements are relevant despite the fact that they occurred in 2008, 2009 and 2010⁶, Defendants try to change the hypothetical negotiation date. Even if this was somehow proper (which it is not) it still does not get them where they need to be.

⁴ Not until their September 21, 2012 motion seeking to exclude the testimony of I/P Engine’s damages expert, did Defendants raise this new legal theory. [Dkt. No. 310.] Defendants’ new legal theory apparently finds its basis in source code that was not made available to I/P Engine until September 14, 2012, ten days after the close of fact discovery. This untimely production of source code is the subject of Plaintiff I/P Engine, Inc.’s Third Motion For Discovery Sanctions. [Dkt. No. 282.]

⁵ Indeed, Defendants have filed a pending summary judgment motion that asserts a laches defense because I/P Engine allegedly had constructive notice of infringement as early as 2005. [Dkt. No. 238 at 39.]

⁶ Reference to the █████ agreement being in 2011 was simply a typo. Whether 2008 or 2011, it is not near the hypothetical negotiation date of 2004.

The Federal Circuit requires that the licenses considered under *Georgia Pacific* be “comparable.” There is no exception to this rule. And Defendants cite to no authority in support of any exception. [Dkt. No. 459 at 10.] Accordingly, they fail to meet their burden of proving the reliability of Dr. Ugone’s reliance on these settlement agreement. *Cooper*, 259 F.3d at 199.

3. **A Patent Damages Expert Must Account for the Relative Value of the Patented Technology and its Footprint in the Marketplace.**

According to Defendants (at 7), “[a] lump-sum payment need not be tied to the licensee's royalty base or a royalty rate.” This again misstates the issue. The issue here is that Defendants have failed to identify any connection between the lump sum amounts in the agreements that they rely on (including ██████ and ██████) and the value of the patented technology and its footprint in the marketplace. Defendants do not address this issue. Neither do the cases relied upon by Defendants contradict this requirement.

Attempting to comply with *Wordtech*, Defendants (at n.2) argue that

With respect to the two lump-sum agreements [in *Wordtech*] for the patented technology, there was no evidence even of the licensees' intended product. In the case at bar, however, the ██████ 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.)⁷

[Dkt. No. 459 at 8, n.2 (emphasis added).] First, Exhibit D at 77-78 that Defendants rely upon is referring to Dr. Ugone’s report. He does not say that the ██████ patents “relate to Google’s internet search business.” [See O’Brien Dec. Ex. D at 77-78.] In fact, the only evidence of record establishes the contrary. [Exh. 3 (Excerpts of the 6/19/2012 Transcript of James W. Maccoun at 72 & 8/17/2012 Tr. 204-05).] Second, what does “[i]mplicates” similar search

⁷ Notably, Defendants do not even attempt to argue that the ██████ agreement or the other 7-lump sum agreements are somehow connected to the value of the patents in suit. [See Dkt. No. 459 at 13.]

advertising revenue” mean? Dr. Ugone is relying upon the [REDACTED] agreement to set the lowest amount of the royalty for the patents in suit. Such a conclusory statement cannot be sufficient to establish that the [REDACTED] lump-sum amount is somehow an indicator of the value of the patents-in-suit. Neither does Dr. Ugone make this assertion in his report. It is nothing more than attorney positing.

The *Wordtech* Court’s decision clearly requires consideration of the expected sales in determining a lump-sum royalty.

Neither license describes how the parties calculated each lump sum, the licensees’ intended products, or how many products each licensee expected to produce. Indeed, when asked if the record supplied “any idea of the volume of sales or projected sales,” Wordtech’s counsel admitted: “With the trial court, none of that was discussed.” Thus, without additional data, the licenses offered the jury little more than a recitation of royalty numbers.

Wordtech, 609 F.3d at 1320. Defendants fail to offer any additional data or evidence relating to any of the lump-sum agreements that Dr. Ugone relies upon to offer the jury anything more than a mere recitation of the lump sum amount. The district court cases relied upon by Defendants do not dictate otherwise.

In *Personal Audio*, the district court did not find error in the fact that the expert did not consider the projected expected sales of the accused products. *Personal Audio, LLC v. Apple, Inc.*, No. 9:09-cv-111, 2011 WL 3269330, at *9 (E.D. Tex. July 29, 2011). That court reasoned that because at the time of the hypothetical negotiation there was uncertainty whether the accused product would be successful in the marketplace consideration of the projected future sales was not necessary. *Id.* at, *9. No such uncertainty over the success of the accused AdWords system existed at the time of the hypothetical negotiation here. Indeed, Dr. Ugone dedicates multiple pages of his report asserting that “Google’s Accused Products (i.e., AdWords and AdSense for Search) were successful prior to the date of the first alleged infringement.”

[Exh. 1, ¶ 91.] Nowhere in *Personal Audio* does it state that a lump sum payment does not have to account for the relevant value of the patents-in-suit.

In *Uniloc*, the movant sought to exclude the expert's damages report arguing that "[a] lump-sum royalty is per se unreliable because it is fundamentally at odds with the compensatory nature of 35 U.S.C. § 284." *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F. Supp. 2d 147, 151 (D.R.I. 2009). After a "careful review" of the expert's report, the *Uniloc* court concluded it fell within the bounds of FRE 702. *Id.* The court reasoned that there is no one correct formula for computing damages in a patent case. *Id.* at 151-52. based upon the evidence it may be either a running royalty or a lump sum. *Id.* at 152. The district court did not consider and rule on whether an expert must consider the use of an invention or its revenues in determining a lump-sum royalty. The language cited by Defendants for this premise was the court's summary of the movant's position, not the issue addressed by the Court.

Finally, Defendants cite *LaserDynamics* (at 8) for the premise that Dr. Ugone was not required to calculate a royalty base or apportion any such base. But this again is not the issue. The issue is that Dr. Ugone does not attempt to connect the value of the patents-in-suit to any of the licenses that he relies on to value those patents. [See Dkt. No. 340 at 10.] *LaserDynamics* does not stand for the proposition that in selecting a lump-sum royalty structure an expert need not consider the value of the accused feature relative to the overall accused system. It states that it could be difficult to precisely apportion the value attributable to patented technology. *LaserDynamics*, 2012 U.S. App. LEXIS 18441, at *41. But the Court did not find that any such difficulty excused violating the entire market value rule. *Id.* at 40.

Defendants continue to ignore the fundamental issue, however. If there is no connection between the lump-sum agreements and the patented invention, how does Dr. Ugone comply with

35 U.S.C. § 284 (“adequate compensation” for infringement must not be “less than a reasonable royalty for the use made of the invention by the infringer). He cannot. And he has not. The Federal Circuit has said that he must otherwise he is doing nothing more than improperly reciting the royalty from the agreements. *See Wordtech*, 609 F.3d at 1320.

4. **The [REDACTED] Agreement is Inapposite and Cannot Properly be Relied Upon for Setting an Upper Limit to the Reasonable Royalty.**

For the first time in their moving papers, Defendants allege that the [REDACTED] Agreement is technologically comparable to the patents-in-suit. [Dkt. No. 459 at 14-15.] Dr. Ugone testified to the exact opposite. And Defendants’ own technical expert, Dr. Ungar, does not opine that [REDACTED] is comparable in his report. There is no evidence of record (aside from Defendants’ attorney’s statement in their moving brief) that [REDACTED] covers a comparable technology to the patents-in-suit.

To support their new position, Defendants ask (at 14-15) the Court to compare ¶ 124 of Dr. Ugone’s report with the Summary Judgment Declaration of Howard Chen, a Quinn Emanuel attorney. According to Defendants these show that the [REDACTED] Agreement involves technology to the patents-in-suit. Neither ¶ 124 of Ugone’s report nor Chen’s summary judgment declaration stands for the premise that that the [REDACTED] agreement involves similar technology to the patents in suit.

Mr. Chen’s declaration simply states that Exhibit 24 is a true and accurate copy of the ‘664 patent. [Dkt. No. 240 at ¶ 25.] Dr. Ugone expressly states that the [REDACTED] Agreement is *not* comparable.

In ¶ 124 of his report, Dr. Ugone states:

Google purchased [REDACTED]

[Exh. 1, ¶ 124).] He cites to the [REDACTED] patents as support for these statements.

At his deposition, Dr. Ugone testified regarding his statements in ¶ 124:

Q. Did you read all the [REDACTED] patents?

A. I believe that I touched all those patents, yes. I didn't -- I mean, there's -- when you say all the patents, there's figures and there's diagrams and things I'm not going to understand, but I'd generally be looking at abstracts and things like that. And you can see what we did on the top of page 76 where we give just a general overview of what we were able to glean from the patents.

Q. And you're not trying to express an opinion in your report as to what those patents cover, technology wise?

A. Other than just the hint of some of the words that we've seen in the abstract that we repeat -- or in the patent that we repeat on the top of page 76, but I'm not going to give a technical opinion as to what those things are.

[Exh. 2 at 183:21-184:17.] Dr. Ugone also testified that:

[w]hereas I've received guidance and input that the [REDACTED] patent is -- or the [REDACTED] purchase and technology is comparable to the patents-in-suit, I don't have that same anchor on the [REDACTED] side of it.

[*Id.* at 178:8-11] and:

Q. Well, let's stop there for a second. **You do not assert in your report that it's a comparable technology, right?**

A. Right. The only thing I say is that Mr. Maccoun testified that the technology covered in the agreement pertains to search.

* * *

Q. And Dr. Ungar is not in his report asserting that the technology in [REDACTED] is comparable to the patents-in-suit, right?

A. That's correct. He did not assert that.

[*Id.* at 181 (emphasis added).] Defendants do not attempt to explain this inconsistency. Instead, they argue that I/P Engine has not provided any evidence that the ██████ patents are not comparable.

Defendants' have the burden of proving that Dr. Ugone's testimony is reliable and relevant. *Cooper*, 259 F.3d at 199. Accordingly, Defendants bear the burden of showing that the licenses relied upon by their expert are comparable under *Georgia Pacific*—not I/P Engine. Defendants fail to point to a scintilla of evidence in support of their brand-new argument that the ██████ patents are comparable. Their counsel's attempt to construe the '420 patent and combine it with Dr. Ugone's admittedly non-technical description of the ██████ patents is not evidence.

5. Dr. Ugone Does Not Have a Sufficient Factual Basis to Use the ██████ Agreement as a Value Indicator of the Patents in Suit.

In what appears to be a pattern, Defendants once again misconstrue the issue and I/P Engine's position regarding the admissibility of the ██████ Agreement. Defendants make two arguments: (1) I/P Engine does not provide any evidence that the ██████ agreement is not technologically comparable to the patents in suit; and (2) ██████ is not remote in time (as allegedly I/P Engine solely argues) because it occurred in 2008, and the real hypothetical negotiation date is 2010, not 2004. [Dkt. No. 459 at 13-14.]

Not to beat a dead horse, but Defendants have the burden of proving that Dr. Ugone's testimony is reliable and relevant. *Cooper*, 259 F.3d at 199. Accordingly, Defendants bear the burden of showing that the ██████ patents are comparable under *Georgia Pacific*.⁸ And again,

⁸ Nevertheless, if the Court permits the ██████ Agreement to come into evidence, I/P Engine will provide evidence at trial to show that the ██████ patent is not technologically comparable. Defendants asserted ██████ for the first time in their rebuttal-expert reports. I/P Engine has not had an opportunity to provide evidence refuting their opinions regarding this agreement.

the hypothetical negotiation date is 2004—not 2010. Dr. Ugone (Defendants’ own expert) used the 2004 hypothetical negotiation date in his damages analysis. [Exh. 1, ¶ 64.]

Regardless, even assuming that the ██████ patents are technologically comparable, Dr. Ugone’s reliance on the ██████ agreement is improper as a matter of law. The Federal Circuit makes clear that “[t]o be admissible, expert testimony opining on a reasonable royalty rate must ‘carefully tie proof of damages to the claimed invention’s footprint in the market place.’” *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1317 (Fed. Cir. 2011). In “[c]onsidering licenses, a damages expert must account not only for technological differences but economic differences as well.” *DataQuill Ltd. v. High Tech Comp. Corp.*, No. 08-cv-543, 2011 WL 6013022, at *18 (S.D. Cal. Dec. 1, 2011). This includes “whether the patented technology is essential to the licensed product being sold, or whether the patented invention is only a small component or feature of the licensed product” *Lucent Tech. v. Gateway, Inc.*, 580 F.3d 1301, 1330 (Fed. Cir. 2009).

As discussed in I/P Engine’s opening brief, but not addressed in Defendants’ opposition, Dr. Ugone fails to tie the ██████ Agreement to the claimed invention or explain how the economics of both are the same or even similar. Dr. Ugone uses the ██████-lump sum of ██████ ██████ to place a value on the patents in suit. [Exh. 1, ¶ 132(b).] But he does not explain how the ██████ patents are even remotely comparable to the patents-in-suit to adequately compensate for the infringe. *See* 35 U.S.C. § 284. At a minimum, adequate damages must be no less than a reasonable royalty for the use made of the invention by the Defendants. *Id.*; *see also Wordtech*, 609 F.3d at 1319. Here, Dr. Ugone provides no information as to any connection between the ██████ and patented technology; whether Google used any of the ██████ technology; the extent of such use; how any use impacted or benefited Google or even that it relates to the accused

products; or why Google even bought the patents. [See Dkt. No. 340 at 7.] The Federal Circuit has rejected expert reliance on lump-sum agreements where that expert failed to provide such additional data.

In *Wordtech*, the Federal Circuit found as flawed, the expert’s reliance on two lump-sum agreements *relating to the asserted patents* in that case under *Georgia-Pacific* factor 1. *Wordtech*, 609 F.3d at 1320. The Court’s reason, that the agreements provided no basis for comparison with the defendant’s infringing sales. *Id.* “The license neither described how the parties calculated each lump sum, the licensees’ intended products, or how many products each licensee expected to produce.” *Id.* Without this “additional data, the licenses offered the jury ‘little more than a recitation of royalty numbers.’” *Id.* (citing *Lucent*, 508 F.3d at 1329).

Here, the [REDACTED] agreement does not even relate to the asserted patents. Dr. Ugone relies upon this agreement under *Georgia-Pacific* factor 2. If the Federal Circuit requires something more to support the basis for comparing a license relating to the asserted patents in a hypothetical negotiation, certainly something more is required for Dr. Ugone to rely upon the [REDACTED] Agreement as a “value indicator” of the patents-in-suit. Simply saying that the [REDACTED] agreement covers comparable technology, was for a lump sum of [REDACTED] four years after the hypothetical negotiation period, without applying any additional data that ties [REDACTED] to the patents in suit or the use by Defendants’ of the infringing technology (like *Wordtech*) is fundamentally flawed, and should be rejected.⁹

⁹ As to Defendants’ argument that Dr. Becker could not meet these “exacting requirements” relating to the licenses upon which he relies, as discussed in opposition to Defendants’ Daubert Motion of Dr. Becker’s report, he does not value the patents-in-suit by using any licenses. Also, unlike Dr. Ugone, Dr. Becker directly ties the damages to Defendants’ use of the infringing technology—as required by § 284.

6. **Dr. Ugone Improperly Relied Upon the 2011 Patent Purchase Between Lycos and I/P Engine as an Indicator of Value.**

Defendants' argument that Dr. Ugone's reliance on Lycos's 2011 sale of the patents in suit as a "value indicator" is justified is equally meritless. [Dkt. No. 459 at 15-17.] The cases relied upon by Defendants in support of their position are inapposite. As set forth in I/P Engine's moving brief (at 7), the intervening events that occurred between the 2004 hypothetical negotiation date and the sale by Lycos of the patents-in-suit mandates that Dr. Ugone has improperly relied upon this event as a matter of law.

Of the four cases relied upon by Defendants in support of their position, three are non-dispositive, district court cases (*Endress & Hauser, Oracle* and *Personal Audio*). None of these cases addressed the issues or facts applicable in this case. Indeed, in *Endress & Hauser*, the issue was not whether a patent sale was admissible. The trial court was issuing proposed conclusions of law following a bench trial. *Endress & Hauser, Inc. v. Hawk Measurement Sys. Pty. Ltd.*, 892 F. Supp. 1123, 1130 (S.D. Ind. 1995). The patents were purchased in 1988; three years before the 1999 hypothetical negotiation. *Id.* at 1126, 1128. The parties would have been aware of the acquisition price at the time of the negotiation. The *Oracle* case involved an internal accounting valuation, not a patent sale. *Oracle Am., Inc. v. Google Inc.*, No. 10-cv-3561, 2012 WL 877125, at *3 (N.D. Cal. Mar. 15, 2012). The value was placed by the party who was seeking above what it had originally valued the patents. *Id.* And in *Personal Audio*, the district court found the offer to sell the patents in suit by an inventor seven years after the infringement began was proper. *Personal Audio, LLC v. Apple, Inc.*, No. 9:09-cv-111, 2011 WL 3269330 (E.D. Tex. July 29, 2011). Again, the issue in that case was not admissibility, but rather whether the lump sum royalty awarded by the jury was supported by the evidence. *Id.* at, *1. The *Personal Audio* court reasoned that the offer was not made by an inventor who had no

opportunity to consider the potential of his invention or was tricked or forced into accepting a nominal sum before realizing the full value of the patented technology. *Id.* at, *11.

In the sole Federal Circuit case, again the issue was not admissibility. The Court remanded for further factual development relating to the damages award. *Intergra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860 (Fed. Cir. 2003). The hypothetical negotiation in *Integra* would have taken place in 1994 or 1995. *Id.* at 870. The Federal Circuit effectively said that an actual sale in 1996 of the patents at issue would be relevant the hypothetical negotiations. *Id.* at 871. The decision is unclear as to what factors the Court was considering regarding the acquisition of the patents by the plaintiff in that case. *Id.* The Court does not provide sufficient facts surrounding the patent purchase or parties to be able to determine the applicability of the Court's single comment, in dicta, that the royalty amount "seems unbalanced in view of the overall acquisition price." *Id.* The Federal Circuit did not hold (nor has it ever held) that, as a matter of law, a reasonable-royalty award cannot exceed what someone paid to acquire a patent portfolio that includes the patents in suit. In fact, such a rule would make little sense.

The facts surrounding the sale by Lycos of the patent portfolio that included the patents-in-suit further distinguish it from the above cases, and show that Dr. Ugone improperly relies on the Lycos agreement to distort the damages amount. Actual damages are determined by what a willing buyer would have been reasonably required to pay a willing seller for using the patented invention. *Trell v. Marlee Elecs Corp.*, 912 F.2d 1443, 1446 (Fed. Cir. 1990). Nothing about the amount of the Lycos sale in 2011 and the negotiations and bidding associated with that sale is informative as to the economic mindset of the parties in June 2004 (the hypothetical negotiation date that the jury must consider).

The Lycos sale occurred in 2011, seven years after the hypothetical negotiation date. Lycos had been sold twice in the interim. During his deposition, Lycos's General Counsel, Mark Blais, testified about a myriad of internal and external pressures that led to the sale of the Lycos portfolio, none of which related to the value of the patents-in-suit. [Exh. 4 at 122-156.] Mr. Blais also testified that at no time between 2004 to the 2011 sale did Lycos know or suspect that Defendants were infringing any of its patents. [Exh. 4 at 50-51, 115-116.] Nothing regarding the 2011 sale, or the various discussions Lycos had between 2009 and 2011 regarding a possible sale, is "a reasonable or sufficiently reliable approximation of the value of the patents-in-suit. The sale price by Lycos of the patents (that it never valued, used or enforced) is significantly different from the value of licensing the patented technology when (as in the hypothetical negotiation) the patent covering it is known to be valid and infringed, and the infringer is seeking a license. Surely had Lycos known that Defendants were infringing the patents-in-suit in their search-advertising system, it would not have sold that patent portfolio for [REDACTED]. During the hypothetical negotiation, on the other hand, Lycos would have been armed with that information.

B. Dr. Ugone's Technical Testimony on the Accused Systems is Improper.

It is undisputed that Dr. Ugone is an economist, and that he is providing a damages opinion. It is undisputed that he is not providing a technical opinion in this case. [Exh. 2 at 17:5-6 ("So I'm not giving any technical opinions in this report.")] Nor would he be qualified to do so under FRE 702. Neither is I/P Engine disputing that experts are permitted to rely on certain non-admissible evidence under FRE 703, including hearsay; or even that an expert does not have to cite to support for every sentence in his report. None of these tenets are at issue here. The only issue here is whether Dr. Ugone, (despite his testimony that he is not providing a

technical opinion and the fact that he relies on no technical witness) may properly provide his independent technical opinions in his report and at trial.¹⁰

Defendants argue (at 18) that it is “well-settled that damages expert may testify to the technical facts and assumptions that underlie his opinion.” They rely on *Oracle Am., Inc. v. Google Inc.*, No. 10-3561, 2011 WL 5914033 (N.D. Cal. Nov. 28, 2011) to support this statement. *Id.* I/P Engine does not dispute this premise. The Oracle court allowed such testimony because (as defendants state) the expert relied on **technical, non-infringement experts** and foundational facts **supplied by engineers**. *Id.* Dr. Ugone does not, however, rely on Defendants’ technical expert or engineers for the technical opinions he provides in paragraphs 50, 67, 68, 69, and 103. He cites to technical documents, I/P Engine’s technical expert report and the *Bid for Position* decision. He then provides **his technical interpretation** of those materials. This is improper.

Defendants’ assertion that they “[w]ill introduce [at trial] underlying factual testimony and exhibits that support Dr. Ugone’s understanding of the technology” falls short. [See Dkt. No. 459 at 18.] Dr. Ugone was required to identify his opinion and the support for his opinions in his report. Attempting to backdoor support (that he never relied upon) in through yet unidentified trial witnesses does not somehow provide Dr. Ugone with the proper technical evidence to support of his technical opinions already in his report.

Dr. Ugone is not qualified to opine on the technical aspects of this litigation without relying upon an technical expert or other witness for his understanding—his personal

¹⁰ Defendants’ argument that I/P Engine used creatively placed ellipses and improperly omitted cited support for Dr. Ungar’s opinions is a red herring. [Dkt. No. 459 at 18.] First, ellipses were used twice, and properly. Once to omit an entire sentence at the end of the paragraph (the citations related to the omitted sentence); and once where no citations followed. Second, I/P Engine identifies and discussed the materials that Defendants claim that it improperly omitted. [See Dkt. No. 340 at 14.]

interpretation is improper and irrelevant. *Sundance, Inc. v. DeMonte Fabricating Ltd.*, 550 F.3d 1356, 1362 (Fed. Cir. 2008). At his deposition, Dr. Ugone testified that he relied upon Dr. Ungar and three Google employees relating to certain technical aspects of the case. [Exh. 2 at 15, 34, 57, 60.] He also identified the subjects that he discussed with the Google employees. [Exh. 1, ¶ 26 (table 2).] None were identified for providing evidence in support of the technical aspects identified in paragraphs 50, 67, 68, 69, and 103 of Dr. Ugone's report.

Defendants' argument that FRE 703 permits an expert to rely on inadmissible evidence, including hearsay, does not cure this fundamental problem. Although technically true, the rule does not permit experts cart-blanch to rely upon anything they see fit. It is a basic foundation for admissibility that "[p]roposed [expert] testimony must be supported by appropriate validation- i.e., 'good grounds,' based on what is known." *Daubert*, 509 U.S. at 590. As the Supreme Court put it, "the Rules of Evidence-especially Rule 702... assign to the trial judge the task of ensuring that an expert's testimony ... rests on a reliable foundation." *Id.* at 597. Thus, the district court has an obligation to ensure that the basis of an expert's opinion is both reliable and reasonable. *See id.* Defendants fail to provide any evidence or authority that the types of information that Dr. Ugone relies upon for his technical opinions are routinely used by damages experts in determining a reasonable royalty. *See Fed. R. Evid. 703.* Neither do they provide evidence that it is permissible to establish technical aspects of a patent case by relying upon prior testimony and case decisions in a different case about different patents. Defendants fail to explain how such information is subject to cross-examination or verification.

CERTIFICATE OF SERVICE

I hereby certify that on this 2nd day of October, 2012, the foregoing, **PLAINTIFF I/P ENGINE, INC.’s REPLY IN FURTHER SUPPORT OF ITS MOTION TO EXCLUDE OPINIONS AND TESTIMONY OF KEITH R. UGONE**, was served via the Court’s CM/ECF system on the following:

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