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

MEMORANDUM IN SUPPORT OF DEFENDANTS' MOTION FOR JUDGMENT AS A MATTER OF LAW OF NO DAMAGES

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I. INTRODUCTION

Plaintiff I/P Engine's damages analysis is premised on several flawed assumptions. As an initial matter, I/P Engine relies on an incorrect date for the hypothetical negotiation, which must be the date of first alleged infringement. This legal error fundamentally skews I/P Engine's entire damages analysis. I/P Engine also assumes that Lycos and Google would have entered into a license agreement that provided for a running royalty, despite Google's strong historic preference for lump-sum agreements. I/P Engine further inflates its damage estimate by applying its unfounded running royalty rate against the revenue base for Google's entire Smart Ads system, even though I/P Engine's expert, Dr. Becker, concedes that there are countless features of the accused system that have nothing to do with the patented technology. Finally, I/P Engine artificially inflates the applicable royalty rate by ignoring the most recent, real-world valuation of the asserted patents – the June 2011 sale of eight Lycos patents (including the patents-in-suit) to I/P Engine for $3.2 million. Instead, I/P Engine relies on non-comparable licenses that do not involve the asserted patents or any of the parties involved in this case. Because I/P Engine has failed to provide a legally sufficient evidentiary basis for the jury to award damages, Defendants respectfully request that the Court grant their motion for judgment as a matter of law.

II. LEGAL STANDARD

Judgment as a matter of law is appropriate where a party has been fully heard on an issue and "there is no legally sufficient evidentiary basis for a reasonable jury to have found for that party with respect to that issue." Fed. R. Civ. P. 50(a); *see also Towler v. Sayles*, 76 F.3d 579, 581 (4th Cir. 1996) ("[T]here is no legally sufficient evidentiary basis for a reasonable jury to find for that party."); *In re Outsidewall Tire Litig.*, No. 1:09cv1217, 2010 WL 2929626, at *4 (E.D. Va. July 21, 2010) ("[J]udgment as a matter of law must be entered when a reasonable trier of fact could draw only one conclusion from the evidence, namely, the conclusion that the nonmoving party cannot prevail on that issue or claim.") (internal citations omitted). "[A] mere scintilla of evidence is not enough to defeat a motion for judgment as a matter of law." *Gairola v. Va. Dep't of Gen. Servs.*, 753 F.2d 1281, 1285 (4th Cir. 1985); *see also LeFebre v. Westinghouse Elec. Corp.*, 747 F.2d 197, 208 (4th Cir. 1984) (holding that substantial evidence "consists of more than a mere scintilla of evidence but may be somewhat less than a preponderance") (quoting *Laws v. Celebrezze*, 368 F.2d 640, 642 (4th Cir. 1966)).

I/P Engine bears "the burden of proving the amount of reasonable royalty damages it is entitled to recover." *Transclean v. Bridgewood Servs.*, 290 F.3d 1364, 1376 (Fed. Cir. 2002); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011) ("The patentee bears the burden of proving damages."). While a reasonable royalty calculation will involve "some approximation," a patentee must employ "sound economic and factual predicates" in proving a reasonable royalty. *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002); *Uniloc*, 632 F.3d at 1315 ("[The] patentee must 'sufficiently [tie the expert testimony on damages] to the facts of the case.'") (quoting *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 589 (1993)); *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010) ("[T]he trial court must carefully tie proof of damages to the claimed invention's footprint in the market place .… Any evidence unrelated to the claimed invention does not support compensation for infringement but punishes beyond the reach of the statute."). Where, as here, the patentee fails to present to the jury a legally sufficient basis upon which to calculate damages, judgment as a matter of law is warranted. *See Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d. 1301, 1336 (Fed. Cir. 2009) (reversing denial of motion for judgment as a matter of law on damages).

III. PLAINTIFF RELIES ON THE WRONG DATE FOR THE HYPOTHETICAL NEGOTIATION

The hypothetical negotiation date is the foundation upon which the entire legal framework for calculating reasonable royalty damages rests. *See LaserDynamics, Inc. v. Quanta Computer, Inc.*, Nos. 2011-1440, 2011-1470, 2012 WL 3758093 at *19 (Fed. Cir. Aug. 30, 2012) (citation omitted) (a reasonable royalty determination "must relate to the time infringement occurred, and not be an after-the-fact assessment"); *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc). Because the hypothetical negotiation date provides the framework for all aspects of the reasonable royalty analysis, <u>reliance on an incorrect date is reversible error</u>. *LaserDynamics,* 2012 WL 3758093 at *18-20.

In this case, I/P Engine asserts that Google has been infringing I/P Engine's patents since the first quarter of 2004 – the date that Google originally implemented the Smart Ads system. (Trial Tr. at 790:24-791:7.) Based on that contention, I/P Engine's damages expert, Dr. Becker, directed his analysis to a hypothetical negotiation between Lycos (the predecessor in interest to I/P Engine) and Google in 2004. (*Id.,* 773:13-16, 786:6-15, 787:2-6.)

Dr. Becker's reliance on a 2004 alleged date of first infringement is wrong. Plaintiff has failed to introduce evidence that would support a date of first infringement in 2004. As detailed in Defendants' Motion for Judgment as a Matter of Law of No Infringement, filed herewith (*see* §I.B), I/P Engine's infringement theory for all asserted claims depends on Google's use of certain feature templates in pCTR models. (*See* Trial Tr. at 531:1-19, 534:17-536:9, 540:13-15.) But the evidence does not establish a date for these templates until well after 2004. Indeed, the earliest template that I/P Engine's technical expert, Dr. Frieder, actually testified about in support of his infringement opinion was included in google17, a version of AdWords that was not launched until <u>2010</u>. (*See, e.g.*, *id*. at 540:13-15.) Dr. Frieder did not testify or offer an opinion as to any earlier version.[1] In turn, without a foundation for the date of Google's first alleged infringement, I/P Engine has failed to offer sufficient evidence to support a hypothetical negotiation date in the first quarter of 2004. As a result, I/P Engine's royalty base is dramatically overstated because it includes revenue from 2005-2010 that was generated by a version of the Smart Ads system for which Plaintiff has provided no theory of infringement.

More importantly, I/P Engine's use of the incorrect hypothetical negotiation date renders Dr. Becker's reasonable royalty analysis completely unreliable because the fundamental premise of his entire damages analysis is wrong. In particular, the hypothetical negotiation date underlies Dr. Becker's consideration of the fifteen "*Georgia-Pacific* factors" that comprise the vast majority of the analysis in support of his reasonable royalty opinion. But without any evidence for a reasonable jury to find infringement in 2004, Plaintiff cannot rely on that date for the hypothetical negotiation. And, as Dr. Becker admitted, he did not perform a damages analysis for any other date besides the first quarter of 2004:

> Q. Okay. And you're not offering an opinion on damages for any other date of the hypothetical negotiation other than the first quarter of 2004; is that right?
>
> A. That's correct.
>
> Q. So if the hypothetical negotiation date is different than the first quarter of 2004, you've not provided an opinion on the amount of damages in this case; is that correct?
>
> A. That's correct.

(Trial Tr. at 853:8-15.) Specifically, Dr. Becker confirmed that he had not performed an analysis using a hypothetical negotiation date in 2010. (*Id.,* 853:4-7.)

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[1] I/P Engine's only "support" for an earlier 2004 date is Dr. Frieder's conclusory and unsupported opinion that the SmartAds system has infringed the patent-in-suit since its launch in 2004. (*See* Trial Tr. at 592:9-13.) But notably, Dr. Frieder identified no evidence linking any of the accused templates to a 2004 date of implementation.

Dr. Becker's entire reasonable royalty analysis is premised on an incorrect legal framework. I/P Engine has failed to introduce evidence that would support an alleged infringement in the first quarter of 2004. At the same time, I/P Engine has presented no evidence of what damages would be starting in 2010, or any date besides 2004. Accordingly, there is a disconnect between the evidence of alleged infringement and the asserted date for the hypothetical negotiation. Without evidence of infringement in 2004, I/P Engine has relied on the wrong date for the hypothetical negotiation. As a result, I/P Engine has no competent evidence of damages – an issue on which it bears the burden. Thus, judgment as a matter of law is appropriate.

IV. PLAINTIFF HAS ADDUCED NO EVIDENCE IN SUPPORT OF A RUNNING ROYALTY

Dr. Becker's conclusion that the parties to the hypothetical negotiation would have structured the license as a running royalty has no support in the real-world facts in this case. It is well established that there are two main approaches to patent royalties – the lump-sum approach and the running royalty approach. *Lucent*, 580 F.3d at 1326. Here, the licensing evidence and testimony – including the admission of Dr. Becker – confirms that Google has a strong preference for lump-sum royalty payments. Indeed, Dr. Becker failed to identify a single Google license that involves a running royalty. Similarly, Dr. Becker identified no Lycos agreement or practice to suggest that Lycos would have insisted on a running royalty. On the contrary, Dr. Becker conceded that Lycos would have been eager to license Google to the patents-in-suit in order to obtain access to the thriving customer base and other resources that Google could bring to the table. (*See generally* Trial Tr. at 892:8-893:3.) Accordingly, I/P Engine has no evidence that the parties to the hypothetical negotiation would have agreed to a running royalty over the remaining life of the patents. And in the absence of any evidence supporting the running royalty structure that I/P Engine seeks, judgment as a matter of law should be granted.

The Federal Circuit's decision in *LaserDynamics* is instructive. In that case, the plaintiff's expert testified at trial that the parties would have agreed to a patent license that included payments structured as a 6% running royalty. *See LaserDynamics,* 2012 WL 3758093 at *24. On appeal, the Federal Circuit held that it was error to admit such testimony because the actual facts revealed that "the licenses to the patents-in-suit were all for lump sum amounts not exceeding $1 million." *Id.* As a result, the Federal Circuit concluded that a "6% running royalty theory cannot be reconciled with the actual licensing evidence, which is highly probative of . . . the form that a hypothetical agreement would likely have taken." *Id.*

By ignoring the undisputed evidence that the hypothetical agreement in this case would be a lump sum, Dr. Becker makes the same error as the patentee's expert in *LaserDynamics*. As Dr. Becker clearly testified on cross-examination, Google has a preference for lump sum agreements:

> Q. And you know that Google has a preference for lump sum agreements, correct?
>
> A. Yes.

(Trial Tr. at 885:11-13.)[2] Likewise, Dr. Becker failed to identify a single instance in which Google has agreed to a running royalty to license or purchase patented technology. Indeed, Google's lump-sum patent license and purchase agreements include a December 18, 2008, lump-

[2] During oral argument on motions for judgment as a matter of law, counsel for I/P Engine ignored Dr. Becker's testimony, and instead, told the Court that "[i]n fact, he said he's not aware of any evidence that Google has a preference …" (Trial Tr. at 1027:16-19.) However, Dr. Becker's plain admission completely undercuts I/P Engine's contrary representation to the Court, and demonstrates that Dr. Becker's conclusion regarding a running royalty payment finds no support in the evidence.

sum agreement with Carl Meyer to purchase three U.S. patents and two related patent applications for $3.55 million. (DX-090.) This is a real-world example of Google's preference for lump-sum agreements and provides an important data point for the amount that Google would pay for technology comparable to the patents-in-suit. Dr. Becker did not consider this license even though it is comparable and actually involves a party to the hypothetical negotiation.

Dr. Becker brushed Google's preference for lump-sum agreements aside, and instead attempted to justify his conclusion with a vague explanation that "[t]here are a lot of reasons" companies might choose a running royalty over a lump-sum payment. (Trial Tr. at 772:11-21.) But generalized opinion testimony, without any grounding in the actual facts of the case, falls far short of the required standard. Federal Circuit law demands that Dr. Becker's analysis be supported by the facts of this case, not by vague references to how unidentified, non-party companies might have structured a patent license agreement. *LaserDynamics*, 2012 WL 3758093 at *23 (rejecting reliance on "loose or vague" comparisons between different technologies for purposes of calculating a reasonable royalty); *Uniloc*, 632 F.3d at 1318 ("However, evidence purporting to apply to [the Georgia Pacific factors] must be tied to the relevant facts and circumstances of the particular case at issue and the hypothetical negotiations that would have taken place in light of those facts and circumstances at the relevant time."). Indeed, Dr. Becker never offered a single reason, let alone an explanation, why Google, a company with a strong preference for lump-sum payments, would forego that preference here and choose a running royalty over a lump-sum payment. Simply put, the fact that some parties might consider a running royalty during a hypothetical negotiation does not come close to justifying a conclusion that the <u>actual result</u> of this negotiation between Google and Lycos would result in a running royalty here.

The overwhelming evidence, therefore, is that Google would have bargained for a lump-sum royalty in a hypothetical negotiation, and Lycos would have agreed. I/P Engine may not disregard the actual evidence in this case and simply assume, without basis, that the hypothetical negotiation would have resulted in a running royalty and not a lump-sum payment. *See LaserDynamics*, 2012 WL 3758093 at *14 ("LaserDynamics overlooks that a per-unit running royalty is not the only form of a reasonable royalty that the parties might have agreed to in a hypothetical negotiation."). Accordingly, I/P Engine's running royalty demand is completely unsupported by the evidence, and judgment as a matter of law on damages is warranted for this additional reason.

V. PLAINTIFF FAILS TO APPORTION BETWEEN THE PATENTED AND UNPATENTED FEATURES OF THE ACCUSED SYSTEMS AS IT IS REQUIRED TO DO

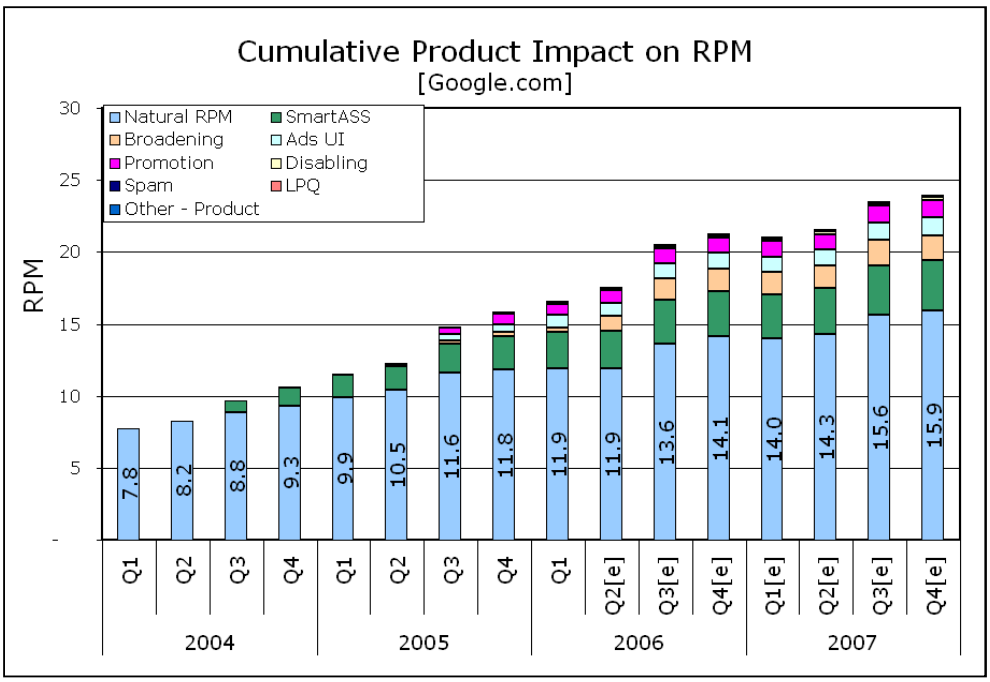
Dr. Becker agrees that Google's advertising revenue is generated as a result of innumerable technologies that are not encompassed by the asserted patents. (*See, e.g.,* Trial Tr. at 918:8-23; 919:4-13.) Dr. Becker further agrees that he did not evaluate whether the patented technology is the basis for customer demand for the entirety of the accused systems. (*Id.*, 919:14-22.) As such, Dr. Becker concedes that the Entire Market Value Rule does not apply in this case, and he agrees that the revenues for the accused systems must be "apportioned." (*Id.,* 902:8-903:5.) But despite Dr. Becker's assertion that he has apportioned revenues to obtain an appropriate royalty base, he continues to include incremental revenue for admittedly unpatented features. (*See id.*, 919:4-22.) Thus, Dr. Becker's analysis runs squarely into the Entire Market Value Rule and violates the legal standards for reliability under *Uniloc*.

The Entire Market Value Rule "allows a patentee to assess damages based on the entire market value of the accused product only if the patented feature creates the 'basis for customer demand' or 'substantially create[s] the value of the component parts.'" *Uniloc*, 632 F.3d at 1318 (quoting *Lucent*, 580 F.3d at 1336) (emphasis added). This rule is derived from Supreme Court precedent requiring that the patentee in every case must "give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative." *Uniloc*, 632 F.3d at 1318 (quoting *Garretson v. Clark*, 111 U.S. 120, 121 (1884)).

Uniloc explains "the danger of admitting consideration of the entire market value of the accused [product] where the patented component does not create the basis for customer demand." 632 F.3d at 1320. Once the plaintiff is permitted to introduce to the jury an inflated revenue base not attributable to the patented technology, it is impossible for the defendant or the court to "put [the cat] back into the bag," regardless of cross-examination or cautionary instructions from the court. *Id.* "The disclosure [of defendant's total revenues] cannot help but skew the damages horizon for the jury, regardless of the contribution of the patented component to this revenue." *Id.*

In his attempt to apportion revenues, Dr. Becker relies on a Google document from 2006 titled "Revenue Force June 26, 2006" and labeled as a "DRAFT" (the "Draft Revenue Force Presentation"). (Trial Tr. at 909:18-25.) This draft document describes the estimated impact of various systems on Google's "Revenue Per Thousand Queries" or "RPM." (PX 0064.) The chart (reproduced below) reports the impact of various features of Google's advertisement serving system on revenue ("RPM") growth. The measured features include Google's "Smart Ads" system (listed below as "SmartASS"), as well as "Spam," "Disabling," "Promotion," "Ads

UI," "Natural RPM," and "Other-Product." (*Id.*) Dr. Becker combines the impact for "SmartASS," "Disabling," and "Promotion." He then uses the total incremental increase in revenue from these three features as the measure of the royalty base for purposes of his damages analysis. (*See, e.g.,* Trial Tr. at 804:6-805:9.) On this basis, Dr. Becker attributes between 7.8% and 22.4% of Google's RPM to the patents-in-suit, depending on the time period in question. (*See id.,* 907:3-908:11.) As such, Dr. Becker attributes the entire market value of the Smart Ads, Disabling, and Promotion features to the patented technology. But Dr. Becker does not even attempt to make the required showing that the Entire Market Value Rule applies to the incremental revenue figures here.



The economic value of the Smart Ads system shown on the chart is not limited to the accused instrumentalities. Rather, the pCTRs computed by Smart Ads affect several components; including setting minimum CPCs, ranking ads, and computing the actual CPCs for ads. Plaintiff's technical expert explained that neither the ranking of ads nor the computation of actual CPCs are accused of infringing the claims. (Trial Tr. at 710:4-8, 711:7-12.) Dr. Becker also conceded that there are other factors in Smart Ads contributing to RPM than just the patented invention. (*See id.,* 918:8-919:22.) Dr. Becker agreed that these and any other aspects of Smart Ads that are not accused of infringing should not be included in the royalty base. (*See id.*) Despite these plain admissions, Dr. Becker does not make any attempt to apportion the revenue base to exclude revenue related to the use of these non-infringing functionalities. Instead, he includes the entire amount of incremental revenue for Smart Ads in the royalty base. (*Id.,* 919:19-22.) Dr. Becker, therefore, agrees that the patented technology is not the sole driver of the value of Smart Ads, and yet, inexplicably, Dr. Becker has used all incremental revenue generated by the use of Smart Ads as the royalty base. (*See id.,* 918:8-919:22.) That is incorrect as a matter of law. *Uniloc*, 632 F.3d at 1318-20. "Any evidence unrelated to the claimed invention does not support compensation for infringement but punishes beyond the reach of the statute." *ResQNet*, 594 F.3d at 869. Thus, to be admissible, expert testimony on a reasonable royalty must "carefully tie proof of damages to the claimed invention's footprint in the market place," something Dr. Becker failed to do. *Id.*; *Uniloc*, 632 F.3d at 1317.

Similarly, Dr. Becker includes incremental revenue for the Disabling and Promotion features in the royalty base without any evidence to show that this revenue is in any way related to Smart Ads or the accused functionality in this case. (Trial Tr. at 914:22-915:2.) If anything, the separate categories in the Google documents that Dr. Becker relies on suggest the opposite – *i.e.*, the Disabling and Promotion features are different from Smart Ads. And as Dr. Becker admitted on cross-examination, I/P Engine never asked any Google witness whether his understanding of this document was correct. (*Id.,* 912:13-16.) Dr. Becker's unsupported assumptions are an insufficient basis for any reasonable jury to conclude that the incremental revenue for Disabling and Promotion are related to the accused functionality and should be included in the royalty base for damages.

Additionally, Dr. Becker testified that he adjusted the applicable royalty rate to account for the fact that his royalty base is overbroad and includes revenue derived from unpatented features.

> Q. Okay. Well, you didn't parse out the incremental revenue for accused versus unaccused features, did you?
>
> A. No. I don't have an individualized quantification that says this step of SmartAds is worth X and this other step of SmartAds is worth Y. The only thing I have done is to value SmartAds, the thing that I have to assume is infringing, recognize that there is many other things in it that Google contributed, and that's why we're talking about a 3 and a half percent royalty on it, not basically the whole green on the chart.
>
> Q. Okay. And you didn't conduct any independent consumer research to measure demand for the accused versus the unaccused features of SmartAds, did you?
>
> A. Not -- no, I didn't do any independent research beyond the testing that obviously Google has done on this.
>
> Q. And instead you just used the total incremental revenue for the SmartAds system as the royalty base in your analysis, right?
>
> A. Yes, as the base.

(Trial Tr. at 919:4-22.)[3]

In *Uniloc*, the Federal Circuit squarely addressed and rejected this exact approach to apportionment. 632 F.3d at 1319-20 (quoting *Lucent*, 580 F.3d at 1338-39). The "Supreme

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[3] Although Dr. Becker concedes that the 20 percent base includes the unaccused features of Smart Ads, counsel for I/P Engine suggested during oral argument on this issue that the 20 percent includes only the infringing aspects. (*See* Trial Tr. at 953:13-16 ("So it is 3.5 percent of 20 percent of the revenues, and those revenues being only attributable to the increase for the new roll-out of the infringing aspects of Smart Ads.").) Counsel's suggestion that Dr. Becker's apportionment excluded revenue from unaccused features from the royalty base is wrong, and conflicts with the plain admissions of their own damages expert.

Court and this court's precedents do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate." *Id.* at 1320. Thus, Dr. Becker's "downward adjustment" of the royalty rate in order to compensate for an overly inclusive royalty base is incorrect as a matter of law.

VI. PLAINTIFF ARTIFICIALLY INFLATES THE APPLICABLE ROYALTY RATE

Dr. Becker relies exclusively on non-comparable licenses to artificially drive up the royalty rate to 3.5%. The Federal Circuit "has long required district courts performing reasonable royalty calculations to exercise vigilance when considering past licenses to technologies *other* than the patent in suit." *ResQNet*, 594 F.3d at 869 (emphasis in original). "When relying on licenses to prove a reasonable royalty, alleging a loose or vague comparability between different technologies or licenses does not suffice." *LaserDynamics*, 2012 WL 3758093, at *23. A patentee attempting to rely on unrelated license agreements to support a reasonable royalty has "the burden to prove that the licenses were sufficiently comparable" to the agreement that would result from a hypothetical negotiation. *Lucent*, 580 F.3d at 1329.

As *ResQNet* explains, a damages expert may not use "licenses with no relationship to the claimed invention to drive the royalty rate up." *ResQNet*, 594 F.3d at 870. Instead, the licenses must be "commensurate with what the defendant has appropriated." *Id*. at 872. "If not, a prevailing plaintiff would be free to inflate the reasonable royalty analysis with conveniently selected licenses without an economic or other link to the technology in question." *Id*. These rules could not be more clear. Dr. Becker is not permitted to include in his analysis only what he perceives to be favorable, albeit less relevant, post-negotiation licenses, while simultaneously ignoring more relevant transactions that involve the actual parties and actual patents-in-suit. Yet that is exactly what he attempts to do here.

A. Plaintiff Selectively Ignores Real-World Transactions Involving the Patents-in-Suit

Rights in the asserted patents have been traded in arms-length transactions several times. These historic, real-world transactions provide compelling evidence of the value that Google and Lycos would have placed on a license to the patents-in-suit. *See Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers,. Inc.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970). Indeed, the Federal Circuit has found it "particularly troubling" when a plaintiff's damages expert disregards actual licenses to the patents-in-suit and instead relies on "extremely high rates" in unrelated licenses. *ResQNet*, 594 F.3d at 870. Here, there are at least two agreements that provide objective indications that I/P Engine's $493 million damages demand vastly overstates the value of the technology in the asserted patents.

First, Dr. Becker ignores Lycos' arms length sale of the patents-in-suit, along with six other patents, to I/P Engine in 2011 for a lump-sum payment of just $3.2 million. At the time of this sale in 2011, Lycos was presumably well aware of Google's Smart Ads system, which was a matter of public knowledge, and any potential patent infringement claims it would have had based on the patents-in-suit. Thus, Dr. Becker's opinion that reasonable royalty damages in this case for a non-exclusive license to just two Lycos patents are worth $493 million (and counting) is more than 150 times the amount that I/P Engine paid for all rights to eight Lycos patents. Yet, he inexplicably deems that data point irrelevant to his damages analysis. The Federal Circuit addressed the significance of a patent's selling price in the reasonable royalty analysis in *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 871 (Fed. Cir. 2003), *vacated on other grounds*, 545 U.S. 193 (2005). The Court overturned a $15 million verdict, reasoning in part:

> The $15,000,000 royalty also does not appear to take into account numerous factors that would considerably reduce the value of the hypothetical license. For example, Integra 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 Integra's acquisition seems unbalanced in view of the overall acquisition price.

Id.

I/P Engine also ignores the fact that in October 2004, Daum Communications bought the entire Lycos company, which owned the patents-in-suit at the time, for $95 million. (Trial Tr. at 863:8-864:7.) This transaction occurred only about seven months after the date of the hypothetical negotiation that Dr. Becker used in his analysis. (*Id.*, 863:23-864:4.) Dr. Becker's opinion is that Google would have agreed to pay Lycos a running royalty amounting to over $493 million just seven months after the entire company was sold for $95 million. (*Id.*, 866:11-21.) For the amount of damages that Dr. Becker contends has accrued so far, Google could have bought Lycos five times over. (*Id.*, 867:3-15) Accordingly, I/P Engine's $493 million damages figure is wildly disproportionate to any real-world transaction for rights to the patents-in-suit, and is therefore not supportable as a matter of law.

B. Plaintiff Improperly Relies on Non-Comparable Licenses

To arrive at his inflated 3.5% royalty rate, Dr. Becker relies on three licenses that do not involve the patents-in-suit and do not involve any of the parties in this case or their predecessors in interest. (Trial Tr. at 853:24-854:6, 870:23-871:8.) Those three agreements were all entered into by Overture Services, Inc. ("Overture"), which is not a party, to license a portfolio of patents that is not at issue here. (*Id.*) Based on those agreements, I/P Engine contends that in the hypothetical negotiation, the parties would have viewed a running royalty of 3% to 5% as the starting point for the negotiations for a license to the patents-in-suit. (*See id.*, 841:15-845:2.) But I/P Engine's reliance on the Overture licenses is merely an attempt to artificially drive the royalty rate up. The Overture licenses are in no way comparable to the agreement that would result from a hypothetical negotiation in this case. As a matter of law, I/P Engine's reasonable royalty rate based on non-comparable licenses is inherently unreliable and cannot provide a legally sufficient evidentiary basis for the jury to award damages.[4]

1. The Patented Technologies Are Not Comparable in Value

I/P Engine fails to provide any justification for its assertion that the value of the '361 patent is comparable to the technology claimed in the asserted patents. Even patents directed to similar technologies may enjoy vastly different licensing rates depending on numerous factors, including the breadth of the claims and the ease with which the patent can be designed around. *See ResQNet*, 594 F.3d at 869 ("This court has long required district courts performing reasonable royalty calculations to exercise vigilance when considering past licenses to technologies *other* than the patent in suit.") (emphasis in original).

I/P Engine has failed to introduce anything more than conclusory opinion testimony that the economic value conferred by use of the '361 patent is comparable to that of the patents-in-suit. Dr. Becker concedes that the '361 patent was well-known and enjoyed broad industry recognition, in contrast to the asserted patents, which were not. (*See, e,g*, Trial Tr. at 887:11-21.) And I/P Engine's technical expert, Dr. Frieder, testified that the technology of the '361 patent was comparable only "in the general sense" to that of the patents-in-suit:

> Q. In your opinion is the technology in this patent comparable to the I/P Engine patent technology?
>
> A. It [sic] comparable in a sense, in an area.
>
> Q. Can you explain why?
>
> A. Well, it talks about advertising, it talks about placing and ranking of the ads and how to place it. So it's in the general sense, yes.

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[4] Dr. Becker admits that he did not even look for additional third party agreements that might be comparable to the hypothetical negotiation in this case, but instead just opted to use license agreements that he had relied on in at least one earlier case. (Trial Tr. at 887:6-16.)

(Trial Tr. at 630:17-23.) And on cross examination, Dr. Frieder confirmed that, unlike the patents in suit, the Overture '361 patent "does not have to do with relevance" of advertisements. (*Id.,* 716:24-717:1.) As Dr. Frieder emphasized, "[i]t doesn't talk about relevance, it doesn't talk about relevance. It can't filter based on relevance, correct." (*Id.,* 716:6-7.) I/P Engine's reliance on the Overture licenses as allegedly "comparable," despite its own expert's admissions to the contrary, is merely an attempt to drive the royalty rate up in exactly the same way that the Federal Circuit has held is impermissible.

2. The Overture Licenses Cover an International Portfolio of Patents

Each of the three Overture licenses that I/P Engine relies on grants rights to a much broader portfolio of patents than is at issue here. I/P Engine fails to make any allowance for the fact that the hypothetical negotiation is directed to a license for the two U.S. patents that are asserted in this case, not a portfolio of continuation patents and not a portfolio of foreign counterparts. To support a reasonable royalty award, a license agreement must convey rights of comparable scope to the license that would result from the hypothetical negotiation. *See Trell v. Marlee Elecs. Corp*., 912 F.2d 1443, 1446 (Fed. Cir. 1990). Where a license conveys the right to multiple patents, a damages expert must apportion the royalty rate in that agreement between the patents to be comparable to the license that would result from a hypothetical negotiation. *See ResQNet*, 828 F. Supp. 2d at 694-95. I/P Engine's failure to account for the vastly different scope of rights involved in the Overture agreements further demonstrates the unreliability of its royalty rate.

3. The Overture Licensees Were Not Situated Comparably to Google

Dr. Becker has conceded that the licensees in the agreements he relied on – Marchex, Inc., eXact Advertising LLC, and Interchange Corp. – were all in radically different negotiating positions against Overture than Google would have been in a hypothetical negotiation with

Lycos. (*See* Trial Tr. at 888:10-893:17.) Yet Dr. Becker did not account for these differences when he relied on the Overture agreements. Indeed, as Dr. Becker admitted on cross, he is not even aware of the actual amounts that any of the Overture licensees ultimately paid under their agreements, further undercutting his reliance on these licenses as comparable to the $493 million damages demand in this case. (*See id.,* 886:3-16.) I/P Engine's failure to account for these differences in negotiating position further renders its royalty rate unreliable and fails to establish a legally sufficient evidentiary basis for the jury to award damages.

VII. CONCLUSION

For the foregoing reasons, Defendants respectfully request that the Court grant their Motion for Judgment as Matter of Law of No Damages.

DATED: October 30, 2012

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CERTIFICATE OF SERVICE

I hereby certify that on October 30, 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:

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