

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' SECOND MOTION FOR  
JUDGMENT AS A MATTER OF LAW OF NO DAMAGES**

## **I. INTRODUCTION**

On October 31, the Court determined as a matter of law that I/P Engine cannot recover damages for acts that occurred before it filed this lawsuit on September 15, 2011. Plaintiff's expert on damages, Dr. Stephen Becker, has opined that the reasonable royalty in this case should be a running royalty. In order to determine a running royalty, it is necessary to calculate both a royalty rate and a royalty base. However, Plaintiff has presented no evidence of the proper amount of a royalty base from September 15, 2011 to the time of trial, as it is required to do. As such, if the jury finds infringement, there is no evidence in the record for the jury to determine the appropriate royalty base during the applicable damages period. 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.<sup>1</sup>

## **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

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<sup>1</sup> Defendants renew and reserve all other grounds for Judgment as a Matter of Law of No Damages set forth during oral argument and in earlier submissions to the Court, including plaintiff's reliance on an incorrect hypothetical negotiation date, an unsupported running royalty structure, an inflated royalty rate, and an impermissible royalty base. (D.N. 751.)

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 LeFebvre 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 HAS ADDUCED NO EVIDENCE IN SUPPORT OF DAMAGES DURING THE RECOVERABLE PERIOD**

Plaintiff’s damages claim is based on a running royalty structure, rather than a lump sum payment. Under the running royalty structure, there must be a determination of both a royalty

rate and a royalty base in order to calculate damages arising from the alleged infringement. Plaintiff's expert, Dr. Stephen Becker, testified regarding a royalty base estimated from the alleged incremental increase in revenue following implementation of the SmartAds system. Dr. Becker based his calculation on an analysis of two charts in a draft slide presentation. (Trial Tr. at 767:22-25, 909:11-21.) Dr. Becker testified that the allocated revenue base in this case "from the time period September 15th of 2005 through September of 2012 ... is a total of 14 billion 88 million 500,000." (*Id.*, 832:20-25.) He provided a breakdown of the incremental revenue base by Defendant, but he never provided a breakdown by month, quarter, or even year. (*Id.*, 833:6-13.) Dr. Becker multiplied the overall revenue base he calculated by a 3.5 percent royalty rate, to calculate an accrued damages amount of \$493 million. (*Id.*, 767:22-25.)

In light of its ruling on laches, the Court has now determined that Plaintiff may only recover damages for the period beginning on September 15, 2011, the filing date of this lawsuit. (Trial Tr. at 1805:20-1806:1.) Plaintiff is barred from claiming past damages for any time prior to the September 15, 2011 filing date. Because Dr. Becker only provided testimony as to the total allocated revenue base "from the time period September 15th of 2005 through September of 2012," there is now a fundamental failure of proof. There is no basis for a jury to determine the allocated revenue base for the September 2011 through September 2012 time period. Indeed, there is not a single piece of evidence in the record that provides the jury with a basis to determine the applicable revenue base for the correct damages period.

Due to this fundamental failure of proof, there is no way for the jury to make a damages determination that is clearly supported by the evidence. Without evidence of the applicable royalty base, any determination of a running royalty would be "based only on speculation or guesswork." *Lucent*, 580 F.3d at 1310 (overturning jury's damages verdict where not based on

substantial evidence). This case is analogous to *LaserDynamics*, in which the Federal Circuit required a new trial where a jury's damages "was based on an expert opinion that finds no support in the facts in the record." *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 81 (Fed. Cir. 2012) (emphasis added). "Without a model to support the jury's verdict," the jury's damages award cannot stand. *See Riles v. Shell Exploration and Production Co.*, 298 F.3d 1302, 1311-13 (Fed Cir. 2002) (remanding where none of the three damages models put forth by plaintiff's expert supported jury award).

#### **IV. PLAINTIFF'S PDX-83 DEMONSTRATIVE IS NO EVIDENCE OF A CORRECT ROYALTY BASE**

During oral argument on this issue, Plaintiff argued that the jury could reasonably rely on a single demonstrative slide from Dr. Becker's presentation at trial – PDX-83 – in order to reach a conclusion regarding the royalty base for the damages period. (Trial Tr. at 1966:22-1967:8.) This argument fails for several reasons.

First, PDX-83 is a bar chart demonstrative created by Dr. Becker, in conjunction with Plaintiff's counsel. (PDX-83.) It is not evidence. It was never offered as evidence. And it has not been admitted as evidence in the case. Thus, the jury may not rely upon it for purposes of determining the royalty base from September 2011 to present. *See, e.g., U.S. v. Buck*, 324 F.3d 786, 790 (5th Cir. 2003) (holding that demonstratives are not evidence, and Rule 611 is meant to allow pedagogical aides to clarify evidence that has already been admitted); *Pritt v. United States*, 01-1045, 2002 WL 32438757, \*18 (S.D. W.Va. July 30, 2002) ("Demonstrative aids are not evidence.").

Second, Dr. Becker did not provide any testimony regarding his damages figures for the period September 15, 2011 to trial based on PDX-83. Indeed, Dr. Becker answered only two questions related to PDX-83:

Q. Can you explain that to the jury, please.

A. This takes the total royalties that we just talked about, the 493.1 million that is the result of adding everything up through the third quarter of 2012, and this shows the amounts by quarter that you would have under a running royalty structure.

Q. So at the time of the hypothetical negotiations, according to PDX-83, what would Google have paid, approximately?

A. Well, in the hypothetical negotiation time period that is sort of off to the left on this chart because it's in 2004, but you can clearly see the trend, it would be amounts less than you're seeing in the quarterly payments, for example, in the fourth quarter of 2005, which are somewhere between 5 and 10 million. So it would be a quarterly payment less than that.

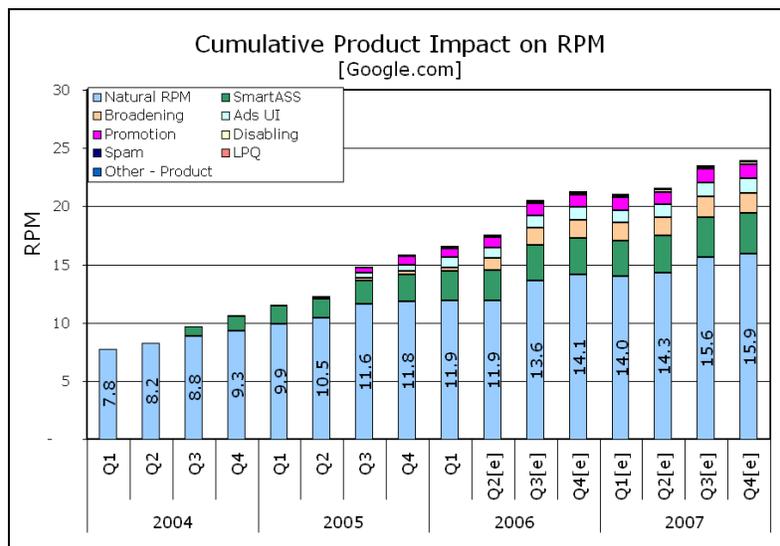
(Trial Tr. at 848:16-849:6.) Plaintiff thus expects the jury to interpret its demonstrative without providing any testimony or documentary evidence showing specific numerical calculations that the jury could rely on.

Third, PDX-83 does not provide sufficient information to calculate a royalty base for the damages period. Indeed, it does not include specific dates. (*Id.*) It does not identify the accused revenue amounts for each quarter. (*Id.*) And it is based on Dr. Becker's calculation of a royalty base apportionment, which is itself based on Dr. Becker's physical measurement with a ruler – of another bar chart – PX-64. (Trial Tr. at 848:16-23.) By proffering PDX-83, Plaintiff essentially asks the jury to rely upon unspecified calculations of incremental revenue on a demonstrative bar chart, which itself is based on ruler measurements from bar charts in a draft presentation. In effect, Plaintiff is asking the jury to guess at the amount of accused incremental revenue using an imprecise demonstrative, which is based on another imprecise document. Accordingly, PDX-83 is a completely unreliable basis for any award of a running royalty. *See Lucent*, 580 F.3d at 1337

(In order to be relied upon for purposes of apportioning damages, “evidence must be reliable and tangible, and not conjectural or speculative”) (citation omitted).

**V. PLAINTIFF’S EXHIBIT PX-64 PROVIDES NO EVIDENCE OF A ROYALTY BASE FOR THE APPLICABLE DAMAGES PERIOD**

Any attempt by Plaintiff to rely on PX-64 to support the calculation of a new royalty base is also fundamentally flawed. Separate and apart from the issues that Defendants raised with regard to Dr. Becker’s improper analysis of PX-64 and use of the Entire Market Value Rule, PX-64 does not provide evidence on which a reasonable jury could rely to apportion a royalty base for the accused functionalities from September 15, 2011 to trial. As Plaintiff acknowledges, PX-64 is 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.) As pictured below, even assuming the revenue per thousand queries (“RPM”) information in the Draft Revenue Force Presentation is accurate, the presentation contains actual numbers only for 2004, 2005, and Q1 2006. (PX00064.)



The Revenue Force Presentation only reports estimated revenues for Q2 2006 through Q4 2007. (*Id.*) It does not contain any revenue information after 2007, including any revenue information

for the recoverable damages period – September 15, 2011 to the present. Thus, PX-64 has no relevant information for the applicable damages period.

PX-64 also does not contain revenue information, but instead RPM information, with no guide as to how to translate that RPM information into revenue numbers for the damages period. Thus, for the jury to be able to rely on PX-64, it would be required to estimate total RPM for the Accused Products for September 2011 to current, estimate a percentage of that RPM to be attributed to the accused functionality, and then estimate the total royalty base from that percentage without any ability to do so. PX-64 thus provides no evidence on which the jury could reasonably base a calculation of a royalty base in this case. *Uniloc*, 632 F.3d at 1318; *Lucent*, 580 F.3d at 1336-37; *LaserDynamics*, 694 F.3d at 81.

#### **VI. PLAINTIFF MADE THE STRATEGIC DECISION NOT TO ENTER INTO EVIDENCE ITS ROYALTY BASE FOR THE POST-LACHES PERIOD**

Dr. Becker provided no testimony regarding the royalty base on a monthly or quarterly basis. Instead, Dr. Becker opted only to testify regarding the total incremental revenue base – \$14.1 billion – that he calculated for September 2005 to September 2012. (Trial Tr. at 832:20-833:13.) During oral argument, Plaintiff suggested that its failure to present evidence of the accused royalty base on a monthly or quarterly basis was due to the Court’s ruling excluding evidence of total revenues from the accused products. (Trial Tr. at 1962:11-1963:3.) This is incorrect and unavailing. Under *Uniloc*, the Court’s order explicitly excluded the total revenue numbers on a worldwide and U.S. basis for the accused products. (Trial Tr. at 746:2-19.) However, the Court allowed Plaintiff’s expert to testify regarding how he calculated the royalty base, the dollar amount of the incremental royalty base, and his royalty rate. (*Id.*; *see, e.g.*, Trial Tr. at 778:25-781:23, 784:5-11, 799:19-800:2, 802:9-806:13, 832:20-833:13.) Plaintiff’s affirmative decision to have Dr. Becker testify only to the overall, and thus much higher, royalty

base figure was a strategic choice about how to present its case to the jury. Plaintiff was fully aware of the pending issue regarding laches. It could have presented a more detailed damages analysis at trial, but chose not to do so. Having failed to introduce the necessary evidence to support its claimed royalty base for the recoverable period starting on September 15, 2011, any failure of proof is squarely and solely the result of Plaintiff's own decision-making during trial.

**VII. ALLOWING THE JURY TO BASE A RUNNING ROYALTY ON THE \$493 MILLION AMOUNT PROPOSED BY DR. BECKER WOULD BE REVERSIBLE ERROR**

Plaintiff may argue that damages may be calculated as a fraction of the \$493 million figure proposed by Dr. Becker for the September 2005 to September 2012 damages period. As discussed above, however, there is no evidence for the jury to rely on in order to apportion Dr. Becker's \$493 million number to an amount appropriate for the recoverable damages period. More importantly, it would be highly prejudicial to Defendants if Plaintiff is allowed to make this argument to the jury.

*Uniloc* explains the danger of admitting inflated damages numbers for the jury to consider in reaching a verdict. 632 F.3d at 1320. Here, if the Plaintiff is permitted to rely on overstated figures as a starting point for the running royalty – even though they are not recoverable as a matter of law – 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.*

By hearing Dr. Becker testify regarding his \$493 million damages calculation, the jury has already been subjected to an grossly inflated damages analysis extending far beyond the period of damages for which Plaintiff can recover. To allow Plaintiff to further argue that the jury should base its analysis of the reasonable royalty on this overinflated and legally incorrect damages claim would only further exacerbate the confusion for the jury, and increase the substantial prejudice that Defendants have already suffered. As such, any request by Plaintiff to

argue during closing that it is entitled to a running royalty based on the \$493 million amount calculated by Dr. Becker is reversible error, and should be denied.

### **VIII. CONCLUSION**

For the foregoing reasons, Defendants respectfully request that the Court grant their Motion for Judgment as Matter of Law of No Damages. Additionally, Defendants respectfully request a curative instruction to make clear to the jury that the Court has excluded damages prior to September 15, 2011, and therefore, they should not rely on or consider the Plaintiff's \$493 million damages demand for the September 2005-September 2012 period in their evaluation of a reasonable royalty in this case.

DATED: November 1, 2012

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**CERTIFICATE OF SERVICE**

I hereby certify that on November 1, 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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