IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION

I/P ENGINE, INC.,	§	
Plaintiff,	§	
v.	§	CIVIL ACTION NO.
AOL, INC.,	§	2:11-cv-00512-RAJ-FBS
GOOGLE INC.,	§	
IAC SEARCH & MEDIA, INC., and	§	
TARGET CORPORATION,	§	
Defendants.	§	

DECLARATION OF STEPHEN L. BECKER, Ph.D.

Regarding

ONGOING ROYALTIES

STEPHEN L. BECKER, Ph.D.

12/18/12
DATE

I. I/P Engine v. Google, et al. – Ongoing Royalties

A. Background

1. I have been asked to render an opinion on the reasonable royalty that would apply to a compulsory license to U.S. Patent Nos. 6,314,420, entitled "Collaborative/Adaptive Search Engine" ("the '420 patent") and 6,775,664, entitled "Information Filter System and Method for Integrated Content-Based and Collaborative/Adaptive Feedback Queries" ("the '664 patent"). The '420 and '664 patents (together referred to as the "Patents-in-suit") were found to be valid and enforceable and Google and AOL, Target, Gannett, and IAC (collectively, "Defendants") were found to be infringing all of the asserted claims of both patents.

2. It is my understanding that determination of a compulsory post-judgment license can be made by the Court, and that the court should consider the outcome of a hypothetical negotiation between the parties as of the date of the final judgment.[1]

3. The opinions presented in my prior report and testimony provides a thorough analysis of a hypothetical negotiation between Lycos and Google for a license to the Patents-in-suit as of Q1 2004. My prior report and testimony provides an analysis of the Georgia-Pacific factors and the resulting reasonable royalty for the license to the Patents-in-suit based on that hypothetical negotiation. My opinion regarding the reasonable royalty based on that negotiation was a running royalty of 3.5%, applied to an apportioned base of 20.9% of Google's U.S. revenues from its use of AdWords, AdSense for Search and AdSense for Mobile Search systems, and U.S. revenues from the use of AOL's Search Marketplace system.

4. As noted above, the determination of the reasonable royalty rate for a compulsory license involves an analysis of a hypothetical negotiation as of the date of the final judgment, which in this case would be as of November 20, 2012. Many of the same facts and considerations that were discussed in my prior report and testimony regarding the 2004 hypothetical negotiation between Lycos and Google would be present in the November 2012 hypothetical negotiation. Some facts and circumstances would be different. Rather than repeat all of the evidence and opinions expressed in my prior report and testimony, this declaration provides an analysis of the elements of the

[1] *See, e.g.*, *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1315, 1317 (Fed. Cir. 2007) (J. Rader concurring opinion); *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1361-1362 n.2 (Fed. Cir. 2008)

negotiation that would be different in November 2012 negotiation for a license to the Patents-in-suit and the effect those difference would have on the reasonable royalty. I incorporate my prior report and testimony herein.

B. Post-Judgment Hypothetical Negotiation

5. The hypothetical negotiation over future royalties for the patents would be between I/P Engine and Google on November 20, 2012, and would provide Google a license to use the patents from the date of the judgment through the expiration of the patents.[2] Thus, the key elements that are different from the 2004 Hypothetical Negotiation are the licensor (I/P Engine in 2012 instead of Lycos in 2004) and the market conditions present in 2012 versus those in 2004.

6. I have carefully considered any changes to the parties' bargaining positions and how those changes would affect the *Georgia-Pacific* factors. I do not present an entirely new *Georgia-Pacific* analysis in this report, but rather an analysis of how the parties' different circumstances at the time of the judgment would affect the negotiation of an ongoing royalty rate.[3] I recognize that although the negotiation over ongoing royalties is contemplated by the parties post-judgment, i.e., the licensee is a known infringer, ongoing royalties are not intended to be punitive[4], but should reflect the changed circumstances implied by the timing of that negotiation.

II. What Would Be Different at This Negotiation?

A. The Parties are Different

7. The hypothetical negotiation contemplated at trial was between Lycos, then-owner of the patents, and Google in 2004. As discussed above, the parties to the post-judgment negotiation would be I/P Engine, the current owner of the patents, and Google. I/P Engine, and its parent company Vringo, are sophisticated licensors who invested in the patents with the express intention of monetizing them through licensing activities. In contrast, Lycos's parent company in 2004, Terra, was unaware

[2] *See, e.g.*, *Boston Scientific Corp. v. Johnson & Johnson*, No. C 02-00790 SI, D.I. 882, p. 2 (N.D. Cal. April 9, 2009).
[3] *See, e.g.*, *Active Video*, No. 2:10cv248, D.I. 1209, p. 21-26 (E.D. Va November 23, 2011) and *Joyal Products, Inc. v. Johnson Electric North America, Inc.*, 2009 WL 512156 (D. N.J. 2009).
[4] I understand that I/P Engine may be entitled to enhanced damages at the discretion of the court. Such enhancement, however, is outside of the scope of the analysis and opinions presented herein.

and uninterested in the value of Lycos's patent portfolio.[5] Furthermore, Vringo's current market capitalization is over $200 million and the company has a strong balance sheet.[6]

B. Expectation vs. Fact – 2004 vs. 2012

8. In 2004, Google would have had an expectation that the patented invention would positively impact the revenues of the accused products. In contrast, by 2012, the positive impact of the patented invention is well known and well documented. Numerous examples of the "mission critical" role of the infringing technology were introduced at trial.[7] The evidence presented at trial also established that Google's implementation of the infringing technology generated an impact of at least 20.9% on Google's U.S. revenues.[8]

C. The Range of Rates is Different

9. As discussed in my prior report with respect to Factors 2, 12 and 15, the parties to the hypothetical negotiation would have considered rates charged by Overture for licenses to the '361 patent as providing a reasonable starting point for the Google license to the Patents-in-suit. Although the comparable licenses that form the starting point for the negotiation would be the same (Marchex, eXact, and Interchange), the range of rates that would reasonably result from these licenses would be different based on the different circumstances of a November 2012 hypothetical negotiation date.

10. The range of rates presented at trial was 3-5%. This range was derived from consideration of three licenses: Marchex, eXact and Interchange.[9]

[5] Deposition of Mark Blais 7/31/2012, p. 30 -31.
[6] Data from ThomsonOne database.
[7] *See*, for example, PX-228 – G-IPE-0223566-599; PX-32 – G-IPE-0224360; PX-34 – G-IPE-0224366; PX-337 – G-IPE-0018963-968; PX-64 slide 38 – G-IPE-0484319-386 at -356.
[8] *See* PX-64 and Trial Tr. 802:24-803:8. *See also* PDX-076 and Trial Tr. 819:20-821:15
[9] PDX-080.

Comparable Industry Rates (Factor 12)

Provides range of rates from 3% to 5%

Yahoo Licenses To:	Marchex, Inc.	eXact Advertising	Interchange /Local.com
Date of agreement	2/14/2005	3/1/2005	10/17/2005
Licensed patents	'361, '866, '572	'361, '866	'361, '866
Royalty rate (range)	3.00% - 3.75%	4.00% - 5.00%	4.00% - 5.00%
Royalty base	Gross advertising revenues	Gross advertising revenues	Gross advertising revenues
Industry of licensee	Online search advertising	Online advertising solutions	Internet search-related advertising
Field of use of patents	Pay-for-Placement Paid Listing advertising systems	Pay-for-Placement Paid Listing advertising systems	Pay-for-Placement Paid Listing advertising systems

PDX080

11. Consideration of these licenses in the 2004 negotiation led me to the opinion that Lycos would have granted Google a "favorable" rate that would have also taken into account the fact that Google and Lycos had, at the time, an ongoing business relationship.[10] Consideration of these factors led me to the conclusion that a reasonable rate for Google, for a license granted by Lycos to Google in 2004 would have been at a 3.5% rate.

12. The low end of the range of rates considered came from the Marchex agreement. Under that agreement, Marchex received a "favorable" rate of 3.75% and would be granted an additional 20% discount, to 3%, as long as the business relationship with Overture (in the form of the Overture Services Agreement) was in place.[11] The remaining two agreements (Exact and Interchange) are at a 5% rate with the rate discounted to 4% if the licensee also had a business relationship with Overture (in the form of the Overture Services Agreement).[12]

Outcome of the November 2012 Hypothetical Negotiation

13. Since the negotiation for the compulsory license takes place in 2012, it is unlikely that Google would be granted favorable "early licensee" discounted rates. It is also clear that, unlike Lycos and Google in 2004, there is no existing business relationship between I/P Engine and Google. Thus the

[10] Trial Tr. 796:12-797:5
[11] PX-184.
[12] PX-185 and PX-424.

discounts associated with the presence of an ongoing business relationship would not be relevant to the I/P Engine-Google negotiation. Google's size and any negotiating power implied by that size is offset by the evidence of the "mission critical" role of the technology to Google's business.[13]

14. Taking these two factors into consideration, the changed circumstances of the November 2012 logically lead to the conclusion that a 5% royalty rate is reasonable.

15. As discussed extensively in my prior report and in my trial testimony, the running royalty rate should be applied to an apportioned royalty base of Google's revenues from the infringing AdWords, AdSense for Search and AdSense for Mobile Search systems, and AOL's infringing Search Marketplace system. Consistent with that prior testimony, it is my opinion that a reasonable apportionment factor for the compulsory license from November 2012 through the expiration of the patents-in-suit would be 20.9%.

D. Conclusion

16. In accordance with the Court's rulings and my assignment, I have considered a hypothetical negotiation between I/P Engine and Google for ongoing royalties to the two I/P Engine patents found valid and which Google was found to infringe on November 20, 2012. The parties, facts, and circumstances of the present negotiation are significantly different from the parties, expectations, and circumstances present at the hypothetical negotiation contemplated between Lycos and Google in 2004.

17. Based on my analysis of these differences described above, it is my opinion that a reasonable royalty for the compulsory license is a running royalty of 5%, applied to an apportioned base of 20.9% of Google's U.S. revenues from infringing AdWords, AdSense for Search and AdSense for Mobile Search systems, and the U.S. revenues from AOL's infringing Search Marketplace system.

[13] PX-228 – G-IPE-0223566-599; PX-32 – G-IPE-0224360; PX-34 – G-IPE-0224366; PX-337 – G-IPE-0018963-968; PX-64 slide 38 – G-IPE-0484319-386 at -356.

CERTIFICATE OF SERVICE

I hereby certify that on this 18th day of December, 2012, the foregoing **DECLARATION OF STEPHEN L. BECKER, PH.D. REGARDING ONGOING ROYALTIES** was served via the Court's CM/ECF system on the following:

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