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.	§	

SECOND DECLARATION OF STEPHEN L. BECKER, Ph.D.

Regarding

ONGOING ROYALTIES

STEPHEN L. BECKER, Ph.D.

5/20/13
DATE

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

A. Background

1. I was previously 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, AOL, Target, Gannett, and IAC (collectively, "Defendants") were found to be infringing claims of both patents.[1] I submitted a declaration providing my opinions on the ongoing royalty for the patents-in-suit on December 18, 2012.[2]

2. Google's damages expert, Dr. Keith Ugone, filed a declaration in support of Google's position regarding the structure and amount of a compulsory license on May 13, 2013 (the "Ugone Declaration").[3] In that declaration, Dr. Ugone offers the opinion that the reasonable outcome of the negotiation between I/P Engine and Google for a compulsory license to the patents-in-suit for the period beginning November 20, 2102, the date of the final judgment, through April 4, 2016 (the expiration date of the last to expire of the patents-in-suit; hereafter referred to as the "remaining term of the patents-in-suit") is a lump-sum payment of no more than $3.5 million.[4] Despite the fact that Dr. Ugone steps through a *Georgia-Pacific* analysis based on the changed circumstances of the new hypothetical negotiation date, his opinions remain unchanged from those he offered at trial that were soundly rejected by the jury. Similarly, his support for those opinions remains largely unchanged from the evidence he relied on at trial, which again was soundly rejected by the jury. In the few instances, discussed below, where Dr. Ugone attempts to rely on new evidence, or to put a new spin on old evidence, his opinions are unreasonable and misguided.

3. As in the trial, Dr. Ugone repeatedly argues in his declaration that Google's strong preference for a lump-sum royalty, together with other evidence he points to as probative, indicate that a lump-sum

[1] Document 789.
[2] Declaration of Stephen L. Becker, Ph.D. in Further Support of Plaintiff I/P Engine, Inc.'s Motion for an Award of Prejudgment Interest, Post-Judgment Interest and Damages for Defendants' Continuing Infringement.
[3] Declaration of Keith R. Ugone, Ph.D. on Post-Judgment Royalties, 5/13/2013.
[4] Ugone Declaration at ¶45.

structure is appropriate.[5] The only "new" evidence or arguments I see in Dr. Ugone's current opinion are his assertions that:

a. The 2011 sale of the patents-in-suit by Lycos to Smart Search Labs for a lump-sum of $3.2 million should now be viewed as providing support for Dr. Ugone's opinion that a license to the patents-in-suit to Google covering the remaining term of the patents-in-suit is a lump-sum of less than $3.5 million;[6]

b. The Overture licensing program for the '361 patent is not technologically comparable and is less relevant to a November 2012 negotiation between I/P Engine and Google;[7]

c. I/P Engine would have viewed Google as a more favorable licensee, in part because Google had been a contentious adversary in the immediately concluded lawsuit, thus leading I/P Engine to acquiesce to a small lump-sum payment for the patents-in-suit;[8]

d. The purported existence of non-infringing alternatives as of the November 2012 negotiation would lead the parties to agree to a lump-sum structure in an amount of no more than $3.5 million;[9] and,

e. Dr. Ugone contends that the 20.9% apportionment factor presented at trial would not be relevant to the November 2012 hypothetical negotiation, and further contends that the jury "rejected" the 20.9% apportionment factor and instead used a 2.8% factor.[10]

4. Each of these points will be discussed below.

<u>The 2011 Sale of the Patents-in-Suit by Lycos to Smart Search Labs</u>

5. Dr. Ugone spends a good deal of time in his declaration discussing the fact that the patents-in-suit were sold by Lycos to Smart Search Labs for $3.2 million and suggesting that this sale should drive both the structure and the amount of the license payment in the hypothetical negotiation.[11] I disagree with Dr. Ugone's opinion that the change in the hypothetical negotiation date renders the sale of the patents in suit to Smart Search Labs for $3.2 million more probative of the value of the

[5] Ugone Declaration at ¶11, ¶15, ¶16, ¶21.
[6] Ugone Declaration at ¶10.
[7] Ugone Declaration at ¶39.
[8] Ugone Declaration at ¶21.
[9] Ugone Declaration at ¶44-45.
[10] Ugone Declaration at ¶36.
[11] Ugone Declaration at pp.4-5.

patents. As Dr. Ugone and I both agree, the hypothetical negotiation is assumed to take place with no doubts by either party to the transaction regarding the validity and infringement of the patents.

6. In contrast, the sale of the patents by Lycos to Smart Search Labs cannot be assumed to have occurred under those circumstances. As evidenced by these proceedings, Google vigorously contested both the validity and infringement of the patents-in-suit. That vigorous challenge to the validity and infringement of the patents-in-suit began shortly after the transaction that Dr. Ugone suggests should be used as a benchmark for the value of the patents <u>absent such risks</u>. The jury verdict and award itself, namely that the reasonable structure should be a running royalty of 3.5% and that for a period of 12.5 months (September 15, 2011 to September 30, 2012), the amount of those reasonable royalties were $15,800,000 (Google only) $30,496,155 (all Defendants combined).[12] The fact that the patents-in-suit were found to be worth almost **ten times** the $3.2 million amount paid by Smart Search Labs, even for the limited time period covered by the jury award, clearly demonstrates that Dr. Ugone's opinions regarding the sale of the patents in 2011 are wrong.

7. Similarly, Dr. Ugone's suggestion that the $3.2 million sale price "likely overstates the value for a license to the patents-in-suit because the sale of a patent family commands a higher value than a license to the two patents at issue[13]" is clearly wrong. The jury determined that a license to the patents-in-suit covering only the period from September 15, 2011 September 30, 2012 was worth almost ten times the sales price to Smart Search Labs. This clearly demonstrates that the parties to the Smart Search Labs transaction could not have understood, as we must assume for the hypothetical negotiation, that Google was infringing the patents-in-suit and that the patents were valid and enforceable, and that a running royalty of 3.5% had been found to be reasonable.

8. Dr. Ugone further states that "[r]elative to a 2004 hypothetical negotiation, more emphasis would be placed upon I/P Engine's purchase of the patents-in-suit from Lycos – which occurred close to the time of the 2012 hypothetical negotiation and would be aligned more closely with current underlying economic and technological conditions.[14]" Dr. Ugone attempts to link the 2012 hypothetical negotiation to I/P Engine's purchase of the patents as support for a lump-sum structure and for his opinion that the amount of that lump-sum should be no more than $3.5 million. As discussed in the preceding paragraphs, the amount of the jury award alone demonstrates the fallacy in Dr. Ugone's position. Furthermore, Dr. Ugone ignores the fact that the parties to the negotiation would have

[12] Document 789, p.11.
[13] Ugone Declaration at ¶10.
[14] Ugone Declaration at ¶12.

been aware of an even more recent "transaction" involving the patents-in-suit, namely the determination by a jury and the entry of a final judgment that the appropriate structure for a license to the patents-in-suit was a running royalty.

9. I/P Engine would enter the negotiations with full knowledge that it had, up to the point of that negotiation, received a running royalty from Google and the other defendants for a license to the patents-in-suit. It is simply unreasonable to suggest that with such knowledge in hand, I/P Engine would be willing to enter into a new license with Google and the other defendants using a lump sum structure, especially at an amount that represents a small fraction of the royalties that it had received for the patents-in-suit in the immediately prior period.

<u>Relevance of Overture Licensing Program for the '361 Patent</u>

10. Dr. Ugone suggests that the change in hypothetical negotiation date to 2012 renders the Overture licensing program that I relied on at trial for the 3.5% royalty rate no longer relevant to the hypothetical negotiation.[15] Dr. Ugone correctly points out that the three licenses that were given the most weight in terms of the 2004 hypothetical negotiation, namely those with Marchex, eXact and Interchange, were all in 2005 and, thus, would have been over six years prior to the 2012 hypothetical negotiation. As discussed in my prior declaration, it is my opinion that these agreements are still highly relevant and indicative of a reasonable royalty rate.[16] The term of each agreement is for the entirety of the term of the last to expire patent.[17] Additionally, the parties to the 2012 negotiation would have been aware that both the structure (running royalty) and the rates (5% or higher for the undiscounted royalty rate) were still relevant well past 2005. As pointed out in my earlier reports in this matter, Overture had an ongoing licensing program for the '361 patent that resulted in a patent license agreement between Yahoo/Overture and Adknowledge in February 2009. That agreement uses the same structure as the prior agreements and contains running royalties that range from 3.25% to 5%.[18]

11. Dr. Ugone also opines that he is "not aware of any credible evidence that the Overture patents are comparable to the patents in suit.[19]" However, I/P Engine's technical expert provided testimony at trial that established that there was sufficient technical comparability to render the licenses to the

[15] Ugone Declaration at ¶5.
[16] Becker Declaration at ¶9.
[17] YAHOO-000036; YAHOO-000086; YAHOO-000121.
[18] YAHOO-000001 to 000012.
[19] Ugone Declaration at ¶39.

'361 patent relevant.[20] Dr. Ugone also suggests that these licenses "did not involve either Google or I/P Engine.[21]" Licenses to the '361 patent, however, are highly relevant to Google, since Google itself licensed the '361 patent from Overture as well.[22] It is misleading for Dr. Ugone to suggest that the '361 licensing program would not be relevant to Google in light of this fact.

12. Dr. Ugone returns to the position he took at trial that Google's purchase of patents from Carl Meyer in December 2008 for $3.55 million is the most probative indicator of both the structure and value of a license to the patents-in-suit.[23] Neither Google nor Dr. Ugone has ever established any economic comparability between the Carl Meyer patents and the patents-in-suit. There is no evidence that Google ever used the technology covered by the Carl Meyer patents, nor is there any evidence in the record (or otherwise) of the economic benefits of that technology, outside the fact that Google was willing to purchase them.

13. In contrast, the jury determined that Google was using the patents-in-suit in its Smart Ads system that was placed into service in 2004. We have to assume for the purposes of the 2012 hypothetical negotiation that Google was, at least as of November 2012, continuing to use the I/P Engine technology covered by the patents-in-suit. In fact, it is my understanding through the Declaration of Bartholomew Furrow, a staff software engineer at Google, that Google admits continuing to use the adjudged infringing Smart Ads system at least until May 11, 2013. Extensive evidence was presented at trial that this technology was "mission critical" to Google's business and that the Smart Ads system that was found to infringe was responsible for a 20% to 40% increase in Google's advertising revenues.[24]

14. Furthermore, Dr. Ugone's suggestion that the $3.55 million purchase price of the Carl Meyer patents is a reliable and reasonable indicator of the value of the patents-in-suit is ridiculous in light of the jury's reasonable royalty award. As Dr. Ugone points out, the Carl Meyer patents had over 10 years left before expiration at the time of the Google purchase.[25] Simple math tells us that those patents were purchased for approximately $350,000 per year of patent life remaining. The jury award of over $30 million for a period of 12.5 months as the reasonable royalty for the patents-in-suit provides the clearest indication that the Carl Meyer patents are in no way economically comparable.

[20] Trial Tr. at 630.
[21] Ugone Declaration at ¶39.
[22] G-IPE-0220601-637.
[23] See, e.g., Ugone Declaration at ¶17, ¶23, ¶39 and see also, e.g., Trial Tr. at 1595-98.
[24] See, e.g., PX-32, PX-34, PX-64, PX-228, and PX-337.
[25] Ugone Declaration at ¶23.

Relationship Between I/P Engine and Google as Licensor and Licensee

15. Dr. Ugone's declaration contains the somewhat ironic suggestion that I/P Engine would be favorably disposed to grant Google a lump sum license at a fraction of the amount it had just been awarded by the jury:

> Further, by the time of the verdict in this case, I/P Engine and Google had been adversaries in a contentious lawsuit. This consideration provides additional support that the parties would have agreed to a lump-sum royalty because a lump-sum structure reduces the likelihood of further disputes between the parties.[26]

16. He further suggests that "I/P Engine would have recognized the advantages of licensing the patents-in-suit to Google in the form of licensing revenue and benefits from Google's strong brand name and commercial success…[27]"

17. Both of these suggestions from Dr. Ugone are without merit and are illogical. As to the first point, Dr. Ugone correctly points out that the lawsuit was highly contentious. That fact alone suggests that I/P Engine would not view Google as a party to which it should grant a highly discounted paid-up license as compared to the value that had just been established by the jury. Furthermore, we must assume for the purposes of this analysis that the parties enter the hypothetical negotiation as willing licensor and licensee with no contention regarding the validity, enforceability and infringement of the patents-in-suit. Thus, the implication (if not veiled threat) in Dr. Ugone's position that Google would continue to be a contentious counter-party absent a one-time payment is misguided and improper.

18. As to the second point, there is no basis to suggest that I/P Engine would derive more benefit from granting a lump-sum license to Google than it would from insisting on a license of the same form as awarded by the jury.

Impact of Purported Non-Infringing Alternatives on the Compulsory License

19. Dr. Ugone's declaration relies in part on purported design around efforts by Google as evidence of both a lump-sum license and as support for an amount far less than was awarded by the jury.[28] It is my opinion that the alleged design-around efforts of Google are, in fact, more supportive of an ongoing running royalty than a lump-sum structure. Under the running royalty structure, if and when

[26] Ugone Declaration at ¶21.
[27] Ugone Declaration at ¶20.
[28] Ugone Declaration at ¶¶31-33 and ¶37.

Google removes the infringing functionality from its systems, royalties would no longer be due. Conversely, for whatever time period the infringement continues after the final judgment, the running royalty would apply.

20. Dr. Ugone suggests that I/P Engine would have been willing to accept, as of the November 2012 negotiation date, Google's representation that it would remove the functionality at some future date and that the system change would be agreed by all parties to no longer be infringing. If I/P Engine were to accept such a proposition, Google would then have a paid-up license to the patents for their remaining life and would be free, if it chose, to continue to use I/P Engine's patented technology with no further compensation and with no obligation to go forward with the purported design-around efforts. If, conversely, Google believed that it would in fact remove the infringing functionality by some date certain in the near future, there is no rational basis for Google to oppose the running royalty other than to use that opposition as a means to argue for a lower overall payment.

21. Stated differently, if Google in fact believes that it has a design-around that will be found to be no longer infringing, then there is no rational basis for Google to oppose a running royalty structure for the compulsory license.

<u>20.9% Apportionment Factor</u>

22. Dr. Ugone suggests that there is no support in the record for a 20.9% apportionment factor and that the verdict indicates that the jury instead determined that a 2.8% apportionment factor was reasonable.[29] As I explained in my November 9, 2102 Declaration (paras. 13-18), Dr. Ugone's assertion is not based on any evidence, but rather an incorrect methodology that requires ignoring the jury's total jury award, the evidence at trial and backing a percentage out of a portion of the jury's verdict, then speculating as to what the jury actual did.

23. In my November 9, 2012 Declaration, I explain that the appropriate apportionment percentage is 20.9%. This is the flat going-forward apportionment percentage that I presented at trial (Trial Tr. at 820-21). In my December 7, 2012 Declaration at paragraphs 13-18, I explained that Dr. Ugone's 2.8% apportionment percentage is pure conjecture. A 2.8% apportionment percentage is not supported by any of the evidence. Indeed, the 20.9% apportionment factor presented at trial was conservative in view of the evidence discussed above in paragraph 13.

[29] Ugone Declaration at ¶36.

* * *

I declare under penalty of perjury that the foregoing is true and correct. Signed May 20, 2013 in Austin, Texas.

Stephen L. Becker, Ph.D.

CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of May, 2013, the foregoing **SECOND DECLARATION OF STEPHEN L. BECKER, Ph.D. REGARDING ONGOING ROYALTIES ISO I/P ENGINE, INC.'S REPLY IN SUPPORT OF ITS MOTION FOR AN AWARD OF POST-JUDGMENT ROYALTIES,** was served via the Court's CM/ECF system, on the following:

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