

**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.,	)	
	)	
Defendants.	)	
	)	

**PLAINTIFF I/P ENGINE, INC.’S OPPOSITION TO DEFENDANTS’  
MOTION FOR LEAVE TO FILE NOTICE OF SUPPLEMENTAL EVIDENCE**

**I. INTRODUCTION**

The jury determined the appropriate measure of damages to be a 3.5% running royalty. This Court is currently being asked to decide *post-judgment* royalties in view of the jury’s finding. The I/P Engine-Microsoft settlement agreement (“Microsoft Settlement”) does not reflect the type of agreement I/P Engine would enter into with Defendants post-judgment. It is a pre-litigation settlement and Microsoft was in a completely different bargaining position than Defendants:

- Defendants have been found to infringe IP Engine’s asserted patents; there is no such finding of infringement as to Microsoft;
- The jury found that Defendants should pay a running royalty of 3.5%; there is no such finding against Microsoft;
- As compared to Google, Microsoft is a smaller player in the search advertising market; and
- I/P Engine spent time and money over a year litigating against Defendants; Microsoft was never even served with a Complaint.

Indeed, contrary to Defendants’ position, the Microsoft Settlement demonstrates that I/P Engine would *not* consider a lump sum payment. While the Microsoft Settlement provided for Microsoft making a \$1 million upfront payment, Microsoft also agrees to pay I/P Engine 5% of

any amounts Google pays I/P Engine.<sup>1</sup> Microsoft also assigned I/P Engine six patents.

Defendants do not and cannot attempt to put a lump-sum value on this settlement. The Microsoft Settlement is contingent, it is variable, and to the extent Defendants are ordered to pay a running royalty and do so, the Microsoft Agreement falls into the category of a running royalty.

The Microsoft Agreement is simply irrelevant to this Court's modified *Georgia-Pacific* and *Read* analyses in determining post-judgment royalties. As such, the Microsoft Settlement is not relevant supplemental evidence and, thus, Defendants' motion should be denied.

## **II. THE MICROSOFT SETTLEMENT AGREEMENT IS NOT MATERIAL TO A DETERMINATION OF ONGOING ROYALTIES AGAINST DEFENDANTS**

In this case, there has been a substantial shift in the bargaining positions between I/P Engine and Defendants. See *ActiveVideo Networks, Inc. v. Verizon Communications, Inc.*, 694 F.3d 1312, 1343 (Fed. Cir. 2012) (*ActiveVideo II*); see also D.I. 823, at 6-11; D.I. 949, at 4-17. As this Court has recognized, “[i]t would be improper to base a royalty rate” on a separate agreement that a patentee had reached “[w]hen the bargaining positions of the involved parties in any hypothetical negotiation post-verdict has clearly improved.” *ActiveVideo Networks, Inc. v. Verizon Communications, Inc.*, 827 F. Supp. 2d 641, 656 (E.D. Va. 2011) (“*ActiveVideo I*”), confirmed by *ActiveVideo II*. I/P Engine's bargaining position with Microsoft is wholly different than its post-judgment bargaining position with Defendants.

Again, the Microsoft Settlement is a pre-litigation settlement. The circumstances for early settlement and the determination of ongoing, post-verdict, royalties greatly differ, including the knowledge that the primary market participant (Google) had litigated and lost on infringement, validity and damages, a jury awarded a running royalty of 3.5%, Microsoft's smaller market share in search advertising, the avoidance of discovery and litigation costs by

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<sup>1</sup> The parties also agreed to a limitation on Microsoft's total liability.

early-stage settlement, and the perceived strengths and weaknesses of the claims and defenses. *See LaserDynamics, Inc. v. Quanta Computer, Inc.* 694 F.3d 51, 78 (Fed. Cir. 2012) (remanding with instructions to exclude settlement agreement because it was outside the scope of circumstances where settlements are admissible and probative); *see also ePlus, Inc. v. Lawson Software, Inc.*, 2011 WL 2119410, at \*14 (E.D.Va. May 23, 2011) (rejecting defendant’s assertion that settlement agreements could permit an adequate basis to calculate reasonable royalty, specifically noting the avoidance of litigation costs by early-stage settlement). This Court and the Federal Circuit have warned against using such agreements in a post-royalty determination. *See ActiveVideo I*, 827 F.Supp.2d at 656; *ActiveVideo II*, 694 F.3d at 1342; *see also LaserDynamics*, 694 F.3d at 77.

Given I/P Engine’s much stronger bargaining position and the parties’ changed circumstances under the modified *Georgia-Pacific* and *Read* factors post-verdict, I/P Engine would, at a minimum, insist on a license for *more* than the royalty awarded by the jury for Defendants’ pre-verdict infringement, not less as Defendants suggest. *See* D.I. 949, at 17.

### **III. THE MICROSOFT SETTLEMENT AGREEMENT IS NOT A LUMP-SUM LICENSE TO THE PATENTS-IN-SUIT**

Even if this Court were to consider the Microsoft Settlement, it is not a lump-sum license, as Defendants suggest. Tellingly, Defendants do not even attempt to—and cannot—put a lump-sum value on the Microsoft Settlement.

In addition to the \$1 million upfront payment by Microsoft, Microsoft agrees to pay I/P Engine 5% of any amounts paid by Google and assigned 6 patents to I/P Engine. Defendants argument that these form part of some vague “lump sum transfer” is unsupportable. For instance, to the extent that Defendants are ordered to pay I/P Engine a running royalty, Microsoft will pay I/P Engine a running royalty equal to 5% of Google’s payments. Nevertheless, since

Microsoft's liability is derivative of Google's liability, which is itself a variable, the Microsoft Settlement reflects conditions that defy quantification. *See ePlus, Inc.*, 2011 WL 2119410, at \*14. Regarding the six assigned patents, there is no reasonable way to quantify their values (and Defendants have not attempted to do so), much less argue that they support a "lump sum transfer" that should be considered in determining the form of ongoing royalties for Defendants' continued infringement.

#### IV. CONCLUSION

The Microsoft Settlement is not material to I/P Engine's Motion for an Award of Post-Judgment Royalties. It is not based on the changed circumstances of the parties as a result of the jury verdict and this Court's final judgment—factors that must be considered in determining ongoing royalties for Defendants' adjudged, post-judgment willful infringement. Accordingly, this Court should deny Defendants' Motion for Leave.

Dated: June 17, 2013

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**CERTIFICATE OF SERVICE**

I hereby certify that on this 17th day of June, 2013, the foregoing **PLAINTIFF**

**I/P ENGINE, INC.’S OPPOSITION TO DEFENDANTS’ MOTION FOR LEAVE TO  
FILE NOTICE OF SUPPLEMENTAL EVIDENCE**, was served via the Court’s CM/ECF

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