

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

**REPLY IN SUPPORT OF DEFENDANTS' MOTION FOR LEAVE TO FILE NOTICE
OF SUPPLEMENTAL EVIDENCE**

I/P Engine's opposition does not address whether Defendants have shown good cause to file supplemental evidence obtained after the close of briefing on the pending motion for post-judgment royalties. Instead, it rehashes its case for a post-judgment royalty and argues that its own recent license for the patents-in-suit to Microsoft is somehow irrelevant to the outcome of a post-judgment hypothetical negotiation for a license to the same patents with Google. That argument is contrary to not only Federal Circuit authority, but also contradicts I/P Engine's own post-judgment royalty position based on the pre-litigation Overture licenses with various small entities in 2004.

I. PLAINTIFF DOES NOT REFUTE GOOGLE HAS SHOWN GOOD CAUSE TO FILE SUPPLEMENTAL EVIDENCE.

The issue before the Court on Defendants' motion is simply whether there is good cause to file information concerning a license granted by I/P Engine to Microsoft for the patents-in-suit. Because that agreement was not signed or made public until after briefing closed on that motion, good cause is shown.

Further, as admitted by I/P Engine, the license is relevant to the hypothetical post-judgment licensing negotiation between Google and I/P Engine, which provides the analytical framework for the determination of a post-judgment royalty. *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Drilling USA, Inc.*, 699 F.3d 1340, 1357-59 (Fed. Cir. 2012) (patentee's

licensing practices are relevant to determining form of agreement that would result from hypothetical negotiation). I/P Engine does not seriously dispute this. Indeed, I/P Engine argues that the license supports its position as to what the post-judgment royalty should be. (Opp. at 1-2 (arguing that the “Microsoft Settlement demonstrates that I/P Engine would *not* consider a lump sum payment” (emphasis in original)). Accordingly, Defendants motion for leave should be granted.

II. PLAINTIFF’S ARGUMENTS AS TO THE MERITS OF ITS REQUEST FOR AN ONGOING ROYALTY FAIL.

The only dispute I/P Engine actually raises is whether, and to what extent, it should receive a post-judgment royalty. For example, I/P Engine argues that its license agreement with Microsoft is not probative of a post-judgment royalty in this case because Microsoft had not been found to infringe, Microsoft is a “smaller player in the search advertising market,” and the Microsoft license was “pre-litigation.” (Opp. at 1.)

As an initial matter, these factors do not distinguish the Microsoft license. I/P Engine ignores that Google’s current system has also not been found to infringe. (See Dkt. 938 at 4-7; Dkt. 940.) Nor is the Microsoft license “pre-litigation,” as I/P Engine contends. I/P Engine filed a patent infringement complaint against Microsoft in the Southern District of New York that this license resolved. See *I/P Engine, Inc. v. Microsoft Corp.*, No. 1:13-cv-00688 (S.D.N.Y.).

Further, I/P Engine’s attempts to distinguish the Microsoft license undermine its entire post-judgment royalty model. I/P Engine’s post-judgment royalty position is premised on license agreements entered into by Overture Services that are distinguishable on the exact same grounds. (See Dkt. 823 at 8-9; Dkt. 824 at 4-5; Dkt. 949 at 8-9.) Overture never filed litigation against the parties to these licenses, and none were found to infringe. (Dkt. 460 at 11 & 13.) Also, none of them were substantial players in the search advertising market. Far from it. (Trial

Tr. 889-90 (Overture licensees were not “household names” or “global technology leaders” like Google)). In fact, Microsoft, a well known, long-time player in search advertising is much more similar to Google than any of the small companies that were parties to the Overture licenses upon which I/P Engine exclusively relies. I/P Engine’s argument merely reinforces that I/P Engine has not met its burden of providing the Court with any comparable license agreements from which a post-judgment royalty could be derived.

ActiveVideo Networks, Inc. v. Verizon Communications, Inc., 827 F. Supp. 2d 641, 656 (E.D. Va. 2011), rev’d in part 694 F.3d 1312 (Fed. Cir. 2012), cited by I/P Engine, is not to the contrary. (Opp. at 2.) That case declines to base a sunset royalty *rate* on the rate in a third-party license agreement. But Defendants have not argued that the Court should base a post-judgment royalty *rate* on the Microsoft license. Instead, Defendants have simply pointed out that this agreement confirms I/P Engine’s willingness to enter into lump-sum licenses for the patents-in-suit.

I/P Engine also contends that the Microsoft license is not a lump sum. (Opp. at 3-4.) I/P Engine, however, acknowledges that Microsoft will be required to pay to I/P Engine 5% of any amounts that Google pays for use of I/P Engine’s patents and that this payment is subject to a cap.¹ (Opp. at 1-2 & n.1.) Nevertheless, I/P Engine argues that this agreement does not require a lump-sum payment because these amounts cannot presently be quantified. (Opp. at 3-4.) The fact that a royalty payment cannot be immediately quantified does not, however, make that payment a “running royalty,” as I/P Engine argues. Instead, a royalty is “running” when its

¹ To the extent I/P Engine disputes Defendants’ characterization of the Microsoft license, I/P Engine was free to file a copy of that license with the Court. Defendants cannot do so because I/P Engine has not produced the agreement to them and it was not made public. Similarly, to the extent the parties to the Microsoft license agreement attached any real value to the assignment of the six patents that I/P Engine refers to (Opp., 3), I/P Engine could have provided evidence of that value. Tellingly, I/P Engine did not.

amount is “tied directly to how often the licensed invention is later used or incorporated into products by the licensee.” *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1326-27 (Fed. Cir. 2009) (emphasis added). As Defendants have noted, nothing in the Microsoft license ties payments to how often Microsoft, the licensee, uses I/P Engine’s patents.

I/P Engine also ignores the fact that Microsoft’s liability is capped, making its maximum royalty payment readily quantifiable. The agreement provides that Microsoft will pay \$1 million “plus five percent (5%) of any amounts Google pays for use of the patents.” (Dkt. 954-2 at 3.) The agreement also places a limit on Microsoft’s total liability that will take effect if “the amounts received from Google substantially exceed the judgment previously awarded.” (Dkt. 954-2 at 3.) The judgment against Google is for \$15.8 million, and the judgment against its codefendants, who Google is indemnifying, totals approximately \$19 million. (Dkt. 801.) Five percent of these judgments combined is approximately \$1.74 million. Thus, the monetary payment from Microsoft (even assuming that it would also be based on the judgments against the co-defendants that Google is indemnifying) is capped at an amount that would not substantially exceed \$2.74 million (the \$1 million lump sum payment, plus \$1.74 million). The lump-sum payment, and the maximum amount that will be paid under the license, are highly relevant to this Court’s informed decision concerning I/P Engine’s claim for an exponentially greater and uncapped amount of post judgment royalties from Google.

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CERTIFICATE OF SERVICE

I hereby certify that on June 21, 2013, 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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