

**IN THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION**

**WESTERNGECO L.L.C.,**

**Plaintiff,**

**V.**

**ION GEOPHYSICAL CORPORATION,  
FUGRO-GEOTEAM, INC., FUGRO-  
GEOTEAM AS, FUGRO NORWAY  
MARINE SERVICES AS, FUGRO, INC.,  
FUGRO (USA), INC. and FUGRO  
GEOSERVICES, INC.,**

**Defendants.**

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**CIVIL ACTION NO. 4:09-cv-01827**

**Judge Keith P. Ellison**

**JURY TRIAL DEMANDED**

**ION’S MOTION FOR JUDGMENT AS A MATTER OF LAW,  
MOTION FOR NEW TRIAL ON DAMAGES, AND  
ALTERNATIVELY, MOTION FOR REMITTITUR**

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IN THE UNITED STATES DISTRICT COURT  
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| WESTERNGECO L.L.C.,  | §   |                                |
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| V.   | §   | CIVIL ACTION NO. 4:09-cv-01827 |
| ION GEOPHYSICAL CORPORATION,<br>FUGRO-GEOTEAM, INC., FUGRO-<br>GEOTEAM AS, FUGRO NORWAY<br>MARINE SERVICES AS, FUGRO, INC.,<br>FUGRO (USA), INC. and FUGRO<br>GEOSERVICES, INC., | §<br>§<br>§<br>§<br>§<br>§<br>§<br>§<br>§ | Judge Keith P. Ellison         |
| Defendants.  | §   | JURY TRIAL DEMANDED            |

**ION’S MOTION FOR JUDGMENT AS A MATTER OF LAW,  
MOTION FOR NEW TRIAL ON DAMAGES, AND  
ALTERNATIVELY, MOTION FOR REMITTITUR**

Defendant ION Geophysical Corporation (“ION”) files this Motion for Judgment as a Matter of Law, Motion for New Trial on Damages, and Alternatively, Motion for Remittitur, as follows:

**SUMMARY OF ARGUMENT**

The jury awarded WesternGeco L.L.C. (“WG”) \$105.9 million based on two defective and overlapping damage models: (1) a radical lost profits model unsupported by the law or evidence; and (2) a reasonable royalty model that failed to meet the basic requirements of patent law. A judgment based on the jury’s verdict would require this Court to ignore well-settled principles of patent damages and make new law.

The jury’s lost profits award must be vacated because it is not based on the domestic acts of infringement in this case—ION’s supply of components from the United States—but on the revenues that WG estimated its competitors received for their non-infringing use of ION’s

equipment in 10 seismic surveys performed in foreign waters. A judgment on this verdict would improperly impose damages on ION for the non-infringing use by third parties and result in the erroneous extraterritorial enforcement of United States patent law. WG's damages expert, Raymond Sims ("Sims"), impermissibly based his calculations on WG's guesstimates of the revenue its competitors received for the 10 surveys which WG admits were drawn from rumor and "innuendo." Sims also improperly used the *Panduit* test that is applicable only when the patentee and the infringer compete to sell similar products, and ION and WG do not. Sims then applied the test inconsistently with insufficient evidence to support three of the four *Panduit* factors. WG further failed to carry its burden by assuming critical facts, such as whether the claimed lost surveys were actually performed using ION's components.

WG also presented a reasonable royalty on all of ION's sales of its DigiFIN and Lateral Controller to customers other than former co-defendant Fugro, but failed to apportion the damages to account for the value of WG's patented improvement. Sims's reasonable royalty testimony also included unsupported claims for convoyed sales and products sold before WG gave ION actual notice of infringement.

Because the jury's verdict is based on theories with no foundation in the law and is not supported by sufficient evidence or is contrary to the great weight and preponderance of the evidence, ION is entitled to judgment as a matter of law ("JMOL") or a new trial on damages.

#### **NATURE AND STAGE OF THE PROCEEDING**

Trial of this case began on July 23, 2012. On August 13, 2012, the Fugro Defendants remaining in this case settled and were dismissed. Dkt. 525. The jury rendered its verdict on August 16, 2012, finding that certain patent claims were infringed under 35 U.S.C. § 271(f)(1) and (f)(2) and that ION's infringement was willful. Dkt. 536. The jury awarded WG lost profits of \$93,400,000 and a reasonable royalty of \$12,500,000, for a total award of \$105.9 million. *Id.*

### **ISSUES TO BE DECIDED**

1. Whether the evidence is legally sufficient to support the jury's award of lost profits (Question 5), or the finding is against the great weight and preponderance of the evidence, when the finding is based on a damage model that inherently violates blackletter patent law, improperly allows WG to recover overlapping damages, and is based on nothing more than speculation and unsubstantiated testimony?
2. Whether the evidence is legally insufficient to support the jury's award of a reasonable royalty (Question 5), or the finding is against the great weight and preponderance of the evidence, when the finding is based on a damage model that improperly allowed WG to recover an amount beyond the value of its patented invention, unproven conveyed sales, and sales prior to the date notice of infringement was given?
3. Whether a new trial is necessary because damages are not segregated and/or are excessive, or in the alternative, the Court should grant a remittitur?

### **STANDARD OF REVIEW**

The plaintiff has the burden to prove damages. *See Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009). If the plaintiff fails to present evidence of damages, JMOL should be granted. *See ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 868 (Fed. Cir. 2010); *see also* Fed. R. Civ. P. 50(a)(1) (JMOL is appropriate if a "reasonable jury would not have a legally sufficient evidentiary basis to find for the party on that issue."). JMOL is reviewed *de novo*. *See LaserDynamics, Inc. v. Quanta Computer, Inc.*, --- F.3d---, No. 2011-1440, 2012 WL 3758093, at \*10 (Fed. Cir. Aug. 30, 2012) (attached as Ex. 1).

A new trial may be granted if (1) the verdict is against the great weight of the evidence, (2) the damages awarded are excessive, (3) the jury's findings are inconsistent, (4) prejudicial error was committed, or (5) to prevent injustice. *See Ellis v. Weasler Eng'g, Inc.*, 258 F.3d 326, 342 (5th Cir. 2001); *Smith v. Transworld Drilling Co.*, 773 F.2d 610, 612-13 (5th Cir.1985); *United States v. Flores*, 981 F.2d 231, 237 (5th Cir. 1993). An order for new trial or remittitur will not be disturbed absent an abuse of discretion or a misapprehension of the law. *See Poly-Am., L.P. v.*

*GSE Lining Tech., Inc.*, 383 F.3d 1303, 1307 (Fed. Cir. 2004); *see also LaserDynamics*, 2012 WL 3758093, at \*10.

## **BACKGROUND**

The relevant background may be found in ION's Motion For New Trial on Infringement Under 35 U.S.C. § 271(f)(2) at § I, filed September 28, 2012, which is incorporated herein.

## **ARGUMENT**

### **I. LOST PROFITS**

#### **A. There Is No Legal Basis for the Lost Profits Award.**

##### **1. Damages cannot be based on third-party revenue realized from the non-infringing use of the patented device outside the United States.**

There is no authority to permit an award of lost profits against a component parts manufacturer for infringement under § 271(f) based on the revenue realized by third-parties using the patented invention outside the United States. Section 271(f) only imposes liability for the supply of components in or from the United States, not the extraterritorial use of those combined components. *See* 35 U.S.C. § 271(f); *cf. Waymark Corp. v. Porta Sys. Corp.*, 245 F.3d 1364, 1368 (Fed. Cir. 2001). WG's claim for lost profits is nothing more than an attempt to circumvent the limits of § 271(f) and recover damages for extraterritorial, non-infringing conduct that United States patent law is not designed to reach.

As this Court has previously found in its prior rulings, § 271(f) has a meaning independent of § 271(a)-(c). Dkt. 365 at 46. The text of the statute does not require a direct infringement ever be shown, but rather the liability is based on "supplying"—which is the act that occurs in the United States. Just as § 271(f) does not require proof of direct infringement, so too it does not allow for damages based on conduct outside of the United States from making or using the patented invention.

a. *The non-infringing use of the patented invention.*

The jury's lost profits award is improperly based on the non-infringing use of the patented invention by parties other than ION. Despite WG's protestations, the scope of recoverable damages is not unlimited, and the focus of the inquiry must be on the "act of infringement." *See* 35 U.S.C. § 284 (defining the damages recoverable for infringement as "damages adequate to compensate for the *infringement*, but in no event less than a reasonable royalty for the *use made of the invention by the infringer*, together with interest and costs as fixed by the court" (emphasis added)). Here, the act of infringement was ION's supply of component parts from the United States.<sup>1</sup> Yet, WG does not seek to recover for sales of components lost in competition to ION's supply of components in violation of § 271(f). Instead, the jury's lost profits award is based upon use by third parties of those components (in combination with other components, such as streamers, and a vessel) to perform surveys outside the United States. ION is not a party to those survey contracts, has no financial stake in the profitability of the survey contracts, and no role in bidding or competing for the survey contracts. All of this activity (by third parties neither controlled nor managed nor otherwise related to ION) takes place outside of the United States<sup>2</sup> and, thus, does not infringe a United States patent. *See* Dkt. 164 at \*22 (recognizing that surveys conducted outside the United States are not infringing acts); Dkt. 144 at \*43 (same). Such conduct is, therefore, not a proper basis for damages under § 271(f).

The Federal Circuit is clear on this issue. In *Cardiac Pacemakers*, the Federal Circuit, sitting *en banc*, evaluated whether § 271(f) applies to the supply of a device used to perform a particular method outside the United States. *Cardiac Pacemakers, Inc. v. St. Jude Med., Inc.*, 576

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<sup>1</sup> Although ION vehemently denies that it has infringed any of WG's patents, for the sake of argument, in this motion, infringement under § 271(f) will be assumed.

<sup>2</sup> WG's director of marketing and vice president of sales, Robin Walker, admitted that the claimed lost profits surveys took place more than 12 miles from the coast of the United States. Trial Transcript ("Tr.") at 1868:20-1869:9. (All trial transcript excerpts are attached as Ex. 2).

F.3d 1348, 1362 (Fed. Cir. 2009). Relying on the statutory language and legislative history, the court concluded that § 271(f) does not apply to method claims. Consequently, liability did not extend to the use of components by third parties outside of the United States. *See id.* at 1365-66. Although not seeking to enforce its method claims at trial, WG nonetheless presented evidence of lost profits based on the overseas *use* of its patented invention under § 271(f). All of the Bittleston Patents (the ‘520, ‘967, ‘607 Patents) have a series of method claims followed by a series of apparatus claims for implementing those methods—at least in the context of the Bittleston Patents, the use of the apparatus is the same as practicing the method. *See* PTX1, PTX2, PTX3.<sup>3</sup> A patent owner should not be able to use a distinction with no meaningful difference to circumvent the rules against extraterritorial application of United States patent law.

b. ***Predicating damages on non-infringing, extraterritorial conduct improperly gives extraterritorial effect to United States law.***

The jury’s lost profits award runs afoul of precedent limiting the reach of United States patent law. The Supreme Court has clearly articulated a strong presumption against extending United States patent law to extraterritorial conduct. *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007) (“The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law.”). This bar against international enforcement of United States patent law has been in place for over 150 years. *See id.* at 456 (cautioning that the presumption that patent law only applies domestically is not defeated simply because a statute like § 271(f) specifically addresses extraterritorial application but “remains instructive in determining the *extent* of the statutory exception” (emphasis orig.)); *see also Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915) (“The right conferred

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<sup>3</sup> Due to their voluminous nature, the cited trial exhibits (which are in the record) are not attached to this Motion. Upon request, ION will deliver courtesy copies of any exhibits desired by the Court.



by a patent under our law is confined to the United States and its territories,” and infringement “cannot be predicated on acts wholly done in a foreign country.” (internal citation omitted)); *Brown v. Duchesne*, 60 U.S. 183, 195 (1856) (holding that use of a patented invention outside of the United States is not infringement).

Permitting WG to recover damages for the extraterritorial, non-infringing conduct of third parties results in the impermissible extraterritorial enforcement of United States patent law. WG’s approach in effect “converts a single act of supply from the United States into a springboard for liability each time” the component is used in a system or otherwise used outside of the United States—a proposition expressly rejected by the Supreme Court. *Microsoft*, 550 U.S. at 456. Foreign law, not United States law, governs the extraterritorial use of a patented invention. *See John Hopkins Univ. v. CellPro, Inc.*, 152 F.3d 1342, 1366 (Fed. Cir. 1998); *see generally* 35 U.S.C. § 271.

Because the lost profits award is premised on nothing more than foreign assembly and use by third-parties, JMOL for ION is warranted.

2. **The Panduit test only applies if the patentee’s and the infringer’s products compete.**

Even if WG’s theory were recognized by the law, WG cannot prove that the claimed lost profits were caused by the infringement. The legal test that WG used to establish but-for causation of its lost profits claim does not apply to this case. *See* Tr. at 2275:14-2276:2. As a result, the evidence does not support Sims’s opinion, the submission of a lost profits issue to the jury, or the verdict under the correct application of the law.

The *Panduit* test applies when a patent owner claims that “it lost sales *equal in quantity* to the infringing sales.” *See Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 671-72 (Fed. Cir. 1988) (emphasis orig.). The test provides that to obtain profits on sales the patentee would have

made but for the infringement, “i.e., the *sales made by the infringer*, a patent owner must prove: (1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made.” *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978) (emphasis added). The failure to establish any one of these factors is fatal to a lost profits claim. *Id.*

The logical premise of the *Panduit* test is that, if there is demand for a particular product and no available alternatives for it, the fact-finder may infer that in the absence of infringement purchasers of the product would transfer their demand for the infringing product to the patentee’s substitute product and, thus, the patentee would have captured the infringer’s sales if it had the capacity to make them. *See Bic Leisure Prods. Inc. v. Windsurfing Int’l, Inc.*, 1 F.3d 1214, 1218-19 (Fed. Cir. 1993). If the products “are not sufficiently similar to compete in the same market for the same customers, the infringer’s customers would not necessarily transfer their demand to the patent owner’s product in the absence of the infringer’s product.” *Id.* The inference provided by the *Panduit* test is, therefore, not possible where the patentee’s and the infringer’s products do not compete for the same customers. *Id.* at 1218 (“If the patentee’s and the infringer’s products are not substitutes in a competitive market, *Panduit*’s first two factors do not meet the ‘but for’ test—a prerequisite for lost profits.”).

ION and WG unquestionably sell different products to different customers. ION sells equipment to surveyors, not surveys. Tr. at 312:20-25, 4126:3-5 (including to WG), 4315:13-21, 2427:19-21, 2821:25-2822:4; *see also id.* at 2468:25-2469:1. ION’s surveyor customers combine ION’s equipment with other products to perform surveys. *See, e.g., id.* at 1234:3-10. In contrast, WG does not manufacture or sell marine seismic equipment or the patented system; rather, WG

sells surveys to oil companies and uses its equipment to perform the surveys. Tr. at 312:3-7, 243:8-11, 1639:4-12. While ION competes with other equipment suppliers for sales, WG competes with surveyors for survey jobs; thus, there is no market overlap among the customers buying ION's products and WG's surveys. *See* Tr. at 313:1-5, 2270:20-2271:7, 2468:25-2469:1; *see also id.* at 4548:19-21, 1694:25-1695:7, 4893:21-4894:7. Accordingly, the *Panduit* test is not applicable to this case. *See Mitutoyo Corp. v. Cent. Purchasing, LLC*, 499 F.3d 1284, 1291 (Fed. Cir. 2007) (affirming summary judgment for infringer because the patentee failed to establish any market overlap among the consumers buying the patentee's and the infringer's respective products, so as to entitle it to a jury trial on lost profit damages); *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1581 (Fed. Cir. 1996) (explaining that to apply the *Panduit* test, the district court "would have needed to ascertain whether [infringer's] and [patentee's] products competed for the same customers . . ."); *Comair Rotron, Inc. v. Nippon Densan Corp.*, 49 F.3d 1535, 1540 (Fed. Cir. 1995) (Rader, C.J., concurring) (cautioning that "before applying the *Panduit* test, a court must determine whether the accused device competes with the patentee's product in the marketplace. If not, the court should not employ the *Panduit* test.").

Because there is legally insufficient evidence that the parties' products compete, the *Panduit* test is inapplicable, and because liability and damages under § 271(f) are narrower than under § 271(a)-(c), ION is entitled to JMOL on lost profits (or at least a new trial). *See Mitutoyo*, 499 F.3d at 1291 (whether a party may receive lost profits is a question of law for the court).

**B. The Lost Profits Award Is Not Supported by Sufficient Evidence.**

WG's damages case rested on its expert, Sims. Sims's testimony, however, misapplied legal theories, used unreliable facts, and made speculative assumptions. It was admitted over ION's challenges to his original and revised theories and cannot support the jury's award. (*See* Dkt. 350, 391, 418, 425, 440); *see Lucent*, 580 F.3d at 1310 (holding that damages awards that are

“grossly excessive or monstrous, clearly not supported by the evidence, or based only on speculation or guesswork” lack a legally sufficient evidentiary basis).

1. **The CRM database is unreliable and cannot support lost profits.**

The exclusive source of the revenue figures used in Sims’s lost profits calculations—the Customer Relationship Management database (“CRM”)—is intrinsically unreliable. *See* Tr. at 2403:1-4, 2471:19-22, 2494:8-19; *see also id.* at 1651:4-11. WG did not offer any evidence from the surveyors or the oil companies associated with the 10 surveys to corroborate the guesstimates entered in the CRM for (a) the use of DigiFINs, or (b) the amount paid for the surveys. *See id.* at 2448:18-24, 2454:12-18, 2473:19-22 (Sims was told that information from the oil companies was not available to be compared to the CRM). Sims’s use of unsubstantiated information from the CRM is fatal to his lost profits testimony.<sup>4</sup>

The Federal Circuit requires that a “damages theory must be based on ‘sound economic and factual predicates.’” *See LaserDynamics*, 2012 WL 3758093, at \*11 (quoting *Riles*, 298 F.3d at 1311). The CRM alone is not such a sound predicate—yet no corroboration was offered by WG. ION’s damages expert, Lance Gunderson (“Gunderson”), testified that the CRM is not the type of source that he or others in his field would rely on as a basis for a damages analysis. Tr. at 4657:11-16, 4658:14-18, 4663:16-24. While WG’s survey competitors may be foreign, the purchasers each have operations in Houston—ExxonMobil, BP, Total, Conoco, and Statoil—and WG could have sought discovery in this district from these purchasers to corroborate the information in the CRM for proof of damages at trial.

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<sup>4</sup> For example, if a survey were never actually completed, WG would have no lost profits. Likewise, if a survey did not actually use DigiFIN, then WG would have no lost profits. If the payment terms were such that price drove the bid selection and there were no requirement that DigiFIN be used, then there is no proof that WG would have made the sale at the higher price—especially since the record shows other methods and apparatus could be used for at least some of the same functions. *See, e.g.*, Tr. at 3557:17-3558:11.

Moreover, WG's employees and Sims admitted that the CRM is not a sound predicate for a variety of reasons. *First*, WG's senior management testified that the CRM contains "rumor," "innuendo," and, notably, rank hearsay, thus expressly admitting that the database includes potential inaccuracies and evidence that is not reliable or that would not fall under any rule that would separately permit its use at trial. *See* Tr. at 1731:14-21 (Walker); *see also* Tr. at 465:14-22 (Scoulios). Sims admitted that the bulk of the information in the CRM comes from WG's contacts with people in the industry, "talking to customers, seeing what's happening." Tr. at 2451:1-12. He even conceded that "some pieces of information within the database constitute "scuttlebutt" and that he is "not discounting [some CRM data] as rumor and innuendo." *See* Tr. at 2762:11-19, 2762:22-2763:5.

*Second*, a large number of unspecified individuals had access to the CRM, rendering it difficult, if not impossible, for WG to control who inputs data into the database or to check it for accuracy. *See* Tr. at 465:23-466:2; *see also id.* at 466:17-23 (multiple individuals from various geographic regions possessed the ability to input information into the CRM); *cf. id.* at 4663:5-15 (ION's expert explained that there is no way to sample the CRM figures and compare them to the actual numbers to validate the database's accuracy). In fact, only 10% of the information is verifiable through public sources. Tr. at 1655:13-15.

*Third*, the CRM includes information proven to be inaccurate. Sims compared the CRM entries for Fugro surveys to documents regarding those surveys obtained from Fugro in discovery and found that WG's guesstimates did not match Fugro's actual revenues. *See* Tr. at 2742:6-13. While Sims contended that, *in the aggregate*, the total Fugro survey revenues reported in the CRM were only slightly different than the total reported by Fugro, he conceded that in some individual cases the estimated numbers in the CRM were "far different" than what

Fugro actually realized. *See id.* at 2472:1-2473:22. Moreover, the average variance that Sims characterized as “close” was actually at least a million dollars per survey. *See id.* at 2473:6. The fact that the total of the inaccurate individual entries for each survey is “close” (as defined by Sims) to the total revenue actually realized by Fugro is in no way a statistical validation of the data’s accuracy. Similarly, inaccurate overestimates could easily exist for survey revenue attributed to the 10 non-Fugro surveys in Sims’s lost profits analysis that are not offset by correspondingly inaccurate low estimates, leading to an excessive award.

*Fourth*, WG admitted that the CRM is difficult to use, and, often, WG employees utilized it improperly or failed to enter important information at all, resulting in an incomplete and unreliable database.<sup>5</sup> *See* Tr. at 1656:5-6 (Walker admitted “I wouldn’t say [the CRM is] complete, it’s incomplete”); *see also id.* at 465:23-466:2, 466:17-467:5 (Scoulios conceded that members of WG’s North American group “weren’t the best” at entering information in the CRM and that “we should have used it a lot more than we did” and testifying that the CRM is “a very difficult database to use” and that WG employees “should be a lot better at it”); *id.* at 2571:21-22 (CRM is unwieldy).

Because Sims’s lost profits calculations are based on revenue numbers pulled directly from the CRM that is inaccurate, riddled with rumor, innuendo, and hearsay, and lacks underlying corroborating support, they are mere conjecture, excessive, and do not satisfy Federal Circuit requirements. *See Whitserve, LLC v. Computer Packages, Inc.*, --- F.3d ---, Nos. 2011-1206, 2011-1261, 2012 WL 3573845, at \* 15 (Fed. Cir. 2012) (attached as Ex. 3) (holding that expert testimony on damages in an infringement case “does not support the verdict because [it] is conclusory, speculative and, frankly, out of line with economic reality”); *Brooke Gr., Ltd. v.*

<sup>5</sup> For one of the 10 claimed lost surveys (the Total Nigeria survey by Polarcus) WG’s database lists the awarded value as zero, so WG based its calculations on a different type of revenue, the opportunity value. PTX547 at Row 8507 (WG00942931).

*Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 242 (1993) (holding that “[w]hen an expert opinion is not supported by sufficient facts to validate it in the eyes of the law . . . it cannot support a jury’s verdict.”). Since WG could have sought corroborating evidence from survey purchasers with substantial operations in this district, WG has no excuse for failing to do so. The Court must grant JMOL for ION given the lack of evidence to support the verdict.

2. **WG did not prove that the 10 surveys were completed using DigiFIN.**

Lost profits on lost sales must be based on evidence of actual sales, not speculation, extrapolation, or assumptions. *See Oiness v. Walgreen Co.*, 88 F.3d 1025, 1029-30 (Fed. Cir. 1996) (reversing jury’s award of lost profits when the patentee did not present evidence of actual sales combined with reliable economic analysis, but only offered speculative and extrapolated evidence of the infringer’s sales); *Rolls-Royce PLC v. United Techs. Corp.*, No. 1:10cv457, 2011 WL 1740143, at \*8 (E.D. Va. May 4, 2011) (striking lost profits calculation based on “firm orders” that were subject to cancellation and might not have resulted in actual sales) (attached as Ex. 4); *cf. Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, -- F.3d ---, No. 2011-1329, 2012 WL 3329695, at \*13 (Fed. Cir. Aug. 15, 2012) (attached as Ex. 5) (rejecting infringement analysis based on what the court assumed happened rather than the evidence in the record).

Remarkably, there was no proof at trial that the 10 surveys were performed, performed using DigiFIN, or paid for in the amount claimed. Tr. at 2397:9-12, 2406:20-24. WG merely offered evidence that ION sold DigiFIN to certain surveyors (PTX 922), that oil companies made requests for proposal (*See* Tr. at 2390:18-25), and estimated the amount its competitors were presumably awarded for 10 surveys (*see infra* § I.B.2). None of the requests for proposal specified the use of DigiFIN, and not even half of the tenders for the 10 surveys specifically call for use of lateral steering. *See* PTX680; PTX742; PTX485; PTX473 at 599961; PTX650 at 453802. In short, WG left the jury to assume the existence of material facts, in particular, that the

surveys were actually performed—using DigiFIN—and the oil company paid for them in the amount claimed. It offered no evidence from the oil companies or any other third party to corroborate those assumptions. In other words, WG did not show the sales occurred, what was paid, or what the profit was from each, or even what its own profits would have been but for the competitor’s sale. ION is entitled to JMOL on lost profits or, alternatively, a new trial on damages.

3. **Sims’s analysis of the *Panduit* factors is fatally flawed.**

Sims attempted to force the facts to fit the *Panduit* test by analyzing *different products* for the *different factors* of the test. When he analyzed Factor 2 (alternatives), Sims considered the availability of substitutes for DigiFIN in the form of equipment. Tr. at 2288:21-2296:7. Yet when he analyzed Factor 3 (capacity), he did not consider WG’s capacity to make ION’s equipment sales. *Id.* at 2296:20-2297:18. In fact, WG did not adduce *any* evidence at trial that it sold, offered for sale, or had the capacity to supply steering equipment or systems for sale. *See supra* § I.A.2. Likewise, when Sims evaluated Factor 4 (amount of profit), he did not calculate the profits based upon lost sales of equipment. *See* Tr. at 2402:15-2403:4 (calculating lost profits based on surveys). Because WG does not sell lateral steering systems or equipment, it presented no evidence at trial of the amount of profits it lost from its failure to make ION’s component sales. Instead, for Factors 3 and 4, Sims considered surveys, rather than equipment, despite the fact that ION does not sell surveys. *Id.* at 2296:20-2297:18, 2378:13-21. WG provides no support for shifting the focus of the *Panduit* analysis from components to surveys. *See SmithKline Diagnostics, Inc. v. Helena Labs. Corp.*, 926 F.2d 1161, 1165 (Fed. Cir. 1991) (describing the demand, alternatives, and capacity factors of *Panduit* as relating to the same product, “the patented product”). In sum, WG did not attempt to offer any evidence that it would have been able to make ION’s component sales or profit from them.



4. **There is insufficient evidence to support three of the *Panduit* factors.**

Even assuming that Sims's inconsistent application of the *Panduit* factors were proper, the evidence remains insufficient to support WG's burden of proof on *Panduit* Factors 2, 3, and 4.

a. ***Factor 2: Available Acceptable, Non-Infringing Alternatives***

Sims referenced two alternatives to ION's DigiFIN when considering *Panduit* Factor 2: (1) Nautilus (offered by Sercel, a subsidiary of surveyor CGGVeritas ("CGGV")); and (2) eBird (offered by Kongsberg). Tr. at 2296:10-14, *see generally id.* at 2289:16-22, 2293:11-13; *see also id.* at 4671:1-10, 4671:16-4672:13, 4678:20-24, 1231:21-23, 1232:8-13. Notably, WG did not offer any evidence that the alternatives were infringing or were unavailable and unacceptable *during the relevant time period.*

(i) *No Evidence the Alternatives Infringed*

WG did not offer any evidence that devices sold in competition to DigiFIN, that is, Nautilus and eBird, or their use in surveys, infringed its patents. The inventors and WG's technical experts did not even discuss Nautilus and eBird. *See generally* Dkts. 433, 437, 449, 460 at 1500-42 (Leonard), 1256-1498 (Triantafyllou), 495-612, 650-986 (Bittleston), 826-963 (Zajac). Also, the use of Nautilus and eBird in surveys conducted more than 12 miles from the United States coast cannot be infringing as a matter of law. *See supra* § I.A.1. (use of a patented system more than 12 miles offshore is non-infringing).

(ii) *No Evidence the Alternatives Were Unavailable*

WG offered no evidence that the alternatives were unavailable *during the relevant time.* The 10 surveys were performed between October 2009 and November 2011. Tr. at 4708:24-4711:6, 4685:6-11, 4709:17-4710:6. Specifically, one of the 10 surveys was conducted in late 2009, two in 2010, and seven in 2011. *Id.* at 4687:10-19, 4709:8-11, 4710:17-4711:6; *see also* Ex. 6, demonstrative timeline of surveys.

WG's evidence regarding the availability of Nautilus and eBird spans from 2008 to early 2010 and is, thus, irrelevant to the majority of the claimed lost surveys. WG offered evidence that in 2008 and 2009, Fugro stated there were no alternatives to DigiFIN. *See* Tr. at 2289:23-2290:11, 1075:13-20; PTX 313; PTX 920. However, these alternatives are sold and used by Fugro's competitors, and referred to a period that, at best, overlapped with the first survey.

The uncontroverted evidence established that alternative lateral steering systems were available to perform surveys at the time that at least 9 of the 10 surveys were performed: (1) Nautilus was used by Sercel's parent CGGV as early as October 2009 (and definitely by January 2010); and (2) Nautilus was commercially available to other surveyors by at least March 2011. Tr. at 4677:12-17, 4678:4-8; PTX 101; Tr. at 4546:9-16, 4549:8-14, 4678:9-15, 4680:2-6, 4678:25-4679:10, 4681:2-20, 2496:5-11, 4673:2-20; PTX 244 at 3; Tr. at 2561:11-2562:1, 4683:19-4685:5, 4547:11-14. Similarly, eBird was available to conduct surveys by October 2010 when surveyor PGS deployed the eBird active positioning control system on one of its vessels. *See* Tr. at 4681:21-24, 4683:14-15. Moreover, PGS owned the eBird and had every incentive to make and use its own device in its surveys regardless of what Fugro may have thought of that device at any time.

The earliest survey in WG's lost profits claim (the ConocoPhillips job awarded to CGGV) was performed in October 2009. Tr. at 4685:6-11. While it is possible that the evidence would permit a finding that there were no alternatives to lateral steering surveys using DigiFIN or Q-Marine at that time (*see id.* at 4685:6-14), all of the other surveys WG claims as lost were performed in 2010 and 2011 when Nautilus and/or eBird systems for lateral steering were available. Consequently, no reasonable jury could find that there were no available alternatives to lateral steering surveys using DigiFIN for 9 of the 10 claimed lost surveys. *See Grain*

*Processing*, 185 F.3d at 1353 (Fed. Cir. 1999) (“The critical time period for determining availability of an alternative is the period of infringement for which the patent owner claims damages . . .”).

(iii) *No Evidence the Alternatives Were Unacceptable*

The only evidence WG offered on unacceptability of alternatives related to an irrelevant time period and did nothing to dispute the fact that WG’s largest competitors were actually utilizing the alternatives. WG offered criticisms of the alternatives in 2009 or early 2010 by only one surveyor, Fugro, as opposed to surveyors generally.<sup>6</sup> *See, e.g.*, Tr. at 2294:1-12 (explaining that Fugro’s January 2009 test of Nautilus failed and Fugro never used Nautilus), 1074:19-1075:12 (similar), 1230:8-16 (similar); Tr. at 2295:10-20 (citing May 2010 internal Fugro email that Nautilus birds failed); *see also* PTX 250 at ION783248-49. It also pointed to ION’s internal review of its competitor’s product. Tr. at 2293:11-20 (citing ION employee testimony that at the beginning of 2010, Nautilus was not seen as commercially viable); *id.* at 2291:10-2292:2, 1072:23-1073:5, PTX 250 at ION 783248-49; PTX 233. Yet in 2010 and 2011 when 9 of the 10 lost surveys were performed, surveyors like CGGV and later PGS were actually using Nautilus and eBird to conduct surveys. *See, e.g.*, Tr. at 4678:25-4679:10, 4681:2-20, 4684:17-4685:5, 4681:21-24, 4683:14-15; *see also id.* at 1232:14-23. This use demonstrates that surveys employing lateral steering using Nautilus (and later eBird) were acceptable in the market at the relevant time.<sup>7</sup> *See Gargoyles, Inc. v. United States*, 113 F.3d 1572, 1578-79 (Fed. Cir. 1997) (sale of non-infringing product proved it was acceptable and available); *Grain Processing*, 185

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<sup>6</sup> Criticisms of other devices or systems by ION are irrelevant since acceptability is considered from the viewpoint of the customer. *See Grain Processing*, 185 F.3d at 1355; Tr. at 5094:16-21 (test is whether alternative is viewed as acceptable by customers); *see* Tr. at 2294:1-4 (“ION was looking at it from the perspective as a competing product. Fugro would have been looking at it from the perspective of something to use instead of DigiFIN.”).

<sup>7</sup> When lateral steering was not an express requirement of the bid, WG would also have had to show that other methods and apparatus to effect streamer separation and to prevent tangles would not have been acceptable.

F.3d at 1352 (“market sales of an acceptable noninfringing substitute often suffice alone to defeat a case for lost profits”). WG did not adduce any evidence to permit a reasonable jury to find the absence of acceptable non-infringing alternatives.<sup>8</sup>

b. **Factor 3: Capacity**

WG adduced conclusory and speculative evidence that it had capacity to perform 25 surveys (the original number included in Sims’s lost profits analysis before Fugro settled), without regard to the location, timing, and requirements of the 10 surveys charged against ION. Walker testified that WG had a vessel available to perform the 25 jobs in issue “in some cases.” Tr. at 1696:10-14. He failed, however, to identify *in which cases*, so it is impossible to know if any of those cases included the 10 surveys claimed against ION. Sims likewise failed to differentiate WG’s capacity to perform the 10 surveys claimed against ION from the 15 surveys claimed against Fugro. He opined generally that WG would have needed 54 months of vessel capacity to perform the total 25 claimed lost surveys and that WG would have had at least 59 months of vessel capacity if DigiFIN were unavailable because it would have made different business decisions. *Id.* at 2298:5-14.

Sims’s opinion on capacity is entirely speculative. Sims formed his opinion by assuming, based on information from one interested witness (Walker), that WG *would have built* additional capacity if DigiFIN had not been available. Tr. at 2488:17-2489:1. Sims theorized that WG (1) would have taken delivery of the *Cook* and *Tasman* vessels as originally scheduled, rather than

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<sup>8</sup> To the extent the jury’s lost profits award is based on a market share theory, ION is entitled to JMOL or a new trial on damages. WG adduced no evidence of its market share relative to any non-infringing alternatives that would permit a jury to award lost profits on some proportionate basis (even assuming surveys were fungible and *could* be allocated proportionately). WG consistently denied the existence of any non-infringing alternatives and claimed that it would have obtained *every* survey that required lateral steering in the absence of infringement. Rather than offer a market share theory and contend that it would have obtained a portion of the surveys conducted by surveyors other than Fugro using DigiFIN (or a portion of the revenue from those surveys) in proportion to its market share, WG claimed that it would have obtained 10 specific surveys that its expert selected because those surveys purportedly required lateral steering and “WesternGeco was the *only* provider that could provide lateral steering.” Tr. at 2378:10-2379:1 (emphasis added); *see also id.* at 2582:23-2583:5.

delaying delivery (*id.* at 2298:15-21, 1696:19-1697:3), (2) would not have removed Q-Marine equipment from the *Pride*, *Searcher*, and *Topaz* and installed new equipment on the *Cook* (*id.* at 2299:9-18, 1697:10-14), and (3) would have chartered source vessels and used the *Pride*, *Searcher*, and *Topaz* as Q-Marine vessels (*id.* at 2300:1-8). Sims's assumptions ignore the realities of the market and are contradicted by actual events.

First, although a surveyor must have a vessel in the region of the proposed survey (Tr. at 2486:7-13, 4704:5-12), Sims gave no consideration to the regions where the claimed lost surveys were to take place relative to the location of WG's Q-Marine vessels. *See id.* at 4702:4-19, 4704:13-20, 4705:7-20, 4983:16-25. He did not offer any analysis of where vessels were stationed or how they would have to move to fill these jobs. *See id.* at 4983:15-23. Instead, Sims merely assumed that WG would have had a certain number of months of capacity available worldwide and would have planned differently and deployed its vessels differently if DigiFIN were unavailable. *See id.* at 2486:20-2487:6.

Second, Sims did not consider the time of year that the claimed lost surveys were to be performed or the duration of the surveys. There is no evidence that WG had a Q-Marine vessel available in the correct region at the right time for the sufficient length of time to perform the claimed surveys. This has particularly significant implications for the claimed lost surveys that were to take place in areas with challenging weather because there is little flexibility on when those surveys can be performed, even if the oil company does not provide specific timing requirements. *See Tr.* at 2083:19-2084:2.

Third, WG did not show that it had the requisite type of vessel available to perform the surveys. For example, Sims did not consider the number of streamers required to perform the claimed lost surveys and whether WG had the right size vessels available at the time for each

job. *See* Tr. at 4703:11-4705:6. The evidence demonstrated that three of the vessels WG retired were older ones that towed fewer streamers (*id.* at 2484:3-9); thus, they could not meet the technical requirements of modern surveys (*see id.* at 2483:17-2484:9).

In reality, there were more survey jobs available than WG had vessel availability to perform. WG made the business decision not to build additional capacity when actual demand for surveys exceeded its capacity to perform them. Tr. at 4690:18-25, 4696:5-18, 4707:10-24, 4691:23-4692:10; *see also id.* at 4694:15-4695:16, 4696:2-4 (WG's fleet was fully utilized). Indeed, WG could not perform three of the surveys in its lost profits claim because it lacked the capacity to perform them. It declined the Petronas job, recording in the CRM that the "Client intended to award to us, but we had no vessel availability". *See* Tr. at 4690:1-15 (citing CRM, PTX 544 at WG00949754, Row 58), 4711:13-4712:4. WG bid the ConocoPhillips job in Australia with a conventional vessel because it had no available Q-Marine vessel. Tr. at 4693:2-4694:11, 4706:1-4707:4, *see also* 4704:5-9. Finally, regarding the July 2011 Statoil survey, the CRM reflects "WG not issued invitation to tender, due to WG stating no availability." *Id.* at 4691:1-18 (citing CRM, PTX 545 at WG00949757 at Row 23). Sims's assumption that WG would have increased its vessel capacity in response to greater demand is contradicted by the fact that WG did not make that choice when demand actually existed.<sup>9</sup>

**c. Factor 4: Amount of Lost Profits**

Sims calculated the lost profits from the 10 surveys by subtracting WG's costs to conduct the claimed lost surveys from the revenues WG guessed that its competitors received for them. *See* Tr. at 2378:13-21, 2402:17-23. Both parts of this computation are speculative and unreliable.

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<sup>9</sup> WG's bidding a conventional vessel without lateral steering capacity in its ConocoPhillips bid shows that where lateral steering is a bid requirement, ships without lateral survey can compete for sales. Tr. at 4693:16-4694:5.

(i) *Speculative and Conclusory Calculation of Lost Profits*

The revenue figures Sims used were WG's internal estimates of third parties' revenues noted in the CRM and, thus, are speculation with no corroboration. Tr. at 2402:24-2403:4, 2471:19-22.

The cost information Sims used was based only on Sims's summary conclusion that "based on their actual financial records, looking at their actual Q-Marine division financial records, looking at the costs over that time period, I determined what those costs were, and that was \$141 million over that time period for those 25 surveys." Tr. at 2404:1-5; *see also id.* at 2402:8-17 (adding \$19.2 million in costs for depreciation of the extra equipment WG would have needed to outfit additional vessels). No underlying data was admitted, nor was any testimony or other document from WG put into evidence to summarize the data. WG certainly could have put on a fact witness or provided a summary in admissible form to provide evidence of its own costs. Sims simply provided an ultimate conclusion that an aggregate of \$93.4 million of the lost profits relates to the 10 non-Fugro surveys. Tr. at 2406:5-19. Moreover, since Sims did not divide out or otherwise compute the costs for each survey, or even testify he used an average or otherwise could apportion the lost profits, if fewer than all of the 10 surveys are permitted as the basis for lost profits, there would be no way to determine the damages based on the remaining surveys.

(ii) *WG Would Not Have Been Awarded the 10 Surveys*

Sims also failed to account for a variety of factors that prove that WG would not have been awarded all of the 10 surveys even if DigiFIN were unavailable. First, Sims did not address customer demand for solid streamers. Tr. at 4723:25-4724:10, 4727:25-4728:7. Some oil companies prefer solid streamers over liquid-filled streamers. *See* ION469, PTX733, ION461, DX462, FD 239; Tr. at 4722:9-20, 4723:8-24. WG did not have a Q-Marine vessel with solid streamers until April 2010 (Tr. at 2522:2-8, 2522:14-17, 4722:21-24, 4725:14-23, 1833:4-7; *see* 1831:12-23, 1833:4-7) and still does not have solid streamers on all of its Q-Marine vessels (Tr.



at 1835:22-1836:2; *see id.* at 4726:14-4727:24). WG’s inability to offer solid streamers would have prevented it from obtaining one of the 10 lost surveys, and possibly others. Specifically, solid streamers were mandatory for ExxonMobil; BP preferred them; and Petronas only accepted them. Tr. at 4724:25-4725:13, 5097:9-19; DX461, DX462. The ExxonMobil survey claimed as lost was dated January 2010, months before WG had even one Q-Marine vessel with solid streamers. Tr. at 4727:5-12; *see id.* 2522:18-22. Likewise, Sims did not show how WG would overcome this problem in the BP and Petronas bids.<sup>10</sup>

Second, in its July 2012 order on *Daubert*, the Court, excluded a survey on which WG conceded it had not placed a bid. Dkt. 402 at 7. At trial, however, the burden was on WG to show that it had bid for each claimed lost survey, and that its bid would have been accepted but for ION’s actions. *See Bott v. Four Star Corp.*, 807 F.2d 1567, 1571 (Fed. Cir. 1986) (concluding that there was no evidence that patentee would have earned a profit on sales to Fiat but for the infringement when patentee did not bid against infringer for the Fiat business). Although Sims conclusorily stated that WG bid on all 10 of the claimed lost surveys (Tr. at 2624:10-12, 2629:13-18), there is *no* support for that statement. *Id.* at 4712:16-23, 4739:15-21. To the contrary, the evidence indicates that WG did not bid on 9 of the 10 jobs<sup>11</sup> (Tr. at 4708:22-4712:23) and it did not even bid the tenth job with Q-Marine (*id.* at 4693:2-4694:11, 4706:1-

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<sup>10</sup> Additionally, although Sims did not even address the issue, WG would not have obtained the ExxonMobil survey—and possibly the two Total surveys—claimed as lost because of its policy of refusing to release the raw sensor data obtained by Q-Marine. *See* Tr. at 4735:16-22; *see id.* at 4729:19-4731:25, 4035:5-11, 1757:7-10; ION268 at WG00862321. ExxonMobil indicated that it would not use WG because of its refusal to make the raw data available. Tr. at 4732:5-4734:24, 4739:25-4740:4; *see id.* at 1757:11-16; *see also id.* at 4735:4-18, 4740:9-14, 1757:11-19 (WG’s refusal to release the raw sensor data was also a “big issue” for Total).

<sup>11</sup> For six of the 10 claimed lost surveys, there are no documents or bid reference numbers in the CRM: BP Angola survey; ExxonMobil Angola survey; Petronas Malaysia survey; and the three Statoil Norway surveys (7-2011, 8-2011, 6-2011. Tr. at 4710:17-4711:6. For three surveys, WG recorded a bid reference number in the CRM, but provided no other documentation of its connection to the job: BP Australia survey; Total Nigeria survey; and Total Angola survey. *Id.* at 4709:17-4710:16. The only survey for which WG had the tender documents is the ConocoPhillips Australia survey (*id.* at 4709:8-16)—and it bid that job with a *conventional* vessel, revealing that WG believed substitutes for lateral steering were acceptable. *Id.* at 4693:2-4694:11, 4706:1-4707:4.



4707:4). In fact, WG was not issued an invitation to tender for one of the claimed lost Statoil jobs. Tr. at 4712:5-15. Because WG failed to prove that it actually bid on each survey (and that its bid would have been accepted but for ION's action), WG cannot show what its lost profits would have been (that is, the difference between its bid and its cost). WG could have produced and put into evidence proof of each of these bids had it made any of them, but deliberately choose not to do so—or could not do so.

Third, Sims did not address the impact of WG's high prices and the price elasticity of demand for surveys on WG's ability to compete for the 10 survey bids, for instance, by comparing WG's bids on the 10 surveys to the winning bids. *See* Tr. at 4737:25-4738:14. Yet, WG's high prices were responsible for its loss of survey jobs, likely one of the 10 surveys.<sup>12</sup> *See id.* at 4718:10-4719:19, *see also id.* at 1742:5-12, 1744:3-1746:17; DX178. The evidence of the foregoing issues and Sims's failure to account for them reveals that WG failed to prove *Panduit* Factor 4. *See* Tr. at 4740:15-4741:1.

ION is entitled to JMOL or, at a minimum, a new trial on damages. Alternatively, ION requests that the Court order a remittitur of the amount of the lost profits attributed to the ExxonMobil survey and the other surveys on which WG did not provide evidence that it made a bid with Q-Marine, that it bid the other requirements or preferences of the purchaser (*e.g.*, solid streamers) and had a vessel available (9 of the ten bids). Since Sims did not calculate an amount for each survey, this would require remittitur of all lost profits. Although ION does not believe it proper to perform rough apportionment, equally allocating the amount of the award to each

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<sup>12</sup> According to WG's CRM, its bid for the ConocoPhillips survey using Q-Marine was approximately 58% higher than the bid awarded. Tr. at 4721:7-4722:3; *see also id.* at 4719:20-4720:24 (price was the number one issue for ConocoPhillips). Because price was the key issue for ConocoPhillips, and DigiFINs were not required, WG would have had to show that other traditional survey methods, cheaper than its own, would not have been acceptable to ConocoPhillips. In fact, WG apparently also bid the same survey at a lower price by including in its bid the option for a vessel without Q-Marine—the patented technology. There was no showing that the company who got the bid completed the job, was paid or that it used any type of lateral steering in the survey.

survey regardless of price or cost where no facts permit it, at the very least, remittitur should be for 90 percent of the award.

5. **The jury was not properly instructed on the burden of proof.**

If WG established the *Panduit* factors, ION met its burden to show that the resulting inference of but-for causation is unreasonable. *See Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (if the patentee establishes the *Panduit* causation inference, the burden shifts to the infringer to show that the inference “is unreasonable for some or all of the lost sales.”). The evidence overwhelmingly shows that there are multiple reasons why the 10 surveys would not have been awarded to WG despite the *Panduit* inference, namely, WG’s lack of solid streamers, refusal to release raw sensor data, failure to bid on 9 of the claimed lost surveys, and high prices. *See supra*, § I.B.4.a.ii.

Significantly, WG concedes that: (1) it does not know why it wins or loses bids and, thus, cannot attribute the cause of a lost survey to any particular factor; and (2) the reasons WG loses bids can only be truly known in about 10% of cases involving public bids for government entities. *See* Tr. at 1866:19-1867:2. It admitted that oil companies often do not reveal the reason why surveys are lost to the competition and even when they do, they cannot be believed. *Id.* at 1837:17-22, 1838:24-1839:5; *see also id.* at 2464:24-2465:3, 2465:11-13; *id.* at 1839:17-20 (oil companies do not want to disclose the reasons for bid awards). WG does not know when it wins bids as a result of lateral steering and simply assumes the reason. Tr. at 1866:19-1867:2. Even when WG does know (or suspects) that it lost a bid as a result of lateral steering, that information often is not entered into the CRM. *See id.* at 1726:1-1727:7; *see also id.* at 4660:20-25 (CRM does not state that WG lost any specific sale because of DigiFIN; it does mention losing sales due to price and other issues). These admissions by WG establish that it is unreasonable to infer that WG would have been awarded the 10 lost surveys in the absence of infringement.

Despite the evidence establishing the unreasonableness of the causation inference, the Court refused ION's request that the jury be instructed on the burden of proof shifting to the infringer to disprove the *Panduit* inference. Dkt. 505, 506, 509, 530. As a result, the jury was not properly instructed to consider whether the causation inference was unreasonable as to the 10 lost profits surveys. Because the great weight of the evidence establishes that it was unreasonable, ION is entitled to a new trial on damages.

6. **Lost profits cannot be based on the entire value of the surveys.**

Although its patents do not cover surveys or lateral steering (*see* Tr. at 578:12-15, PTX1-PTX5), but only an improvement (or in the case of the Zajac Patent, an improvement on an improvement), WG based its lost profits claim on the entire value of the 10 surveys.<sup>13</sup> Neither Sims nor WG made any effort to apportion the value of the surveys between their patented and unpatented features. *See* Tr. at 1725:6-10, 1907:6-25.

Nor did WG invoke the entire market value rule or present evidence to justify use of the entire value of the 10 surveys in Sims's calculations of lost profits, rather than the value attributed to the claims in the patents-in suit. "[T]he entire market value rule permits recovery of damages based on the value of a patentee's entire apparatus containing several features when the patent-related feature is the 'basis for customer demand.'" *Rite-Hite*, 56 F.3d at 1549 (recognizing that the entire market value rule applies to both reasonable royalty and lost profits computations) (citation omitted). The rule is derived from Supreme Court precedent requiring

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<sup>13</sup> The Bittleston Patents identify prior art in the specification that shows horizontal or vertical steering of birds with automatic control. *See* PTX1. Further, the Bittleston Patents themselves have some indicia of apportionment of their value—estimating the time saved in avoiding tangles in turning mode and the cost savings from that advance. *Id.* Moreover, the valuable turning mode in the specification and in many of the claims in the Bittleston Patents is not present in the DigiFIN. As shown in ION's JMOL on Enablement, there is no dispute that WG kept much of the information it used in this business to implement Q-Marine as trade secret, including the algorithms. WG's patents state explicitly that they are on improvements. *See, e.g.*, PTX1 at 7. WG asserted only one apparatus claim from each patent in suit, and liability was found only for sale of components; there was no liability established for practicing any method claim.

the patentee to give “‘evidence tending to separate or apportion the defendant’s profits and the patentee’s damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative,’ or show that ‘the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature.’” *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011) (quoting *Garretson v. Clark*, 111 U.S. 120, 121 (1884)). The entire market value rule is a “narrow exception” to the general rule that damages must be apportioned to only the value of the contribution of the invention to the product. *See LaserDynamics*, 2012 WL 3758093, at \*11.

The Federal Circuit recently explained that it is not enough to show that the patented feature “is viewed as valuable, important, or even essential” to the use of the entire product or that without the patented feature the product “would be commercially unviable.” *LaserDynamics*, 2012 WL 3758093, at \*12. Likewise, proof that consumers would not want the product without the patented feature “is not tantamount to proof” that the feature drives the market for the product. *Id.* “If given a choice between two otherwise equivalent [products] only one of which practices the [patented feature], proof that consumers would choose the [product with the patented feature] says nothing as to whether the presence of that functionality is what motivates consumers to buy a [product] in the first place. It is this latter and higher degree of proof that must exist to support an entire market value theory.” *Id.* at \*12 (noting that there was no evidence that the patented feature alone motivated consumers to purchase the product such that the entire value of the product could be attributed to the patented feature).

Here, WG presented no evidence that the demand for the patented feature “is what motivates consumers to buy [surveys] in the first place.” *See LaserDynamics*, 2012 WL 3758093, at \*12; *see also Rolls-Royce*, 2011 WL 1740143, \*7 (striking expert opinion basing lost profits of a

patented fan blade on the entire market value of a jet engine because the patentee did not provide evidence that the fan blade was the basis for consumer demand for the entire engine; commentary by the infringer's employees and commercial success of the product was not sufficient); *Carefusion 303, Inc. v. Sigma Int'l*, No. 10cv0442 DMS (WMC), 2012 WL 392808, at \*2 (S.D. Cal. Jan. 3, 2012) (granting summary judgment on patentee's lost profits claim based on the entire market value of a product because patentee set forth no evidence to justify application of the rule) (attached as Ex. 7).

Because WG and Sims did not apportion the value of the allegedly lost surveys to the value of the patented technology and did not invoke the entire market value rule or present evidence to permit a reasonable jury to award the entire market value of surveys as lost profits, Sims's use of the entire survey revenues is baseless and resulted in an excessive award.

## II. IMPROPER RECOVERY OF BOTH MEASURES OF DAMAGES

A patentee may recover *either* lost profits *or* a reasonable royalty for each infringing act, but *not both*. See *Lucent*, 580 F.3d at 1324 (stating that “[t]wo *alternative* categories of infringement compensation are the patentee’s lost profits and the reasonable royalty . . .”) (emphasis added); *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed. Cir. 1983) (recognizing that there are two methods for determining patent damages: actual damages or, if they cannot be proven, a reasonable royalty). WG’s damages model, however, did not allow the jury to award lost profits for some infringing acts and a reasonable royalty for the others. Instead, WG’s damages were structured so that the jury awarded a reasonable royalty and lost profits for some of the same acts of alleged infringement.

Under WG’s theory, certain acts of infringement are necessarily subject to two measures of damages: (1) a reasonable royalty paid for the supply of **every** DigiFIN and Lateral Controller from the United States; **and** (2) lost profits resulting from the use of those **very same** products in

10 surveys. Tr. at 4939:1-4940:18, 2406:5-19, 5087:2-22. WG did not offer any evidence that would permit the jury to subtract the DigiFINs or Lateral Controllers allegedly used in the 10 surveys from those supplied and accounted for in the requested royalty figure to avoid a double recovery—let alone to determine how many of the sold DigiFINs or Lateral Controllers, or which product sales, were later used in one or more of the 10 surveys. *See* Tr. at 5087:2-22. For example, there is no evidence regarding how many DigiFIN units were used to conduct each of the 10 surveys such that the jury could have avoided awarding a reasonable royalty on those particular units. Further, there was no evidence that all of the 10 surveys were actually completed or whether and how the DigiFINs were used in the surveys, or if the same or different DigiFINs or Lateral Controllers were used in the surveys (*e.g.*, two surveys by the same surveyor). *See supra*, § I.B.2. To the extent an explanation is offered that the jury's award of a reasonable royalty of \$12.5 million (an amount \$2.4 million lower than Sims's figure), was an attempt to correct for the double recovery, it is the result of pure conjecture and unsupported by the evidence. (The difference might have also been due to the use of a lower royalty rate, exclusion of some alleged convoyed sales from the base, or any number of other reasons.).

Because the evidence did not permit the jury to award any amount of lost profits without awarding two measures of damages for the same acts of infringement, a reasonable jury could not have awarded both damages measures without improperly overcompensating WG.

### III. REASONABLE ROYALTY

#### A. The Reasonable Royalty Is Not Based on the Value of the Patented Improvement.

As with lost profits, WG and its expert made no effort to equate the reasonable royalty to the value of the patented technology. Instead, Sims calculated the royalty based on the total revenue from sales of DigiFIN and Lateral Controller to customers other than Fugro. *See* Tr. at 2428:17-23, 2439:24-2440:3.

A reasonable royalty may be calculated on the sale of a product provided that the royalty reflects only the contribution of the patented technology, not the entire value of the product. *See Lucent*, 580 F.3d 1337-39 (“[w]hen a patent is for an improvement, and not for an entirely new machine or contrivance, the patentee must show in what particulars his improvement has added to the usefulness of the machine or contrivance. He must separate its results distinctly from those of the other parts. . . . [and] give evidence tending to separate or apportion . . . between the patented feature and the unpatented features.” (quoting *Garretson*, 111 U.S. at 121)); *see also ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010) (“Any evidence unrelated to the claimed invention does not support compensation for infringement but punishes beyond the reach of the statutes.”). Other courts have strictly enforced this requirement. *See, e.g., Uniloc*, 632 F.3d at 1320 (disallowing consideration of the entire market value of a product for a minor patent improvement simply because the royalty rate was low); *LaserDynamics*, 2012 WL 3758093, at \*11 (emphasizing the need to apportion because calculating a royalty on the entire product “carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product”).

The obligation to apportion the contribution of the patented invention from the other aspects of the product is an essential part of the *Georgia-Pacific* factors (*e.g.*, at least, Factors 10 and 13). *See Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970); Dkt. at 530 at 27-28. Specifically, *Georgia-Pacific* Factor 10 requires consideration of the “nature of the patented invention” and Factor 13 requires evaluation of “[t]he portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements. . . .” *See id.*

WG's patents offer an improvement to existing technology rather than a revolutionary invention. *See, e.g.,* PTX1, at 7 (discussing prior art lateral devices and systems). The specification itself identifies prior art systems that use birds for vertical movement of streamers for depth control as part of an automated system (similar to ION's DigiBIRD). Recognizing this, Gunderson used ION's DigiBIRD<sup>14</sup> device as a base to determine the relative value of the improvements for lateral steering in DigiFIN. *See generally* Tr. at 4746:10-4747:14.

The specifications in the patents provide evidence of apportionment, stating that the inventions are improvements over prior art systems. *See, e.g.,* PTX1 at 7 (anticipating the benefits of the patented technology to be reductions in "horizontal out-of-position conditions that necessitate reacquiring seismic data in a particular area (i.e. in-fill shooting)," reduced tangling, and reduced vessel turning time and reductions in costs of "approximately 30%."). Further, the "turn mode" in the patents, is not in the DigiFIN, which means a license to ION would not have permitted it to exploit this advantage of the patents. This turn mode is one of the most important benefits of the patents. *See id.* Further, the claimed inventions, if valid, are only for the physical components, not the software, as none is claimed or disclosed in either the Bittleston or Zajac Patents. *See generally* PTX1, PTX2, PTX3, PTX5; *see also* ION's Motion for Judgment as a Matter of Law on Enablement and, Alternatively, Motion for New Trial, 9-28-12, at § B.2.

The lack of any apportionment by Sims is fatal to the reasonable royalty presented by WG and JMOL for ION or a new trial on damages is required. *See ResQNet*, 594 F.3d at 868, 872 (reversing award because patentee failed to meet its burden to present a legally cognizable damages theory supported by reliable evidence, even though infringer offered no expert testimony to counter patentee's damages expert's testimony).

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<sup>14</sup> ION's DigiBIRD provides vertical control for the streamer and has been on the market since the nineties. Tr. at 3186:3-3187:10.



**B. The Reasonably Royalty Cannot Be Based on Convoyed Sales.**

Sims testified that sales of DigiFIN would have resulted in convoyed sales and accounted for them in his calculation of a reasonable royalty. Tr. at 2502:14-2503:2. Sims based his analysis of convoyed sales on insufficient and irrelevant data that, in fact, are contrary to the inferences he draws from them. This data was taken from three lost sales that ION's damages expert, Gunderson, used to quantify the sales ION lost due to WG's tortious interference with ION's business relationships, a claim that was not presented to the jury. *See* Dkt. 440 at 5; Tr. at 2430:3-14, 4852:4-4854:19, 4769:15-4770:6. The three lost sales are not a representative sample of ION's *actual* sales from which conclusions may be drawn. *See, e.g.* Tr. at 2430:2-2431:22, 2514:7-2515:1. For all the reasons stated in ION's Motion to Exclude the Opinions of Raymond Sims Regarding a Reasonable Royalty, Dkt. 440, which is incorporated herein by reference, Sims's testimony on convoyed sales is based on conjecture and is inherently unreliable and cannot support his conclusion or the jury's finding. *See IP Innovation L.L.C. v. Red Hat, Inc.*, 705 F. Supp. 2d 687, 689 (E.D. Tex. 2010) (Rader, J. of the Federal Circuit sitting by designation) (where "sound economic and factual predicates are absent from a reasonable royalty analysis," Rule 702 requires that it be excluded).

**C. The Jury Was Not Instructed on the Marking Requirements.**

ION is entitled to a new trial on damages because the Court failed to submit ION's requested marking instruction, allowing the jury to award excessive damages. Patentees are required to provide either actual or constructive notice to the public of their patented article. 35 U.S.C. § 287(a); *Nike, Inc. v. Wal-Mart Stores, Inc.*, 138 F.3d 1437, 1443 (1998). When a patentee fails to show either that it marked or was not required to mark, the patentee is precluded from recovering damages for any infringement that occurred prior to the date the alleged infringer was notified of the infringement. *See* 35 U.S.C. § 287(a); *Tesco Corp. v. Weatherford*

*Intern., Inc.*, 722 F. Supp. 2d 755, 770 (S.D. Tex. 2010) (Ellison, J.). Regardless of whether marking was required for the method claims, the only claims to survive to trial were apparatus claims.

ION requested that the jury be instructed to determine when actual notice was given in considering the damages issue, *see* Dkt. 508, at 5, and objected to the Court's failure to include any such instruction in the court's charge. *See* Dkt. 508, at p. 5-6; Dkt. 509 at p. 1-2; *also see* Ex. 8 (requesting charge objections in writing). Because Sims's testimony on the reasonable royalty included damages for infringement prior to the date of actual notice, the Court's failure to include the instruction in the final charge resulted in an improper award of damages to WG. *See* 35 U.S.C. § 287(a); *see* Dkt. 530. Failure to submit ION's requested instruction is reversible error warranting a new trial. *See Minks v. Polaris Indus., Inc.*, 546 F.3d 1364, 1375-76 (Fed. Cir. 2008) (reversing judgment and remanding for new trial based on erroneous jury instruction under § 287(a)). In the alternative, ION requests that the Court remit the reasonable royalty award because the royalty should be based on the DigiFINs sold after June 12, 2009 (the date WG filed this lawsuit against ION, thus, unquestionably providing actual notice).

#### IV. AGGREGATED DAMAGES

If the Court sets aside any jury finding on infringement or validity as to any claim, a new trial is necessary because damages were not segregated by claim. Dkt. 536. WG's damage model was based on the aggregate impact of all the WG patents, and the effect of any one cannot be segregated from the lump sum damage award. The jury answered a single damages question for multiple alleged acts of infringement. If any liability theory was not supported in the evidence, or submitted based on a legal error, the entire case must be reversed for a new trial because it cannot be determined whether the jury based its damage award on an unsound theory. *See Verizon Serv. Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295, 1310 (Fed. Cir. 2007) (vacating

damage award where infringement finding as to one of several patents was reversed and damages were not apportioned). Because, at the very least, ION is entitled to JMOL on one or more of the liability issues, reversal and a new trial are required.

## V. EXCESSIVE DAMAGES

The Court instructed the jury throughout the trial and in the jury charge that ION infringed Claim 18 of the '520 Patent under § 271(f)(1), and instructed the jury that the DigiFIN was an active streamer positioning device as recited in Claim 14 of the '038 Patent. If the Court changes these positions on post-trial motions, then the Court's statements incorrectly instructed the jury and a new trial is warranted. The jury's deference to the Court's instructions on liability no doubt caused it to award excessive damages. Also, because the jury's decision was supported by nothing more than speculative and legally insufficient evidence, this Court is not required to give deference to the jury's verdict. *See Lucent*, 580 F.3d at 1310. The jury could not have made a fair assessment of the evidence when it awarded WG such an inordinate amount of damages, and judgment should be rendered in ION's favor. *See id.*

Alternatively, the damage award is so against the great weight and preponderance of the evidence as to result in a clear showing of excessiveness necessitating a new trial or, at least, remittitur. *See Eiland v. Westinghouse Elec. Corp.*, 58 F.3d 176, 182 (5th Cir. 1995); *Westbrook v. General Tire & Rubber Co.*, 754 F.2d 1233, 1241 (5th Cir. 1985).

## CONCLUSION

For all of the foregoing reasons, Defendant ION Geophysical Corporation respectfully requests that the Court grant JMOL in its favor on damages or a new trial on damages and, in the alternative, ION requests remittitur. ION further requests that the Court grant it such other relief to which it may show itself entitled.

Dated: September 28, 2012.

Respectfully submitted,

/s/ David L. Burgert

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**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that on the 28<sup>th</sup> day of September, 2012, the foregoing was electronically filed with the Clerk of Court using the CM/ECF system which will send notification of such filing to the following:

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/s/ David L. Burgert  
\_\_\_\_\_  
David L. Burgert

**IN THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION**

|   |   |                                       |
|---|---|---------------------------------------|
| <b>WESTERNGECO L.L.C.,</b>              | § |                                       |
|   | § |                                       |
| <b>Plaintiff,</b>                       | § |                                       |
|   | § |                                       |
| <b>V.</b>                               | § | <b>CIVIL ACTION NO. 4:09-cv-01827</b> |
|   | § |                                       |
| <b>ION GEOPHYSICAL CORPORATION,</b>     | § | <b>Judge Keith P. Ellison</b>         |
| <b>FUGRO-GEOTEAM, INC., FUGRO-</b>      | § |                                       |
| <b>GEOTEAM AS, FUGRO NORWAY</b>         | § |                                       |
| <b>MARINE SERVICES AS, FUGRO, INC.,</b> | § |                                       |
| <b>FUGRO (USA), INC. and FUGRO</b>      | § |                                       |
| <b>GEOSERVICES, INC.,</b>               | § |                                       |
|   | § | <b>JURY TRIAL DEMANDED</b>            |
| <b>Defendants.</b>                      | § |                                       |

**ION’S MOTION FOR JUDGMENT AS A MATTER OF LAW,  
MOTION FOR NEW TRIAL ON DAMAGES, AND  
ALTERNATIVELY, MOTION FOR REMITTITUR**

**APPENDIX**

- Exhibit 1: *LaserDynamics, Inc. v. Quanta Computer, Inc.*, --- F.3d---, No. 2011-1440, 2012 WL 3758093 (Fed. Cir. Aug. 30, 2012)
- Exhibit 2: Excerpts from trial transcripts
- Exhibit 3: *Whitserve, LLC v. Computer Packages, Inc.*, --- F.3d ---, Nos. 2011-1206, 2011-1261, 2012 WL 3573845 (Fed. Cir. 2012)
- Exhibit 4: *Rolls-Royce PLC v. United Techs. Corp.*, No. 1:10cv457, 2011 WL 1740143 (E.D. Va. May 4, 2011)
- Exhibit 5: *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, -- F.3d ---, No. 2011-1329, 2012 WL 3329695 (Fed. Cir. Aug. 15, 2012)
- Exhibit 6: Gunderson Timeline (Gunderson Demonstrative Exhibit 20)
- Exhibit 7: *Carefusion 303, Inc. v. Sigma Int’l*, No. 10cv0442 DMS (WMC), 2012 WL 392808 (S.D. Cal. Jan. 3, 2012)
- Exhibit 8: August 14, 2012 email from Court

# **EXHIBIT 1**

--- F.3d ---, 2012 WL 3758093 (C.A.Fed. (Tex.))  
(Cite as: 2012 WL 3758093 (C.A.Fed. (Tex.)))

**FIND Request:** 2012 WL 3758093, at \*10  
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LASERDYNAMICS, INC., Plaintiff–Appellant,  
v.  
QUANTA COMPUTER, INC., Defendant–Cross  
Appellant,  
and  
Quanta Computer USA, Inc., Quanta Storage, Inc.,  
and Quanta Storage America, Inc., Defendants.

Nos. 2011–1440, 2011–1470.  
Aug. 30, 2012.

**Background:** Patentee brought action against manufacturer of optical disc drives (ODDs) and related assembler of laptop computers, alleging active inducement of infringement of patent for optical disc discrimination method that enabled ODD to identify automatically the type of optical disc inserted into ODD. The United States District Court for the Eastern District of Texas, [T. John Ward, J., 2009 WL 3763444](#), granted in part defendants' motion for summary judgment on issues of patent exhaustion and implied license, and, after conducting trial and granting assembler's motions for new trial on damages issues, [2010 WL 2331311](#), and to exclude certain expert testimony, [2011 WL 7563818](#), entered judgment on jury verdict awarding patentee \$8,500,000, and then denied assembler's motion for judgment as a matter of law. Parties cross-appealed.

**Holdings:** The Court of Appeals, [Reyna](#), Circuit Judge, held that:

- (1) patentee could not use entire market value rule to establish reasonable royalty damages against assembler;
- (2) assembler had implied license to patent with respect to ODDs that were made by manufacturer to fulfill bona fide orders from licensees and then sold to assembler by licensees;

- (3) issue of whether end users of accused laptop computers directly infringed claim of patent was for jury;
- (4) erroneous instruction was not plain error warranting new trial;
- (5) date for hypothetical negotiation of license to be used in determining reasonable royalty damages was date on which sales of accused laptop computers into United States began causing underlying direct infringement by end users;
- (6) probative value of evidence pertaining to settlement in another case was substantially outweighed by danger of unfair prejudice, confusion of issues, and misleading jury; and
- (7) expert's opinion that reasonable royalty would be six percent of each ODD sold within laptop computer by assembler was arbitrary and speculative, warranting new trial on damages.

Affirmed in part, reversed in part, and remanded.

#### West Headnotes

#### [1] Courts 106 96(7)

##### 106 Courts

106II Establishment, Organization, and Procedure

106II(G) Rules of Decision

106k88 Previous Decisions as Controlling or as Precedents

106k96 Decisions of United States Courts as Authority in Other United States Courts

106k96(7) k. Particular questions or subject matter. [Most Cited Cases](#)

For issues not unique to patent law, Court of Appeals for the Federal Circuit applies the law of the regional circuit where appeal in patent infringement case would otherwise lie.

#### [2] Federal Courts 170B 827

##### 170B Federal Courts

170BVIII Courts of Appeals



--- F.3d ---, 2012 WL 3758093 (C.A.Fed. (Tex.))  
 (Cite as: 2012 WL 3758093 (C.A.Fed. (Tex.)))


[170BVIII\(K\) Scope, Standards, and Extent](#)

[170BVIII\(K\)4 Discretion of Lower Court](#)

[170Bk825 New Trial or Rehearing](#)

[170Bk827](#) k. Inadequate or excessive damages. [Most Cited Cases](#)

Under the law of the Fifth Circuit Court of Appeals, grant or denial of a motion for a remittitur or a new trial is reviewed for an abuse of discretion.

**[3] Federal Courts 170B 823**

[170B Federal Courts](#)

[170BVIII Courts of Appeals](#)


[170BVIII\(K\) Scope, Standards, and Extent](#)

[170BVIII\(K\)4 Discretion of Lower Court](#)

[170Bk823](#) k. Reception of evidence.

[Most Cited Cases](#)

Evidentiary rulings are reviewed for an abuse of discretion under the law of the Fifth Circuit Court of Appeals.

**[4] Federal Courts 170B 776**

[170B Federal Courts](#)

[170BVIII Courts of Appeals](#)


[170BVIII\(K\) Scope, Standards, and Extent](#)

[170BVIII\(K\)1 In General](#)

[170Bk776](#) k. Trial de novo. [Most Cited](#)

[Cases](#)

Decisions on motions for summary judgment and for judgment as a matter of law are reviewed de novo under the law of the Fifth Circuit Court of Appeals.

**[5] Patents 291 318(4.1)**

[291 Patents](#)

[291XII Infringement](#)

[291XII\(B\) Actions](#)

[291k318 Profits](#)


[291k318\(4\)](#) Entire Profits or Those Attributable to Infringement of Patent

[291k318\(4.1\)](#) k. In general. [Most](#)

[Cited Cases](#)

Where small elements of multi-component products are accused of infringement, calculating a

royalty on the entire product carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product, and it is therefore generally required that royalties be based not on the entire product, but instead on the smallest salable patent-practicing unit. [35 U.S.C.A. § 284.](#)

**[6] Patents 291 318(4.1)**

[291 Patents](#)

[291XII Infringement](#)

[291XII\(B\) Actions](#)


[291k318 Profits](#)

[291k318\(4\)](#) Entire Profits or Those Attributable to Infringement of Patent

[291k318\(4.1\)](#) k. In general. [Most](#)

[Cited Cases](#)

If it can be shown that patented feature drives demand for entire multi-component product, patentee may be awarded damages as a percentage of revenues or profits attributable to entire product under “entire market value rule,” which is narrow exception to general rule that where small elements of multi-component products are accused of infringement, reasonable royalty damages should be based on smallest salable patent-practicing unit, rather than entire product. [35 U.S.C.A. § 284.](#)

**[7] Patents 291 318(4.1)**

[291 Patents](#)

[291XII Infringement](#)

[291XII\(B\) Actions](#)

[291k318 Profits](#)

[291k318\(4\)](#) Entire Profits or Those Attributable to Infringement of Patent

[291k318\(4.1\)](#) k. In general. [Most](#)

[Cited Cases](#)

“Entire market value rule” allows for recovery of reasonable royalty damages in patent infringement action based on value of entire apparatus containing several features, where feature patented is the basis for customer demand. [35 U.S.C.A. § 284.](#)

**[8] Damages 115 184**

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 (Cite as: 2012 WL 3758093 (C.A.Fed. (Tex.)))

## 115 Damages

### 115IX Evidence

#### 115k183 Weight and Sufficiency

#### 115k184 k. In general. [Most Cited Cases](#)

A damages theory must be based on sound economic and factual predicates.

## [9] Patents 291 318(4.5)

### 291 Patents

#### 291XII Infringement

#### 291XII(B) Actions

#### 291k318 Profits

291k318(4) Entire Profits or Those Attributable to Infringement of Patent

291k318(4.5) k. Process patents.

### [Most Cited Cases](#)

Patentee of patent for optical disc discrimination method that enabled optical disc drive (ODD) to identify automatically the type of optical disc inserted into ODD did not show that patented method drove demand for laptop computers, precluding patentee's use of entire market value rule to establish reasonable royalty damages against laptop assembler for active inducement of infringement; there was no evidence that patented feature alone motivated consumers to buy laptop computers, such that value of entire computer could be attributed to patented feature, and, instead, patentee showed only that consumers would be hesitant to buy computers without patented feature. [35 U.S.C.A. § 284](#).

## [10] Patents 291 312(2)

### 291 Patents

#### 291XII Infringement

#### 291XII(B) Actions

#### 291k312 Evidence

291k312(2) k. Admissibility. [Most](#)

### [Cited Cases](#)

Lack of economic analysis quantitatively supporting expert's one-third apportionment of proposed royalty rate, in action alleging active inducement of infringement of patent for optical disc discrimination method that enabled optical disc drive (ODD) to identify automatically the type of optical

disc inserted into ODD, alone justified exclusion of expert's opinions at trial; rate appeared to have been plucked out of thin air, based on vague qualitative notions of relative importance of ODD technology to laptop computers assembled and sold by alleged infringer. [35 U.S.C.A. § 284](#).

## [11] Patents 291 318(4.5)

### 291 Patents

#### 291XII Infringement

#### 291XII(B) Actions

#### 291k318 Profits

291k318(4) Entire Profits or Those Attributable to Infringement of Patent

291k318(4.5) k. Process patents.

### [Most Cited Cases](#)

Per-unit running royalty was not the only form of reasonable royalty to which patentee and laptop computer assembler could have agreed, in hypothetical negotiation to license patent for optical disc discrimination method that enabled optical disc drive (ODD) to identify automatically type of optical disc inserted into ODD, and therefore patentee, in its action for alleged active inducement of infringement, was not compelled to base reasonable royalty on price of entire laptop computer pursuant to entire market value rule; patentee's license agreements for lump-sum royalties were not calculated as percentage of any component or product, and assembler's purported lack of internal tracking and accounting of individual components and "mask price" purchases did not prevent patentee from obtaining accurate information about ODD values from third parties, industry practices, and the like. [35 U.S.C.A. § 284](#).

## [12] Patents 291 323.3

### 291 Patents

#### 291XII Infringement

#### 291XII(B) Actions

#### 291k323 Final Judgment or Decree

291k323.3 k. Relief from judgment or decree. [Most Cited Cases](#)

Under the law of the Fifth Circuit Court of Ap-

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 (Cite as: 2012 WL 3758093 (C.A.Fed. (Tex.)))

peals, ostensible waiver by alleged infringer of challenge to patentee's use of entire market value rule to establish reasonable royalty damages, including any challenge to testimony of patentee's expert on such theory, did not preclude district court from exercising its discretion, in infringement action, to consider issue in deciding alleged infringer's post-verdict motion for remittitur or new trial on issue of damages. 35 U.S.C.A. § 284.

**[13] Patents 291 ↪ 323.3**

291 Patents

291XII Infringement

291XII(B) Actions

291k323 Final Judgment or Decree

291k323.3 k. Relief from judgment or decree. **Most Cited Cases**

Under the law of the Fifth Circuit Court of Appeals, identifying and correcting its error in permitting patentee's theory of reasonable royalty damages, which relied upon entire market value rule, to go to jury in action for active inducement of infringement of patent for optical disc discrimination method that enabled optical disc drive (ODD) to identify automatically type of optical disc inserted into ODD, by granting alleged infringer's post-trial motion for remittitur or new trial, was not abuse of district court's discretion, even if district court could have deemed waived, and ignored, alleged infringer's arguments regarding entire market value rule. 35 U.S.C.A. § 284.

**[14] Patents 291 ↪ 324.5**

291 Patents

291XII Infringement

291XII(B) Actions

291k324 Appeal

291k324.5 k. Scope and extent of review in general. **Most Cited Cases**

Existence vel non of an implied patent license is a question of law that is reviewed de novo.

**[15] Patents 291 ↪ 210**

291 Patents

291X Title, Conveyances, and Contracts

291X(C) Licenses and Contracts

291k208 Requisites and Validity of Licenses

291k210 k. Implied licenses. **Most**

**Cited Cases**

Laptop computer assembler had implied license to patent for optical disc discrimination method that enabled optical disc drive (ODD) to identify automatically the type of optical disc inserted into ODD with respect to ODDs that were made by related manufacturer to fulfill bona fide orders from patent licensees and then sold to assembler by those licensees; manufacture of ODDs and their eventual sale to assembler for incorporation into laptop computers, all via licensees and valid exercises of licensees' "have made" and "sell" rights, were legitimate and separate business transactions that did not expand or circumvent licenses.

**[16] Patents 291 ↪ 314(5)**

291 Patents

291XII Infringement

291XII(B) Actions

291k314 Hearing

291k314(5) k. Questions of law or fact. **Most Cited Cases**

Issue of whether, under district court's claim constructions, end users of accused laptop computers directly infringed claim of patent for optical disc discrimination method that enabled optical disc drive (ODD) to identify automatically the type of optical disc inserted into ODD was for jury in action against laptop assembler for active inducement of patent infringement.

**[17] Federal Courts 170B ↪ 630.1**

170B Federal Courts

170BVIII Courts of Appeals

170BVIII(D) Presentation and Reservation in Lower Court of Grounds of Review

170BVIII(D)2 Objections and Exceptions

170Bk630 Instructions

--- F.3d ---, 2012 WL 3758093 (C.A.Fed. (Tex.))  
 (Cite as: 2012 WL 3758093 (C.A.Fed. (Tex.)))

170Bk630.1 k. In general. **Most**

#### Cited Cases

Plain error standard of review applied on appeal to challenge to jury instruction to which no objection was raised at trial.

#### [18] Federal Courts 170B ⚡611

##### 170B Federal Courts

##### 170BVIII Courts of Appeals

170BVIII(D) Presentation and Reservation in Lower Court of Grounds of Review

170BVIII(D)1 Issues and Questions in Lower Court

170Bk611 k. Necessity of presentation in general. **Most Cited Cases**

Plain error is “clear” or “obvious” and must affect substantial rights, and is reversible only if it seriously affects the fairness, integrity, or public reputation of judicial proceedings.

#### [19] Federal Civil Procedure 170A ⚡1951.7

##### 170A Federal Civil Procedure

##### 170AXV Trial

##### 170AXV(A) In General

170Ak1951.7 k. Fair and impartial trial in general. **Most Cited Cases**

#### Witnesses 410 ⚡246(2)

##### 410 Witnesses

##### 410III Examination

##### 410III(A) Taking Testimony in General

##### 410k246 Examination by Court or Jury

410k246(2) k. Calling and examination by court. **Most Cited Cases**

Although a district court is afforded broad discretion over the manner in which trial is conducted, and may intervene to help expand upon or clarify witness testimony and evidence, such intervention may not come at the cost of strict impartiality.

#### [20] Federal Courts 170B ⚡906

##### 170B Federal Courts

##### 170BVIII Courts of Appeals

170BVIII(K) Scope, Standards, and Extent

##### 170BVIII(K)6 Harmless Error

170Bk906 k. Remarks and conduct of trial judge. **Most Cited Cases**

In reviewing a claim that the district court appeared partial, Court of Appeals must determine whether the judge's behavior was so prejudicial that it denied defendant a fair, as opposed to a perfect, trial, and, in performing its review, Court of Appeals must consider the district court's actions in light of the entire trial record and consider the totality of the circumstances.

#### [21] Patents 291 ⚡314(1)

##### 291 Patents

##### 291XII Infringement

##### 291XII(B) Actions

##### 291k314 Hearing

291k314(1) k. In general. **Most Cited**

#### Cases

Potential inconsistency in representations by assembler of laptop computers regarding frequency with which its purchases of optical disc drives (ODDs) for incorporation into computers were made via buy/sell arrangements did not warrant instruction that jury could take into account instruction pointing out potential inconsistency and raising associated questions of credibility in judging credibility of all other positions taken by assembler, in patentee's action alleging assembler's active inducement to infringe patent for optical disc discrimination method that enabled ODD to identify automatically type of optical disc inserted into ODD.

#### [22] Patents 291 ⚡323.3

##### 291 Patents

##### 291XII Infringement

##### 291XII(B) Actions

##### 291k323 Final Judgment or Decree

291k323.3 k. Relief from judgment or decree. **Most Cited Cases**

Instruction in patentee's action alleging active inducement to infringe patent for optical disc discrimination method that enabled optical disc drive

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(ODD) to identify automatically type of optical disc inserted into ODD, which erroneously allowed jury to take into account potential inconsistency in representations by laptop computer assembler regarding frequency with which its purchases of ODDs for incorporation into computers were made via buy/sell arrangements in judging credibility of all other positions taken by assembler in case, was not plain error warranting new trial; assembler was given second trial on issue of damages, which cured any prejudice that instruction might have caused in that regard, and instruction, when viewed in context, was not so severe as to prevent assembler from receiving fair trial on liability issue.

**[23] Patents 291 ↪ 319(1)**

291 Patents

291XII Infringement

291XII(B) Actions

291k319 Damages

291k319(1) k. In general. [Most Cited](#)

Cases

In general, hypothetical negotiation date to determine reasonable royalty damages in patent infringement action, based on what willing licensor and licensee would bargain for, is the date on which infringement began. [35 U.S.C.A. § 284](#).

**[24] Patents 291 ↪ 289(1)**

291 Patents

291XII Infringement

291XII(B) Actions

291k289 Time to Sue

291k289(1) k. Limitations. [Most Cited](#)

Cases

**Patents 291 ↪ 319(1)**

291 Patents

291XII Infringement

291XII(B) Actions

291k319 Damages

291k319(1) k. In general. [Most Cited](#)

Cases

Six-year limitation on recovery of past damages for patent infringement does not preclude hypothetical negotiation date used to determine reasonable royalty damages, based on what willing licensor and licensee would bargain for, from being date on which infringement began, even if damages cannot be collected until some time later. [35 U.S.C.A. §§ 284, 286](#).

**[25] Patents 291 ↪ 319(1)**

291 Patents

291XII Infringement

291XII(B) Actions

291k319 Damages

291k319(1) k. In general. [Most Cited](#)

Cases

Failure to mark patented product or prove actual notice of patent pursuant to statute precludes recovery of damages prior to marking or notice date, but does not prevent hypothetical negotiation date used to determine reasonable royalty damages, based on what willing licensor and licensee would bargain for, from being set before marking or notice occurs. [35 U.S.C.A. §§ 284, 287](#).

**[26] Patents 291 ↪ 319(1)**

291 Patents

291XII Infringement

291XII(B) Actions

291k319 Damages

291k319(1) k. In general. [Most Cited](#)

Cases

Reasonable royalty determination, for purposes of making damages evaluation in patent infringement action, must relate to the time that infringement occurred, and not be an after-the-fact assessment. [35 U.S.C.A. § 284](#).

**[27] Patents 291 ↪ 259(1)**

291 Patents

291XII Infringement

291XII(A) What Constitutes Infringement

291k259 Contributory Infringement; In-


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ducement

291k259(1) k. In general. [Most Cited](#)

Cases

Although active inducement can ultimately lead to direct infringement of patent, absent direct infringement there is no compensable harm to a patentee. [35 U.S.C.A. § 271\(b\)](#).

**[28] Patents 291**  **319(1)**

291 Patents

291XII Infringement


291XII(B) Actions

291k319 Damages

291k319(1) k. In general. [Most Cited](#)

Cases

In determining reasonable royalty damages in case of alleged active inducement of patent infringement, based on what willing licensor and licensee would bargain for, hypothetical negotiation of license is deemed to take place on date of first direct infringement traceable to alleged infringer's first instance of inducement conduct. [35 U.S.C.A. §§ 271\(b\), 284](#).

**[29] Patents 291**  **319(1)**

291 Patents

291XII Infringement

291XII(B) Actions

291k319 Damages

291k319(1) k. In general. [Most Cited](#)

Cases

Date for hypothetical negotiation of license to be used in determining reasonable royalty damages for active infringement of patent for optical disc discrimination method that enabled optical disc drive (ODD) to identify automatically the type of optical disc inserted into ODD sales by laptop assembler was date on which sales of accused laptop computers into United States began causing underlying direct infringement by end users. [35 U.S.C.A. §§ 271\(b\), 284](#).


**[30] Evidence 157**  **146**

157 Evidence

157IV Admissibility in General

157IV(D) Materiality

157k146 k. Tendency to mislead or confuse. [Most Cited Cases](#)

**Evidence 157**  **219(3)**

157 Evidence


157VII Admissions

157VII(A) Nature, Form, and Incidents in General

157k219 Acts or Conduct

157k219(3) k. Compromise or settlement. [Most Cited Cases](#)

Probative value of evidence of settlement agreement in another infringement action by patentee, into which parties entered on eve of trial, after alleged infringer had been sanctioned repeatedly by court, was substantially outweighed by danger of unfair prejudice, confusion of issues, and misleading jury with respect to issue of reasonable royalty damages in action alleging active inducement of infringement by assembler of laptop computers; settlement appeared to be least reliable license in the record, given disadvantages faced by alleged infringer due to sanctions imposed, lump-sum license fee reached was six times larger than next highest amount paid for license, and, in light of changing landscape in market, settlement entered into three years after hypothetical negotiation date was in many ways not relevant to hypothetical negotiation analysis. [Fed.Rules Evid.Rule 408](#), [28 U.S.C.A.](#); [35 U.S.C.A. § 284](#).

**[31] Patents 291**  **312(2)**

291 Patents

291XII Infringement

291XII(B) Actions

291k312 Evidence

291k312(2) k. Admissibility. [Most Cited Cases](#)

Approach taken by patentee's expert was reasonable attempt to value optical disc drives (ODDs) sold by laptop computer assembler based on arms-



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length transactions, and therefore expert's use of \$41 per ODD value to determine reasonable royalty damages, which was calculated based on sample of approximately 9,000 non-infringing ODDs made by non-party licensee, could not be excluded from trial on *Daubert* grounds, in patentee's action against assembler for active inducement to infringe patent for optical disc discrimination method that enabled ODD to identify automatically the type of optical disc inserted into ODD. 35 U.S.C.A. § 284.

### [32] Patents 291 ↪ 323.3

#### 291 Patents

##### 291XII Infringement

##### 291XII(B) Actions

##### 291k323 Final Judgment or Decree

291k323.3 k. Relief from judgment or decree. **Most Cited Cases**

Opinion of patentee's expert, that reasonable royalty in action against laptop assembler and seller alleging active inducement of infringement of patent for optical disc discrimination method that enabled optical disc drive (ODD) to identify automatically type of optical disc inserted into ODD would be six percent of each ODD sold within laptop computer by assembler-seller, was arbitrary and speculative, and thus warranted new trial on damages; two patent licensing programs and licensing survey upon which expert relied to the exclusion of licenses for patent itself, even though they did not concern patented technology, were not sufficiently comparable to hypothetically negotiated license, and expert's six percent running royalty theory could not be reconciled with actual licensing evidence, which included lump-sum amounts not exceeding \$1,000,000. 35 U.S.C.A. § 284; Fed.Rules Evid.Rule 702, 28 U.S.C.A.

### Patents 291 ↪ 328(2)

#### 291 Patents

291XIII Decisions on the Validity, Construction, and Infringement of Particular Patents

##### 291k328 Patents Enumerated

291k328(2) k. Original utility. **Most Cited**

#### Cases

5,587,981. Infringed in Part.

Appeals from the United States District Court for the Eastern District of Texas, No. 06-CV-0348, **T. John Ward**, Judge. **Matthew C. Gaudet**, Duane Morris LLP, of Atlanta, GA, argued for plaintiff-appellant. On the brief were **Robert L. Byer**, of Pittsburgh, PA, and **Gregory M. Luck**, of Houston, TX, and **Kristina Caggiano**, of Washington, DC. Of counsel was **Thomas W. Sankey**, of Houston, TX.

**Terrence Duane Garnett**, Goodwin Procter, LLP, of Los Angeles, CA, argued for defendant/cross-appellant. With him on the brief were **Vincent K. Yip**, and **Peter J. Wied**.

Before **DYK**, **CLEVENGER**, and **REYNA**, Circuit Judges.

**REYNA**, Circuit Judge.

\*1 These appeals come before us after two trials in the district court—a first trial resolving the claims of patent infringement and damages, and a second trial ordered by the district court to retry the damages issues. The parties raise various issues relating to the proper legal framework for evaluating reasonable royalty damages in the patent infringement context. Also before us are questions regarding implied license, patent exhaustion, infringement, jury instructions, and the admissibility of a settlement agreement. For reasons explained in detail below, we *affirm-in-part*, *reverse-in-part*, and *remand*.

#### I. BACKGROUND

##### A. The Patented Technology and the Optical Disc Drive Industry

LaserDynamics, Inc. (“LaserDynamics”) is the owner of U.S. Patent No. 5,587,981 (“the ‘981 Patent”), which was issued in 1996. The patent is directed to a method of optical disc discrimination that essentially enables an optical disc drive (“ODD”) to automatically identify the type of optical

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disc—e.g., a compact disc (“CD”) versus a digital video disc (“DVD”)—that is inserted into the ODD. Claim 3, which was asserted at trial, is representative:

3. An optical disk reading method comprising the steps of:

processing an optical signal reflected from encoded pits on an optical disk until total number of data layers and pit configuration standard of the optical disk is identified;

collating the processed optical signal with an optical disk standard data which is stored in a memory; and

settling modulation of servomechanism means dependent upon the optical disk standard data which corresponds with the processed optical signal;

(c) [sic] the servomechanism means including:

a focusing lens servo to modulate position of a focusing lens; and

a tracking servo to modulate movement of a pickup.

This automated process saves the user from having to manually identify the kind of disc being inserted into the ODD before the ODD can begin to read the data on the disc. The patented technology is alleged to be particularly useful in laptop computers where portability, convenience, and efficiency are essential. At least as early as 2006, a laptop computer was not commercially viable unless it included an ODD that could automatically discriminate between optical discs.

Yasuo Kamatani is the sole inventor of the '981 Patent. In 1998, viewing DVD technology as the next major data and video format, Mr. Kamatani founded LaserDynamics and assigned the '981 Patent to the company. Mr. Kamatani is the sole employee of LaserDynamics, which is exclusively in

the business of licensing Mr. Kamatani's patents to ODD and consumer electronics manufacturers.

When LaserDynamics was founded, the DVD market had reached few mainstream consumers, and there was some skepticism among electronics companies as to the likely success of this technology compared with the established VHS format. By 2000, however, DVD sales and the ODD market were sharply rising. By 2003, most homes had DVD players and nearly every computer had an ODD. An ODD having automatic disc discrimination capability quickly became the industry standard for DVD players and computers. <sup>FN1</sup>

#### B. LaserDynamics' Licensing History of the '981 Patent

\*2 According to LaserDynamics, it was initially difficult to generate interest in licensing the '981 Patent, due to the novelty of the technology and LaserDynamics' limited operating capital and bargaining power. Nevertheless, LaserDynamics entered into sixteen licensing agreements from 1998 to 2001. These licenses were granted to well known electronics and ODD manufacturers such as Sony, Philips, NEC, LG, Toshiba, Hitachi, Yamaha, Sanyo, Sharp, Onkyo, and Pioneer. All of the licenses were nonexclusive licenses granted in exchange for one time lump sum payments ranging from \$57,000 to \$266,000. There is no evidence that these licenses recited the lump sum amounts as representing a running royalty applied over a certain period of time or being calculated as a percentage of revenues or profits. These sixteen licenses were admitted into evidence in the first trial, as explained below.

Several other lump sum licenses were granted by LaserDynamics between 1998 and 2003 to other ODD and electronics manufacturers via more aggressive licensing efforts involving actual or threatened litigation by LaserDynamics. These licenses, in addition to the sixteen licenses from the first trial, were admitted in the second trial.

On February 15, 2006, LaserDynamics (and



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Mr. Kamatani) entered into a license agreement with BenQ Corporation to settle a two-year long litigation for a lump sum of \$6 million. This settlement agreement was executed within two weeks of the anticipated trial against BenQ. *Kamatani v. BenQ Corp.*, No. 2:03-CV-437 (E.D.Tex. Jan.20, 2006) (pre-trial conference order indicating trial was expected to begin in the last week of February 2006). By the time of the settlement, BenQ had been repeatedly sanctioned by the district court for discovery misconduct and misrepresentation. The district court had allotted BenQ one-third less time than Mr. Kamatani for *voir dire*, opening statement, and closing argument, had awarded attorneys' fees to Mr. Kamatani for bringing the sanctions motion, had stricken one of BenQ's pleaded defenses, and had sanctioned BenQ \$500,000.00 as an additional punitive and deterrent measure. *Kamatani v. BenQ Corp.*, No. 2:03-CV-437, 2005 U.S. Dist. LEXIS 42762, at \*20, \*44-46 (E.D.Tex. Oct.6, 2005). The district court believed that its harsh sanctions were justified because BenQ's extensive misconduct "demonstrate[d] a conscious intent to evade the discovery orders of this Court, as well as violate[d] this Court's orders and the rules to an extent previously unknown by this Court." *Id.* at \*44-45. The BenQ settlement agreement was admitted into evidence in the second trial.

Finally, in 2009 and 2010, LaserDynamics entered into license agreements with ASUSTeK Computer and Orion Electric Co., Ltd., respectively, for lump sum payments of \$1 million or less. These two licenses were admitted into evidence in the second trial.

In total, twenty-nine licenses were entered into evidence in the second damages trial. With the exception of the \$6 million BenQ license, all twenty-nine licenses were for lump sum amounts of \$1 million or less.

#### C. Quanta Computer Inc. and Quanta Storage Inc.

\*3 Quanta Storage, Inc. ("QSI") is a manufacturer of ODDs that was incorporated in 1999. QSI is headquartered in Taiwan and is a partially-owned

subsidiary of Quanta Computer, Inc. ("QCI"), with which it shares some common officers, directors, and facilities. QCI's corporate headquarters are also located in Taiwan, and its factories are located in China. QCI holds a minority share in QSI and does not control QSI's operations.

QCI assembles laptop computers for its various customers, which include name brand computer companies such as Dell, Hewlett Packard ("HP"), Apple, and Gateway. QCI does not manufacture ODDs, but will install ODDs into computers as instructed by its customers. QCI will sometimes purchase ODDs directly from ODD manufacturers such as Sony, Panasonic, Toshiba, or QSI, as directed by QCI's customers. Predominantly, however, QCI will be required to purchase the ODDs from the customer for whom QCI is assembling the laptop computer. In other words, QCI's typical practice is to buy ODDs from Dell, HP, Apple, or Gateway, which in turn purchased the ODDs from the ODD manufacturers. Because QCI eventually sells the fully assembled laptop computers—including the ODDs—to its customers, this process is called a "buy/sell" arrangement. When QCI purchases ODDs from one of its customers in a buy/sell context, it buys the ODDs for an artificially high "mask price" set by the customer and designed to hide the actual lower price of the ODDs from the customer's competitors. Thus, the mask price is always higher than the actual price to the customer.

QSI first sold its ODDs for integration into laptop computers in the United States in 2001. In 2002, LaserDynamics offered QSI a license under the '981 Patent, but QSI disputed whether its ODDs were within the scope of the '981 Patent and declined the offer. QCI sold its first computer in the United States using an ODD from QSI in 2003. It was not until August 2006 that LaserDynamics offered a license to QCI concurrently with the filing of this lawsuit. To date, neither QSI nor QCI has entered into a licensing agreement with LaserDynamics relating to the '981 Patent.

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#### D. ODDs Made by Philips and Sony/NEC/Optiarc

Just as computer sellers Dell, HP, Apple, and Gate way outsource the assembly of their computers to companies like QCI, some sellers of ODDs outsource the assembly of their ODDs. QSI assembles ODDs for Philips and Sony/NEC/Optiarc—two of the largest sellers of ODDs. As discussed above, Philips and Sony/NEC/Optiarc are licensed by LaserDynamics to make and sell ODDs within the scope of the '981 Patent. Under the license agreements, both Philips and Sony/NEC/Optiarc also enjoy “have made” rights that permit them to retain companies like QSI to assemble ODDs for them.

When QCI purchases ODDs directly from Philips or Sony/NEC/Optiarc—i.e., not under a buy/sell arrangement—QCI has no knowledge of which entity assembled the ODDs. QCI pays Philips or Sony/NEC/Optiarc directly for the ODDs, which are not sold under the QSI brand name even if assembled by QSI.

## II. PROCEDURAL HISTORY

\*4 In August 2006, LaserDynamics brought suit against QCI and QSI for infringement of the '981 Patent. Because asserted claim 3 of the '981 Patent is directed to a method of disc discrimination performed by an ODD, as opposed to the ODD itself, LaserDynamics relied on a theory of infringement that QSI's and QCI's sales of ODDs and laptop computers, respectively, actively induced infringement of the method by the end users of the ODDs and laptop computers. See 35 U.S.C. § 271(b).

On a pre-trial summary judgment motion brought by QCI and QSI relating to their defenses of patent exhaustion and implied license, the district court made the following rulings:

- (1) “the exhaustion doctrine does not apply to sales made overseas by [LaserDynamics'] licensees”;
- (2) “QCI has an implied license with respect to

drives manufactured by non-Quanta entities licensed by [LaserDynamics] under worldwide licenses and sold by those licensees to QCI for incorporation into QCI computers. In addition, QSI is not liable for manufacturing drives for Philips or Sony/NEC/Optiarc which are, in turn, resold into the United States to non-Quanta entities”; and

(3) “the Quanta defendants do not have an implied license with respect to drives that are manufactured by QSI and eventually sold to QCI (or another Quanta entity), notwithstanding the fact that those drives are sold through Philips or Sony/NEC/Optiarc, two of [LaserDynamics'] licensees. *E.I. Du Pont de Nemours & Co. v. Shell Oil Co.*, 498 A.2d 1108, 1116 (Del.1985). The effect of such transactions is to grant an impermissible sublicense.”

*LaserDynamics, Inc. v. Quanta Storage Am., Inc.*, No. 2:06-CV-348-TJW-CE, 2009 U.S. Dist. LEXIS 115848, at \*3-5 (E.D. Tex. June 29, 2009) (“*Pre-Trial Op.*”). Based on these rulings, LaserDynamics dropped its claims against QSI and opted to pursue its active inducement of infringement claims against QCI only at trial.

QCI was first on notice of the '981 Patent in August 2006 when the complaint was filed. Between August 2006 and the conclusion of the first trial in June 2009, QCI sold approximately \$2.53 billion of accused laptops into the United States. LaserDynamics sought reasonable royalty damages under 35 U.S.C. § 284. Pursuant to the analytical framework for assessing a reasonable royalty set forth in *Georgia-Pacific Corp. v. United Plywood Corp.*, 318 F.Supp. 1116 (S.D.N.Y.1970),<sup>FN2</sup> the date of the “hypothetical negotiation” between the parties was deemed by the district court (over QCI's objections) to be August 2006—the date that QCI first became aware of the '981 Patent and was therefore first potentially liable for active inducement of infringement. See *Global-Tech Appliances, Inc. v. SEB S.A.*, —U.S.—, —, 131 S.Ct. 2060, 2068, 179 L.Ed.2d

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1167 (2011) (holding that knowledge of the patent is necessary to prove active inducement of infringement).

#### A. The First Trial

The damages theory advanced by LaserDynamics in the first trial was presented chiefly through LaserDynamics' expert, Mr. Emmett Murtha. Mr. Murtha opined that a running royalty of 2% of the total sales of laptop computers by QCI is what the parties would have agreed to as a reasonable royalty had they engaged in a hypothetical negotiation in August 2006. This opinion was based on Mr. Murtha's understanding, obtained primarily from LaserDynamics' other expert witnesses, that the technology covered by the '981 Patent provided an important and valuable function that was present in all ODDs currently in use, and that the presence of this function was a prerequisite for any laptop computer to be successful in the marketplace. Since QCI sold laptop computers and not ODDs, Mr. Murtha viewed the complete laptop computer as an appropriate royalty base.

\*5 To arrive at his 2% per laptop computer royalty rate, Mr. Murtha began by finding that 6% would be a reasonable royalty rate to pay with respect to an ODD alone. Mr. Murtha reached his conclusion of a 6% per ODD royalty by relying on “comparable rates in two separate licensing programs involving DVDs where the rates were 3.5 in one case and 4 percent in another case.” A621, A650–54. <sup>FN3</sup> The two patent licensing programs were undertaken by third parties in the DVD industry around 2000. *Id.* He also relied on “a very comprehensive royalty survey that was done by the Licensing Executive Society in 1997,” which he viewed as “a standard textbook for people who are seeking to set reasonable royalty rates.” *Id.* The licensing survey was not limited to any particular industry but “was across whatever technologies were being licensed by the people who responded,” and suggested that in general, across all of those unrelated technologies, “for a minor improvement, we would charge 2 to 5 percent. For a major improve-

ment, we would charge 4 to 8 percent. And for a major breakthrough, 6 to 15 percent....” A653–54. There is no evidence in the record that the two third-party licensing programs or the industries involved in the licensing survey included the patented technology or even involved optical disc discrimination methods. *See id.*; A652 (“[T]he two licensing programs are important, because they indicate the going rate, if you will, *at least for those patents, which may or may not be as important as the one in question.*”) (emphasis added); A653 (“Q. Was the [licensing] survey directed to ODD technology? A. No.”).

Mr. Murtha did not deem the sixteen lump sum licenses that were entered into between LaserDynamics and various electronics companies between 1998 and 2001 to establish a royalty rate for the '981 Patent. Although he conceded that QCI would “absolutely” be aware of these prior agreements in a hypothetical negotiation context, he dismissed any probative value of these 16 licenses because they were entered into before the August 2006 hypothetical negotiation date. He reasoned that, by 2006, the DVD market was larger and more established such that the value of the patented technology was better appreciated and LaserDynamics had more bargaining power.

Based on his discussions with LaserDynamics' other experts, Mr. Murtha concluded that the patented technology in the ODD is responsible for one-third of the value of a laptop computer containing such an ODD. Thus, he arrived at his 2% per laptop computer rate simply by taking one-third of the 6% rate for the ODD. When Mr. Murtha's proffered 2% running royalty rate was applied to QCI's total revenues from sales of laptop computers in the United States—\$2.53 billion—the resulting figure presented to the jury was \$52.1 million.

By contrast, QCI's theory of damages was that a lump sum of \$500,000 would be a reasonable royalty. QCI's expert, Mr. Brett Reed, found the 16 licenses in evidence—all lump sums ranging between \$50,000 and \$266,000—to be highly indic-

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ative of the value of the patented technology according to LaserDynamics, and of what a reasonable accused infringer would agree to pay for a license.

\*6 Prior to the first trial, QCI filed a motion for partial summary judgment, or in the alternative a motion pursuant to *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993), with respect to damages. QCI sought to limit damages to a one-time lump sum of \$232,376.00 based on LaserDynamics' prior licenses, and to preclude Mr. Murtha from offering any opinion to the contrary for being unreliable by ignoring this established licensing practice. QCI's motion heavily criticized Mr. Murtha's opinions for being fundamentally inconsistent with LaserDynamics' licenses in either form or amount. However, QCI's motion did not challenge Mr. Murtha's one-third apportionment calculation to go from his 6% rate per ODD to his 2% rate per laptop computer, nor did it challenge his use of a completed laptop computer as a royalty base. The district court never ruled on QCI's motion. QCI also moved *in limine* to preclude testimony regarding damages in excess of \$266,000 or suggesting that the prior 16 licenses did not establish a royalty rate. The district court denied this motion. At no point during the first trial did QCI object to or seek to limit Mr. Murtha's testimony relating to his apportionment or royalty base selection, nor did QCI file a pre-verdict motion for judgment as a matter of law ("JMOL") implicating such issues pursuant to Federal Rule of Civil Procedure 50(a).

Two other issues arose during the first trial that are pertinent to this appeal: (1) the district court's instructions to the jury concerning QCI's position regarding its buy/sell arrangements, and (2) the adequacy of LaserDynamics' proof of infringement. We discuss each issue in turn.

#### 1. The District Court's Instruction to the Jury

Upon perceiving a change in position by QCI concerning the frequency with which QCI's ODDs were obtained via a buy/sell arrangement, the dis-

trict court instructed the jury as follows:

[P]rior to yesterday, the position of Quanta Computers was that this buy/sell arrangement ... [was] one of the ways in which ... they did their business. Yesterday, the testimony was, for the first time, that that was the predominant method of doing business. You are instructed that this constitutes a significant change in the testimony, and no documents have been produced to support that, and that you may take this instruction into account in judging the credibility of all of this witness' testimony and all other Quanta Computer's positions in this case.

A34–35. A prior ruling from the magistrate judge permitted QCI to utilize a demonstrative showing how a buy/sell arrangement works “conditioned on the Defendants' representation that they would use the demonstratives to show generally one way that QCI obtains optical drives.” A5100. QCI believed the district court's later instruction was based on a false premise that QCI had changed its position. Prior to trial, LaserDynamics was made aware of QCI's contention that approximately 85% of its ODD purchases were through buy/sell arrangements. The testimony elicited by QCI at trial was ostensibly consistent with this contention, representing that QCI obtains drives from its customers “more frequently” than from ODD sellers. A754. Arguing that QCI did not run afoul of the earlier magistrate judge's condition that the demonstrative show only “one way” QCI obtains its drives, QCI viewed the district court's instruction unfairly prejudicial and moved for a new trial on that basis. QCI's motion for a new trial on these grounds was denied.

#### 2. QCI's Challenge to the Proof of Infringement

\*7 QCI challenged LaserDynamics' contentions that the end users of the ODDs directly infringed the '981 Patent. Asserted claim 3 of the '981 Patent includes the step of “processing an optical signal reflected from encoded pits on an optical disk....” The district court construed the phrase “encoded pits on an optical disk” to mean “depression[s] in



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the surface of the disk which represent[ ] data or information.” *LaserDynamics, Inc. v. Asus Computer Int'l*, No. 2:06-cv-348-TJW-CE, 2008 U.S. Dist. LEXIS 63498, at \*13 (E.D.Tex. Aug. 18, 2008) (“*Markman Order*”). The subsequent claimed step of “collating the processed optical signal with an optical disk standard data which is stored in a memory” was construed to mean “comparing the processed optical signal with an optical disk standard data stored on a memory.” *Id.* at \*15. The *Markman Order* further explained that “there is no requirement that the same optical signal determine both the total number of data layers and also pit configuration standard.” *Id.* According to LaserDynamics’ expert, industry standards require that each type of optical disc (i.e., CD, DVD, etc.) has a particular arrangement of depressions within the data layer as well as a particular depth of the data layer from the surface of the disc, such that the depth and arrangement of depressions have a one-to-one correspondence. LaserDynamics’ theory of infringement was that the optical signal in the accused ODDs included a “counter value” that tracked the time for the ODD to change focus from the transparent outer surface of the disc to the internal data layer. When the counter value was compared with a known threshold counter value for a given type of optical disc, the type of disc (including its standard arrangement of depressions) could be identified.

QCI filed a motion for JMOL of non-infringement, arguing that the ODDs in its laptop computers, by measuring a counter value of time, were not literally measuring an arrangement of depressions, which QCI contended was required by the language of claim 3 and the district court’s claim constructions. Specifically, QCI notes claim 3 requires a step of “settling modulation of servomechanism means dependent upon the optical disk standard data which corresponds with the processed optical signal,” which the district court construed as “establishing the regulation of the automatic feedback control system for mechanical motion dependent upon the recognized arrangement of depressions for an optical storage medium which

corresponds to the processed optical signal.” *Markman Order* at \*16. QCI alleged that this construction indicates that the reference to operating the servo-mechanism based on “optical disk standard data” requires the ODD to identify a spatial value—“the recognized arrangement of depressions”—not to calculate a temporal “counter value” in order to discriminate between optical disc types. A3190. The district court denied QCI’s motion for JMOL, finding no basis to disturb the jury’s infringement verdict.

#### B. The First Jury Verdict and Post-Trial Proceedings

\*8 The jury ultimately returned a verdict finding QCI liable for active inducement of infringement, and awarded \$52 million in damages to LaserDynamics, almost the exact amount proffered by Mr. Murtha. After the verdict, QCI filed a motion for a remittitur or new trial pursuant to [Federal Rule of Civil Procedure 59\(a\)](#). In this motion, QCI argued that the verdict was grossly excessive and against the great weight of the evidence, and for the first time argued that Mr. Murtha’s testimony should have been excluded due to his unreliable methodology in applying the “entire market value rule”—i.e., using the revenues from sales of the entire laptop computers as the royalty base—without having established that the patented feature drives the demand for the entire laptop computer. [Rite-Hite Corp. v. Kelley Co.](#), 56 F.3d 1538, 1549 (Fed.Cir.1995). In other words, QCI argued that LaserDynamics failed to establish that the disc discrimination method covered by claim 3 of the ‘981 Patent was “the basis for customer demand” for the laptop computers. *Id.*

The district court granted QCI’s motion, finding that LaserDynamics had indeed improperly invoked the entire market value rule. *LaserDynamics, Inc. v. Quanta Computer, Inc.*, No. 2:06-cv-348-TJW-CE, 2010 U.S. Dist. LEXIS 56634 (E.D. Tex. June 9, 2010) (“*New Trial Op*”). The district court reasoned that “[t]he price of the finished computers should not have been included

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in the royalty base [because] LaserDynamics presented no evidence that its patented method drove the demand for QCI's finished computers.” *Id.* at \*9. “At best,” LaserDynamics had only established that “almost all computers sold in the retail market include optical disc drives and that customers would be hesitant to purchase computers without an optical disc drive.” *Id.* at \*10. LaserDynamics' theory in the first trial was thus found to violate *Rite-Hite* as well as our then-recent decision in *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed.Cir.2009),<sup>FN4</sup> which further expounded on the entire market value rule. The district court concluded that the \$52 million damages award was unsupported and excessive, and granted QCI's motion. *Id.* at \*12–13. Because the district court did not view Mr. Murtha's 6%-per-ODD royalty as clearly excessive, LaserDynamics was given the option of a new trial on damages or a remittitur to \$6.2 million, which was calculated using the 6% royalty rate applied to each ODD sold as part of QCI's laptop computers. *Id.* at \*11–13. LaserDynamics declined to accept the remittitur to \$6.2 million and elected to have a new trial.

### C. The Second Trial

Prior to the second trial on damages, QCI renewed its objections to the anticipated testimony of Mr. Murtha concerning his dismissive view of the existing licenses to the '981 Patent, and challenged his 6% royalty rate based on ODD average price for being improperly based on non-comparable licensing evidence. QCI also expressly challenged Mr. Murtha's 2% royalty applying the entire market value rule, relying on our decisions in *Lucent Technologies*, 580 F.3d 1301, and *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed.Cir.2011). QCI's objections regarding the application of the entire market value rule were sustained. *LaserDynamics, Inc. v. Quanta Computer, Inc.*, No. 2:06-cv-348-TJW-CE, 2011 U.S. Dist. LEXIS 42590, at \*8 (E.D.Tex. Jan. 7, 2011) (“Mr. Murtha's opinions that a reasonable royalty is 2% of the entire market value of a computer, and that a disk drive constitutes a third of the value of the com-

puter, are excluded.”). The district court permitted LaserDynamics to put on evidence regarding a 6% running royalty damages model based on ODD average price, but subject to certain restrictions regarding proof of comparability to the hypothetically negotiated license. *LaserDynamics, Inc. v. Quanta Computer, Inc.*, No. 2:06-cv-348-TJW-CE, at 3 (E.D.Tex. Jan. 19, 2011) (“[T]he court DENIES Quanta's cross-motion to preclude Laser from arguing that a running royalty is appropriate.”); *LaserDynamics*, 2011 U.S. Dist. LEXIS 42590, at \*10 (permitting Mr. Murtha to rely on the 1997 Licensing Executive Society survey “to allude to general practices, such as preference for a running royalty or a lump sum, but [not to] testify as to the royalty rates discussed in the survey”); *id.* at \*11 (ordering that, if seeking to present licenses as comparable to the jury, “[i]t is not sufficient to state that both patents cover optical disk drive technology. The plaintiff must establish the functionality enabled by the patent-in-suit as well as the functionality purportedly covered by the licensed patent and compare their economic importance”).

\*9 Before the second trial, QCI also filed a motion *in limine* to exclude the 2006 BenQ settlement agreement from evidence for having its probative value substantially outweighed by the danger of unfair prejudice or confusion of the issues under Federal Rule of Evidence 403. QCI's motion emphasized the unique circumstances of the BenQ settlement that rendered it non-comparable, as it was executed shortly before trial and after BenQ had been repeatedly sanctioned by the district court. QCI also challenged the probative value of any per unit royalty rate that might be extrapolated from the BenQ settlement, which involved only a one time lump sum royalty payment of \$6 million. The district court denied QCI's motion, reasoning that LaserDynamics could use the BenQ agreement to “prove up a per unit royalty rate from the information provided in the agreement” so as to support its 6% per ODD royalty rate. *LaserDynamics, Inc. v. Quanta Computer, Inc.*, No. 2:06-cv-348-TJW-CE, at 3 (E.D.Tex. Jan. 19,

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2011).

In light of these rulings, LaserDynamics offered testimony that damages should be \$10.5 million based on a running royalty of 6% of the average price of a standalone ODD. While the average per-unit ODD price utilized in the first trial was the \$28 mask price, LaserDynamics now used a \$41 per ODD value that was calculated based on a relatively small sample of about 9,000 licensed non-infringing drives made by Sony that were sold as replacement drives by QCI. In response to QCI's objections, LaserDynamics contended that this increased value was accurate and reliable because prior to the first trial both QSI and QCI were accused of inducing infringement. According to LaserDynamics, the prices of QSI's ODDs and QCI's laptop computers were evaluated to support LaserDynamics' damages theory going into the first trial since it was not until after the district court's rulings in the *Pre-Trial Opinion* that LaserDynamics dropped its claims against QSI. Going into the second trial, however, only QCI was accused of active inducement, and so the price of ODDs sold by QCI became a more central issue. Since QCI does not itself make and sell standalone ODDs, and since QCI presented no representative sales price, LaserDynamics used the average price of the replacement ODDs sold by QCI. QCI nevertheless contends that this \$41 price is far too high since the evidence is undisputed that mask price of \$28 paid by QCI is always higher than the actual price of the ODD.

QCI's expert testified that the appropriate damages amount was a lump sum payment of \$1.2 million, based in large part on the fact that none of the now twenty-nine licenses in evidence (excluding the BenQ settlement) exceeded lump sum amounts of \$1 million. Based on evidence that QCI could have switched from QSI drives to other licensed ODD suppliers to avoid infringement at a cost of \$600,000, QCI's expert also opined that QCI would have paid twice that amount to have the freedom to use ODDs from any supplier.

\*10 The jury ultimately awarded a lump sum

amount of \$8.5 million in damages. QCI moved for JMOL on the grounds that the hypothetical negotiation date had been improperly set as August 2006, that the evidence at trial did not support the jury's award of \$8.5 million, and that LaserDynamics had failed to offer proof at trial to support its \$10.5 million damages theory. The district court denied QCI's motion for JMOL.

\* \* \*

LaserDynamics appealed the district court's granting QCI's motion for a new trial and/or remittitur based on the entire market value rule. QCI cross-appealed the district court's denial of a new trial on the alternative ground of the district court's allegedly prejudicial instruction to the jury. QCI also cross-appealed the district court's entry of summary judgment on the issues of implied license and patent exhaustion, its denial of QCI's motion for JMOL of non-infringement following the first trial, and its denial of QCI's motion for JMOL following the second trial. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

### III. DISCUSSION

[1][2][3][4] For issues not unique to patent law, we apply the law of the regional circuit where this appeal would otherwise lie, which in this case is the Fifth Circuit. *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 841 (Fed.Cir.2010). Thus, the grant or denial of a motion for a remittitur or a new trial is reviewed for an abuse of discretion. *Brunnemann v. Terra Int'l, Inc.*, 975 F.2d 175, 177 (5th Cir.1992); *Bonura v. Sea Land Serv., Inc.*, 505 F.2d 665,669 (5th Cir.1974). Evidentiary rulings are reviewed for an abuse of discretion. *Industrias Magromer Cueros Y Pieles S.A. v. La. Bayou Furs*, 293 F.3d 912, 924 (5th Cir.2002). Decisions on motions for summary judgment and JMOL are reviewed de novo. *Cambridge Toxicology Group v. Exnicios*, 495 F.3d 169, 173, 179 (5th Cir.2007).

For reasons explained in detail below, we hold: (a) that the district court properly granted a new trial on damages following the first jury verdict; (b) that the district court erred in finding that QCI does

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not have an implied license to assemble and sell laptops using ODDs purchased via Philips and Sony/NEC/Optiarc; (c) that the district court properly denied QCI's motion for JMOL of non-infringement; (d) that the district court's jury instruction does not alone warrant a new trial on liability; (e) that the district court erred by setting the hypothetical negotiation date as August 2006; (f) that the district court erred in admitting the BenQ settlement agreement into evidence; and (g) that the district court erred in permitting Mr. Murtha to offer his opinion concerning a 6% per ODD running royalty rate based on ODD average price as a proper measure of reasonable royalty damages in the second trial. We address each of these issues in turn.

#### A. The District Court Properly Granted a New Trial on Damages

LaserDynamics contends that the district court erred by granting QCI's motion for a new trial on damages after the conclusion of the first trial. Essentially, LaserDynamics believes that the district court was precluded from ordering a new trial under the circumstances, since QCI never raised its entire market value rule argument until after the jury verdict, and thereby waived any right to seek a new trial to rectify that error. Moreover, LaserDynamics denies that it improperly relied on the entire market value rule during the first trial, but contends that it instead used a permissible “product value apportionment” method. *LaserDynamics* Br. at 36–44. We disagree with both of LaserDynamics' arguments.

##### 1. The Entire Market Value Rule

\*11 We begin by noting that some products are made of many different components, one or more of which components may be covered by an asserted patent, while other components are not. This is especially true for electronic devices, which may include dozens of distinct components, many of which may be separately patented, the patents often being owned by different entities. To assess how much value each patented and non-patented com-

ponent individually contributes to the overall end product—e.g., a personal computer—can be an exceedingly difficult and error-prone task.

[5] By statute, reasonable royalty damages are deemed the minimum amount of infringement damages “adequate to compensate for the infringement.” 35 U.S.C. § 284. Such damages must be awarded “for the use made of the invention by the infringer.” *Id.* Where small elements of multi-component products are accused of infringement, calculating a royalty on the entire product carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product. Thus, it is generally required that royalties be based not on the entire product, but instead on the “smallest salable patent-practicing unit.” *Cornell Univ. v. Hewlett-Packard Co.*, 609 F.Supp.2d 279, 283, 287–88 (N.D.N.Y.2009) (explaining that “counsel would have wisely abandoned a royalty base claim encompassing a product with significant non-infringing components. The logical and readily available alternative was the smallest salable infringing unit with close relation to the claimed invention—namely the processor itself.”).

[6][7] The entire market value rule is a narrow exception to this general rule. If it can be shown that the patented feature drives the demand for an entire multi-component product, a patentee may be awarded damages as a percentage of revenues or profits attributable to the entire product. *Rite-Hite*, 56 F.3d at 1549, 1551. In other words, “[t]he entire market value rule allows for the recovery of damages based on the value of an entire apparatus containing several features, when the feature patented constitutes the basis for customer demand.” *Lucent*, 580 F.3d at 1336 (quoting *TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 901 (Fed.Cir.1986)). The entire market value rule is derived from Supreme Court precedent requiring that “the patentee ... must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reli-



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able and tangible, and not conjectural or speculative.” *Garretson v. Clark*, 111 U.S. 120, 121, 4 S.Ct. 291, 28 L.Ed. 371 (1884). The Court explained that “the entire value of the whole machine, as a marketable article, [must be] properly and legally attributable to the patented feature.” *Id.*

[8] In effect, the entire market value rule acts as a check to ensure that the royalty damages being sought under 35 U.S.C. § 284 are in fact “reasonable” in light of the technology at issue. We have consistently maintained that “a reasonable royalty analysis requires a court to hypothesize, not to speculate.... [T]he trial court must carefully tie proof of damages to the claimed invention's footprint in the market place.” *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed.Cir.2010). A damages theory must be based on “sound economic and factual predicates.” *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed.Cir.2002). The entire market value rule arose and evolved to limit the permissible scope of patentees' damages theories.

\*12 Importantly, the requirement to prove that the patented feature drives demand for the entire product may not be avoided by the use of a very small royalty rate. We recently rejected such a contention, raised again in this case by LaserDynamics, and clarified that “[t]he Supreme Court and this court's precedents do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate.” *Uniloc*, 632 F.3d at 1319–20 (explaining that statements in *Lucent* suggesting otherwise were taken out of context). We reaffirm that in any case involving multi-component products, patentees may not calculate damages based on sales of the entire product, as opposed to the smallest salable patent-practicing unit, without showing that the demand for the entire product is attributable to the patented feature.

Regardless of the chosen royalty rate, one way in which the error of an improperly admitted entire market value rule theory manifests itself is in the

disclosure of the revenues earned by the accused infringer associated with a complete product rather than the patented component only. In *Uniloc*, we observed that such disclosure to the jury of the overall product revenues “cannot help but skew the damages horizon for the jury, regardless of the contribution of the patented component to this revenue.” *Id.* at 1320 (noting that “the \$19 billion cat was never put back into the bag,” and that neither cross-examination nor a curative jury instruction could have offset the resulting unfair prejudice). Admission of such overall revenues, which have no demonstrated correlation to the value of the patented feature alone, only serve to make a patentee's proffered damages amount appear modest by comparison, and to artificially inflate the jury's damages calculation beyond that which is “adequate to compensate for the infringement.” *Id.*; see 35 U.S.C. § 284.

Turning to the facts of this case, LaserDynamics and Mr. Murtha unquestionably advanced an entire market value rule theory in the first trial. Mr. Murtha opined that a 2% running royalty applied to QCI's total revenues from sales of laptop computers in the United States—\$2.53 billion—was an appropriate and reasonable royalty. The resulting figure presented to the jury was \$52.1 million, and the jury awarded damages in nearly that exact amount. Whether called “product value apportionment” or anything else, the fact remains that the royalty was expressly calculated as a percentage of the entire market value of a laptop computer rather than a patent-practicing ODD alone. This, by definition, is an application of the entire market value rule.

[9] LaserDynamics' use of the entire market value rule was impermissible, however, because LaserDynamics failed to present evidence showing that the patented disc discrimination method drove demand for the laptop computers. It is not enough to merely show that the disc discrimination method is viewed as valuable, important, or even essential to the use of the laptop computer. Nor is it enough to show that a laptop computer without an ODD

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practicing the disc discrimination method would be commercially unviable. Were this sufficient, a plethora of features of a laptop computer could be deemed to drive demand for the entire product. To name a few, a high resolution screen, responsive keyboard, fast wireless network receiver, and extended-life battery are all in a sense important or essential features to a laptop computer; take away one of these features and consumers are unlikely to select such a laptop computer in the marketplace. But proof that consumers would not want a laptop computer without such features is not tantamount to proof that any one of those features alone drives the market for laptop computers. Put another way, if given a choice between two otherwise equivalent laptop computers, only one of which practices optical disc discrimination, proof that consumers would choose the laptop computer having the disc discrimination functionality says nothing as to whether the presence of that functionality is what motivates consumers to buy a laptop computer in the first place. It is this latter and higher degree of proof that must exist to support an entire market value rule theory.

\*13 Our decision in *Lucent* is illustrative. There, the patent at issue involved a helpful and convenient “date picker” feature that was being used within the grand scheme of Microsoft’s Outlook email software. We held that because the patented feature was “but a tiny feature of one part of a much larger software program,” a royalty could not be properly calculated based on the value of the entire Outlook program because “there was no evidence that anybody anywhere at any time ever bought Outlook ... because it had [the patented] date picker.” *Lucent*, 580 F.3d at 1332–33 (emphasis added).

In this case, Mr. Murtha never conducted any market studies or consumer surveys to ascertain whether the demand for a laptop computer is driven by the patented technology. On the record before us, the patented method is best understood as a useful commodity-type feature that consumers expect

will be present in all laptop computers. There is no evidence that this feature alone motivates consumers to purchase a laptop computer, such that the value of the entire computer can be attributed to the patented disc discrimination method. As the district court aptly stated, “[a]t best,” LaserDynamics proved only that “almost all computers sold in the retail market include optical disc drives and that customers would be hesitant to purchase computers without an optical disc drive.” *New Trial Op.* at \*10. The district court correctly found that this evidence fails to satisfy the requirements of our precedent to support the usage of the entire market value rule when calculating reasonable royalty damages.

[10] Furthermore, Mr. Murtha’s one-third apportionment to bring his royalty rate down from 6% per ODD to 2% per laptop computer appears to have been plucked out of thin air based on vague qualitative notions of the relative importance of the ODD technology. The district court correctly concluded that “[a]lthough [LaserDynamics] argues that the many activities that may be performed on a computer using a disk drive, such as playing movies, music and games, transferring documents, backing up files, and installing software comprise a third of the value of a computer, [Mr. Murtha] offers no credible economic analysis to support that conclusion.” *LaserDynamics*, 2011 U.S. Dist. LEXIS 42590, at \*6. This complete lack of economic analysis to quantitatively support the one-third apportionment echoes the kind of arbitrariness of the “25% Rule” that we recently and emphatically rejected from damages experts, and would alone justify excluding Mr. Murtha’s opinions in the first trial. Cf. *Uniloc*, 632 F.3d at 1318 (“Gemini’s starting point of a 25 percent royalty had no relation to the facts of the case, and as such, was arbitrary, unreliable, and irrelevant. The use of such a rule fails to pass muster under *Daubert* and taints the jury’s damages calculation.”).

[11] Finally, we reject the contention that practical and economic necessity compelled LaserDy-

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namics to base its royalty on the price of an entire laptop computer. *LaserDynamics* Br. at 15–18. LaserDynamics emphasizes that QCI is in the business of assembling and selling complete laptop computers, not independent ODDs, and that QCI does not track the prices, revenues, or profits associated with individual components. Likewise, LaserDynamics points out that QCI purchases ODDs for a “mask price,” which the district court described as “nominal” and essentially “an accounting fiction” that offers “little evidence of the drives’ actual value.” *LaserDynamics, Inc. v. Quanta Computer, Inc.*, No. 2:06–cv–348–TJW–CE (E.D.Tex. Jan. 21, 2011). LaserDynamics further points to Mr. Murtha’s testimony that, in his prior experience working in patent licensing at IBM, IBM would often base royalties on entire products to address such accounting difficulties. Thus, LaserDynamics concludes that the parties would have had to use the value of the entire laptop computer as the royalty base in structuring a hypothetical license agreement, as it reflects the only true market value of anything that QCI sells.

\*14 LaserDynamics overlooks that a per-unit running royalty is not the only form of a reasonable royalty that the parties might have agreed to in a hypothetical negotiation. An alternate form is evidenced by the many license agreements to the [’981 Patent](#) in the record for lump sum royalties that are not calculated as a percentage of *any* component or product, which immediately belies the argument that using a laptop computer as the royalty base is “necessary.” LaserDynamics’ necessity argument also fails to address the fundamental concern of the entire market value rule, since permitting LaserDynamics to use a laptop computer royalty base does not ensure that the royalty rate applied thereto does not overreach and encompass components not covered by the patent. That is, if difficulty in precisely identifying the value of the ODDs is what justifies using complete laptop computers as the royalty base, when it comes time to then apportion a royalty rate that accounts for the ODD contribution only, the exceedingly difficult and error-prone

task of discerning the ODD’s value relative to all other components in the laptop remains.

Moreover, LaserDynamics provides no reason that QCI’s own lack of internal tracking and accounting of individual components or its “mask price” purchases precludes LaserDynamics from deriving or obtaining accurate information concerning ODD values from third parties, industry practices, etc. LaserDynamics in fact did obtain and use alternative pricing information from Sony-made ODDs in the second trial. As explained below, this Sony-made ODD pricing information was not *per se* unreliable, as the jury was entitled to weigh it against QCI’s competing views of appropriate ODD pricing. Thus, we see no reason to establish a necessity-based exception to the entire market value rule for LaserDynamics in this case.

## 2. The Grant of a New Trial

[12] Having established that LaserDynamics’ theory of damages was legally unsupportable, we turn to the question of whether the district court abused its discretion in granting QCI’s post-verdict motion and offering LaserDynamics a choice between a new damages trial and a remittitur of the damages verdict to \$6.2 million. While LaserDynamics is correct that QCI made no pre-verdict objection or raised any challenge whatsoever to Mr. Murtha’s testimony on an entire market value rule theory, under Fifth Circuit law this ostensible waiver by QCI does not preclude the district court from exercising its discretion to consider the issue. See *Garriott v. NCsoft Corp.*, 661 F.3d 243 (5th Cir.2011) (finding that an otherwise waived argument made in a motion for a new trial was properly addressed and preserved when the district court exercised its discretion to consider the issue in its opinion denying the motion).

[13] The Fifth Circuit has determined that “[a] district court has discretion to consider new theories raised for the first time in a post-trial brief, ... and an issue first presented to the district court in a post-trial brief is properly raised below when the district court exercises its discretion to consider the

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issue.” *Quest Medical, Inc. v. Aprill*, 90 F.3d 1080, 1087 (5th Cir.1996) (citations omitted). In this case, whether or not the district court could have deemed QCI's entire market value rule arguments waived and ignored them, it did not. In light of QCI's post-trial briefing, the district court identified the error of permitting the entire market value rule theory to go to the jury, and exercised its discretion to correct the error. We find no abuse of discretion in the district court's decision to grant QCI's motion for a remittitur or a new trial under these circumstances, and we therefore affirm the district court on this point.

B. QCI Has an Implied License to Assemble Laptops Using ODDs from QSI via Philips and Sony/NEC/Optiarc

\*15 [14] QCI contends that it has an implied license to assemble laptop computers for its customers that include the accused ODDs assembled by QSI for Philips or Sony/NEC/Optiarc, pursuant to Philips's and Sony/NEC/Optiarc's “have made” rights under their patent license agreements with LaserDynamics. The QSI-assembled ODDs at issue are sold by Philips or Sony/NEC/Optiarc either directly to QCI or indirectly to QCI via QCI's customers such as Dell and HP, as directed by QCI's customers. “The existence *vel non* of an implied license is a question of law that we review *de novo*.” *Anton/Bauer, Inc. v. PAG, Ltd.*, 329 F.3d 1343, 1348 (Fed.Cir.2003).

At oral argument before this court, counsel for QCI explained that the vast majority of the allegedly infringing ODDs would be covered under QCI's implied license theory, and that QCI's arguments concerning patent exhaustion pertain to only those same ODDs. *Oral Arg.* at 0:30–1:30, *available at* <http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2011-1440.mp3>. Because we find that QCI has an implied license, we do not reach QCI's patent exhaustion arguments.<sup>FN5</sup>

The district court relied solely on *E.I. Du Pont de Nemours & Co. v. Shell Oil Co.*, 498 A.2d 1108

(Del.1985), in finding that “the Quanta defendants do not have an implied license with respect to drives that are manufactured by QSI and eventually sold to QCI (or another Quanta entity), notwithstanding the fact that those drives are sold through Philips or Sony/NEC/Optiarc, two of [LaserDynamics'] licensees.” *Pre-Trial Op.* at \*4 (citing *Du Pont*, 498 F.3d at 1116). According to the district court, “[t]he effect of such transactions is to grant an impermissible sublicense.” *Id.* We disagree.

In *Du Pont*, E.I. Du Pont de Nemours and Company, Inc. (“Du Pont”) had entered into a license agreement with Shell Oil Company (“Shell”) permitting Shell to “make, have made, use and sell for use or resale” an insecticide product covered by Du Pont's patent. 498 A.2d at 1110. The license agreement expressly prohibited any sublicensing by Shell. *Id.* Union Carbide Agricultural Corporation, Inc. (“Union Carbide”) later sought permission from Shell to produce the patented insecticide, but Shell declined due to the prohibition on sublicensing in its licensed agreement with Du Pont. *Id.* at 1111. Instead, Shell and Union Carbide came up with the following arrangement: (1) Union Carbide would manufacture the insecticide under the “have made” provision of the license agreement between Shell and Du Pont, then (2) Shell would immediately sell back the insecticide to Union Carbide pursuant to Shell's right to “sell for use or resale.” *Id.* at 1111. The minimum amounts of insecticide that Union Carbide agreed to make and the minimum amounts that Shell agreed to sell back to Union Carbide were identical. *Id.* at 1115–16. The Supreme Court of Delaware deemed this arrangement an impermissible sublicense, rather than a permissible exercise of Shell's “have made” and “sell” rights, because “ultimately, Union Carbide was producing [the insecticide], not for Shell, but rather for itself.” *Id.* (citing *Carey v. United States*, 164 Ct.Cl. 304, 326 F.2d 975, 979 (Ct.Cl.1964) (explaining that “the test is, whether the production is by or for the use of the original licensee or for the sublicensee himself or for someone else”)).

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\*16 The case before us presents a different situation from that in *Du Pont*. The ODDs provided to QCI via Philips and Sony/NEC/Optiarc were undoubtedly assembled by QSI for Philips and Sony/NEC/Optiarc, not for QSI or QCI. Even though the ODDs made by QSI were in reality shipped directly from QSI to QCI, the substance of the transactions make clear that QSI's manufacture of the ODDs was limited to the needs and requests of Philips and Sony/NEC/Optiarc. QSI had no unfettered ability to make more ODDs than were ordered from it. Nothing in the record suggests that this overall arrangement is designed to circumvent the terms of the patent licenses between LaserDynamics and Philips or Sony/NEC/Optiarc. Indeed, the shipping and manufacturing arrangements involved in this case reflect typical on-time delivery logistics of modern industrial reality.

The apposite precedent is our decision in *Cyrix Corp. v. Intel Corp.*, 77 F.3d 1381 (Fed.Cir.1996). That case involved Cyrix Corporation (“Cyrix”), a designer and seller of microprocessors, contracting with other companies to manufacture integrated circuit chips containing the Cyrix-designed microprocessors, then selling the chips back to Cyrix. *Id.* at 1383. Cyrix used manufacturers that were licensed under patents owned by Intel, including SGS–Thomson Microelectronics, Inc. (“ST”). *Id.* ST had acquired by assignment a license from Intel “to make, have made ... [and] sell” the patented chips. *Id.* ST could not itself fulfill Cyrix's orders, however, and, relying on its “have made” rights, arranged for its Italian non-subsidiary affiliate company (“ST–Italy”) to manufacture the chips, which ST then sold to Cyrix. *Id.* The district court distinguished this situation from that in *Du Pont* and held that ST did not exceed its rights under the Intel license by having ST–Italy make the chips for ST to sell to Cyrix. *Id.* at 1384. Cyrix and ST were both found to not infringe Intel's patents on this basis.

We affirmed, rejecting Intel's argument that the arrangement among ST, ST–Italy, and Cyrix was a mere paper transaction—a “sham” designed to cir-

cumvent Intel's license to ST. *Id.* at 1387–88. We endorsed the district court's reasoning that, unlike in *Du Pont*, “[t]he production of the [chips] is for the use of ST, the original licensee, and not for the use of ST–Italy.” *Id.* at 1387. As we explained, “[i]f the facts in this case had been that Cyrix made the product for ST under ST's ‘have made’ rights and then ST sold the product back to Cyrix, then they would have been analogous to those in *du Pont*, but those are not our facts.” *Id.* at 1388.

[15] This case likewise presents no “sham” transaction as in *Du Pont*. QSI made the ODDs at issue here to fulfill bona fide orders from licensees Philips and Sony/NEC/Optiarc. The ODDs were then sold to QCI by the licensees. QCI did not make the ODDs for Philips or Sony/NEC/Optiarc and then immediately purchase the ODDs back so as to effectively receive a sublicense and obtain as many ODDs as it wanted. Rather, as in *Cyrix*, the manufacture of the ODDs by QSI and their eventual sale to QCI for incorporation into laptop computers, all via Philips and Sony/NEC/Optiarc, were legitimate and separate business transactions that did not expand or circumvent the patent licenses. *Id.* at 1387–88 (“The two agreements, one permitting ST–Italy to manufacture microprocessors for ST and the other providing for ST's sale of microprocessors to Cyrix, were separate business transactions.”). Both the manufacture and sale of the ODDs were valid exercises of the “have made” and “sell” rights, respectively, under the license agreements in this case. We therefore conclude that QCI has an implied license to the '981 Patent with respect to the ODDs made by QSI and sold to QCI via Philips or Sony/NEC/Optiarc.

#### C. The District Court Properly Denied QCI's Motion for JMOL of Non–Infringement

\*17 [16] QCI contends that LaserDynamics' evidence at the first trial was inadequate to prove direct infringement by end users of the accused laptops of asserted claim 3 under the district court's claim constructions. As discussed above, claim 3 requires, *inter alia*, the steps of “processing an op-



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tical signal reflected from encoded pits on an optical disk until total number of data layers and pit configuration standard of the optical disk is identified” and “collating the processed optical signal with an optical disk standard data which is stored in a memory.” The district court construed the phrase “encoded pits on an optical disc” to mean “depression[s] in the surface of the disc which represent[ ] data or information” *Markman Order*, at \*13. The step of “collating the processed optical signal with an optical disk standard data which is stored in a memory” was construed to mean “comparing the processed optical signal with an optical disk standard data stored on a memory.” *Id.* at \*15.

QCI does not challenge the district court's claim constructions, but only whether the trial record supports the jury's verdict of infringement. Contrary to QCI's argument, nothing in these claim constructions dictates that the arrangement of depressions be “identified” or “recognized” in any particular manner. Substantial evidence exists to show that the industry standards for various optical discs require specified arrangements of the depressions horizontally as well as specified depths of the data layers. The record amply supports that the depth of the data layer precisely correlates to the pit configuration arrangement, such that the measurement of the depth (via a counter value) *is* a measurement of the pit arrangement. Under the claim constructions, the jury was entitled to find infringement on this basis, and we therefore affirm the district court's denial of QCI's motion for JMOL of non-infringement.

#### D. The District Court's Jury Instruction Does Not Alone Warrant a New Trial on Liability

As discussed above, upon perceiving a change in position by QCI concerning the frequency with which QCI's ODDs were obtained via a buy/sell arrangement, the district judge instructed the jury as follows: “this constitutes a significant change in the testimony, and no documents have been produced to support that, and that you may take this instruc-

tion into account in judging the credibility of all of this witness' testimony and all other Quanta Computer's positions in this case.” A34–35. QCI contends that this instruction so unfairly prejudiced QCI that only a new trial could rectify the error.

[17][18][19][20] Since QCI did not object at trial, we review the district court's instruction for plain error. *Rodriguez v. Riddell Sports, Inc.*, 242 F.3d 567, 579 (5th Cir.2001). Plain error is “clear” or “obvious” and must affect substantial rights. *Id.* (quoting *United States v. Calverley*, 37 F.3d 160, 162–64 (5th Cir.1994)). Such error is reversible only if it “seriously affect[s] the fairness, integrity, or public reputation of judicial proceedings.” *Id.* (citations omitted). Although a district court is afforded broad discretion over the manner in which trial is conducted, and may intervene to help expand upon or clarify witness testimony and evidence, such intervention “may not come at the cost of strict impartiality.” *Id.* (quoting *United States v. Saenz*, 134 F.3d 697, 702 (5th Cir.1998)). Thus, “[i]n reviewing a claim that the trial court appeared partial, this court must determine whether the judge's behavior was so prejudicial that it denied the [defendant] a fair, as opposed to a perfect, trial.” *Id.* (citations and internal quotation marks omitted). In performing this review, we must consider the district court's actions in light of the entire trial record and consider the totality of the circumstances. *Saenz*, 134 F.3d at 702.

\*18 [21] Our review of the record shows that QCI made different representations concerning the frequency with which its ODD purchases were made via buy/sell arrangements. It is not the same to suggest that a certain method is “one way” business is done when in fact it is the predominant way—85% of the time—that business is done. Nevertheless, the district court's response to this potential inconsistency was harsh and prejudicial to QCI. The question of whether there was any inconsistency here, and the associated questions of credibility, should have been for the jury to decide. It is one thing to point out a potential inconsistency to

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the jury and to raise an associated question of credibility. But it was error to instruct the jury to “take this instruction into account in judging the credibility of ... *all other Quanta Computer's positions in this case.*” A34–35 (emphasis added).

[22] Notwithstanding whether there was any inconsistency in QCI's positions, on the balance, we do not view the district court's instruction to constitute plain error that standing alone warrants a new trial. QCI was given a second trial on the issue of damages, which cured any prejudice that the district court's instruction might have caused in that regard. As for infringement liability, a portion of the case put on through entirely different witnesses, we are not convinced that the instruction, in context, was so severe as to prevent QCI from receiving a “fair, as opposed to a perfect, trial” on infringement. *Rodriguez*, 242 F.3d at 579 (citations omitted). However, if the same testimony is introduced at a subsequent trial, the court must leave to the jury the decision whether any inconsistency exists.

#### E. The District Court Erred By Setting the Hypothetical Negotiation Date as August 31, 2006

During both trials, QCI was bound by the district court's ruling that the hypothetical negotiation date for purposes of the *Georgia-Pacific* reasonable royalty analysis was August 2006—i.e., when the lawsuit was filed. The district court reasoned that since QCI was being accused of active inducement of infringement, which requires knowledge of the patent, and since QCI was not notified of the patent until August 2006, this date was when QCI first became liable to LaserDynamics. Based in large part on this late date, LaserDynamics' expert Mr. Murtha testified that he disregarded almost all of LaserDynamics' twenty-nine licenses in evidence that were executed earlier, reasoning that the economic landscape had since changed.

[23] We have explained that “[t]he correct determination of [the hypothetical negotiation] date is essential for properly assessing damages.” *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 870 (Fed.Cir.2003). In general, the date of the hy-

pothetical negotiation is the date that the infringement began. See *Georgia-Pacific*, 318 F.Supp. at 1123. We have consistently adhered to this principle. See, e.g., *Applied Med. Res. Corp. v. U.S. Surgical Corp.*, 435 F.3d 1356, 1363–64 (Fed.Cir.2006) (“[T]he hypothetical negotiation relates to the date of first infringement.”); *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed.Cir.1989) (“The determination of a reasonable royalty ... [is based] on what a willing licensor and licensee would bargain for at hypothetical negotiations on the date infringement started.”).

\*19 [24][25][26] We have also been careful to distinguish the hypothetical negotiation date from other dates that trigger infringement liability. For example, the six-year limitation on recovery of past damages under 35 U.S.C. § 286 does not preclude the hypothetical negotiation date from taking place on the date infringement began, even if damages cannot be collected until some time later. See *Wang Labs., Inc. v. Toshiba Corp.*, 993 F.2d 858, 870 (Fed.Cir.1993). Similarly, the failure to mark a patented product or prove actual notice of the patent pursuant to 35 U.S.C. § 287 precludes the recovery of damages prior to the marking or notice date, but the hypothetical negotiation date may nevertheless be properly set before marking or notice occurs. *Id.* (“[T]he court confused limitation on damages due to lack of notice with determination of the time when damages first began to accrue, and it is the latter which is controlling in a hypothetical royalty determination.”). In sum, “[a] reasonable royalty determination for purposes of making a damages evaluation must relate to the time infringement occurred, and not be an after-the-fact assessment.” *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1313 (Fed.Cir.2002) (citing *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1079 (Fed.Cir.1983) (“The key element in setting a reasonable royalty ... is the necessity for return to the date when the infringement began.”)).

[27][28][29] Here, there is no dispute that while QCI first became liable for active inducement

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of infringement in August 2006, QCI's sales of accused laptop computers into the United States began causing the underlying direct infringement by end users in 2003. From the premise that the hypothetical negotiation must focus on the "date when the infringement began," *Hanson*, 718 F.2d at 1079, we note that active inducement of infringement is, by definition, conduct that causes and encourages infringement. 35 U.S.C. § 271(b) ("Whoever actively induces infringement of a patent shall be liable as an infringer."). While active inducement can ultimately lead to direct infringement, absent direct infringement there is no compensable harm to a patentee. See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 500, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964) ("It is true that a contributory infringer is a species of joint-tortfeasor, who is held liable because he has contributed with another to the causing of a single harm to the plaintiff."). Thus, we hold that in the context of active inducement of infringement, a hypothetical negotiation is deemed to take place on the date of the first direct infringement traceable to QCI's first instance of inducement conduct in this case, 2003.

Our holding is consistent with the purpose of the hypothetical negotiation framework, which seeks to discern the value of the patented technology to the parties in the marketplace when infringement began. In considering the fifteen *Georgia-Pacific* factors, it is presumed that the parties had full knowledge of the facts and circumstances surrounding the infringement at that time. Indeed, the basic question posed in a hypothetical negotiation is: if, on the eve of infringement, a willing licensor and licensee had entered into an agreement instead of allowing infringement of the patent to take place, what would that agreement be? This question cannot be meaningfully answered unless we also presume knowledge of the patent and of the infringement at the time the accused inducement conduct began. Were we to permit a later notice date to serve as the hypothetical negotiation date, the damages analysis would be skewed because, as a legal construct, we seek to pin down how the pro-

spective infringement might have been avoided via an out-of-court business solution. See *Wordtech Sys. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1319 (Fed.Cir.2010) ("The hypothetical negotiation 'attempts to ascertain the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began,' and 'necessarily involves an element of approximation and uncertainty.' " (quoting *Lucent*, 580 F.3d at 1324–25)). It also makes sense that in each case there should be only a single hypothetical negotiation date, not separate dates for separate acts of infringement, and that a direct infringer or someone who induced infringement should pay the same reasonable royalty based on a single hypothetical negotiation analysis.

\*20 Lastly, QCI points out that the accused ODDs were manufactured by QSI as early as 2001, and urges us to deem 2001 the date of first infringement for the hypothetical negotiation. However, it is QCI that is accused of active inducement here, and the record shows that QCI and QSI are related but independently operated companies, and that QCI does not own a controlling interest in QSI. Thus, there is no basis on which to further push back the hypothetical negotiation date to 2001. See *BMC Res., Inc. v. Paymentech, LP*, 498 F.3d 1373, 1380–82 (Fed.Cir.2007) (declining to impute responsibility for allegedly infringing conduct from one party to another).

Because our decision alters the time period when the analysis under *Georgia-Pacific* is to take place, we remand for a new trial on damages pursuant to the 2003 hypothetical negotiation date with respect to those accused laptop computers not encompassed by QCI's implied license as discussed above.

#### F. The District Court Erred in Admitting the BenQ Settlement Agreement

[30] Before the second trial, QCI filed a motion *in limine* seeking to exclude the 2006 LaserDynamics–BenQ settlement agreement from evidence pursuant to [Federal Rule of Evidence 403](#). QCI's mo-



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tion emphasized the unique circumstances of the BenQ settlement, which was entered into on the eve of trial after BenQ had been repeatedly sanctioned by the district court. We conclude that the district court abused its discretion in denying QCI's motion and allowing the agreement into evidence.

Rule 403 provides for the exclusion of otherwise relevant evidence when the probative value of that evidence is substantially outweighed by the danger of unfair prejudice, confusing the issues, or misleading the jury. Along these lines, [Federal Rule of Evidence 408](#) specifically prohibits the admission of settlement offers and negotiations offered to prove the amount of damages owed on a claim. The propriety of using prior settlement agreements to prove the amount of a reasonable royalty is questionable. *See, e.g., Rude v. Westcott*, 130 U.S. 152, 164, 9 S.Ct. 463, 32 L.Ed. 888 (1889) (“[A] payment of any sum in settlement of a claim for an alleged infringement cannot be taken as a standard to measure the value of the improvements patented, in determining the damages sustained by the owners of the patent in other cases of infringement.”); *Deere & Co. v. Int'l Harvester Co.*, 710 F.2d 1551, 1557 (Fed.Cir.1983) (holding that “as the White license was negotiated against a backdrop of continuing litigation and [defendant's] infringement of the Schreiner patent, the district court could properly discount the probative value of the White license with regard to a reasonable royalty”); *see also Hanson*, 718 F.2d at 1078–79 (observing that “license fees negotiated in the face of a threat of high litigation costs may be strongly influenced by a desire to avoid full litigation” and “should not be considered evidence of an established royalty” (quoting *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1164 n. 11 (6th Cir.1978) (Markey, J.))). The notion that license fees that are tainted by the coercive environment of patent litigation are unsuitable to prove a reasonable royalty is a logical extension of *Georgia-Pacific*, the premise of which assumes a voluntary agreement will be reached between a willing licensor and a willing licensee, with validity and in-

fringement of the patent not being disputed. *See* 318 F.Supp. at 1120.

\*21 Despite the longstanding disapproval of relying on settlement agreements to establish reasonable royalty damages, we recently permitted such reliance under certain limited circumstances. *See ResQNet*, 594 F.3d at 870–72 (explaining that a settlement license to the patents-in-suit in a running royalty form was “the most reliable license in [the] record” when compared with other licenses that did not “even mention[ ] the patents-in-suit or show[ ] any other discernable link to the claimed technology”). We permitted consideration of the settlement license on remand, but we cautioned the district court to consider the license in its proper context within the hypothetical negotiation framework to ensure that the reasonable royalty rate reflects “the economic demand for the claimed technology.” *Id.* at 872.

Unlike the license in *ResQNet*, the BenQ settlement agreement is far from being the “most reliable license in [the] record.” 594 F.3d at 872. Indeed, the BenQ settlement agreement appears to be the least reliable license by a wide margin. The BenQ settlement agreement was executed shortly before a trial—a trial in which BenQ would have been at a severe legal and procedural disadvantage given the numerous harsh sanctions imposed on it by the district court. The \$6 million lump sum license fee is six times larger than the next highest amount paid for a license to the patent-in-suit, and ostensibly reflects not the value of the claimed invention but the strong desire to avoid further litigation under the circumstances. LaserDynamics executed twenty-nine licenses for the patent-in-suit in total, the vast majority of which are not settlements of active litigation and do not involve the unique coercive circumstances of the BenQ settlement agreement, and which are therefore far more reliable indicators of what willing parties would agree to in a hypothetical negotiation. Additionally, in light of the changing technological and financial landscape in the market for ODDs, the BenQ settlement, entered in-

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to a full three years after the hypothetical negotiation date, is in many ways not relevant to the hypothetical negotiation analysis. See *Odetics, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1276–77 (Fed.Cir.1999) (agreeing with the district court that, for two licenses entered into four and five years after the date of first infringement, “the age of the license agreements, in the context of the changing technology and ‘financial landscape’ at issue, made those agreements irrelevant for the hypothetical negotiation analysis). This record stands in stark contrast to that in *ResQNet*, where a lone settlement agreement stood apart from all other licenses in the record as being uniquely relevant and reliable. This case is therefore well outside the limited scope of circumstances under which we deemed the settlement agreement in *ResQNet* admissible and probative. The probative value of the BenQ settlement agreement is dubious in that it has very little relation to demonstrated economic demand for the patented technology, and its probative value is greatly outweighed by the risk of unfair prejudice, confusion of the issues, and misleading the jury. Fed.R.Evid. 403. Accordingly, we conclude that the district court abused its discretion by admitting the BenQ settlement agreement into evidence, and must exclude the agreement from the proceedings on remand.

G. The District Court Erred in Admitting Mr. Murtha's Opinions Concerning a 6% Royalty Rate Per \$41 ODD

\*22 Because we are remanding to the district court for a new trial on damages under the proper 2003 hypothetical negotiation date, we do not reach QCI's argument that the second jury verdict of an \$8.5 million lump sum lacks evidentiary support, so as to entitle QCI to a \$1.2 million judgment on damages as a matter of law. However, for the purposes of remand, we do reach QCI's *Daubert* challenge to Mr. Murtha's methodology in the second trial and find that the district court erred in allowing the jury to hear his testimony concerning a 6% royalty rate derived from the Sony-made \$41 ODDs.

1. Mr. Murtha's Use of the Sony–Made \$41 ODDs

QCI argues that Mr. Murtha's testimony in the second trial was unreliable for using a \$41 per ODD value that was calculated based on a relatively small sample of about 9,000 non-infringing drives made by Sony, not by QSI. *QCI Br.* at 69–70. We disagree.

LaserDynamics contends that the \$41 price of the Sony ODDs was more appropriate than the \$28 mask price used in the first trial with respect to QSI-made ODDs. According to LaserDynamics, since QCI does not track prices and revenues of the ODDs that it buys to incorporate into laptop computers, and does not generally sell stand alone ODDs, the \$41 Sony-made drives that QCI sells as replacement parts better reflect the market value for ODDs independent of the completed laptop computers. QCI counters that the \$41 price was unreliable because it was based on a small sample size of licensed and therefore non-infringing drives, which is irrelevant to the price of the accused drives, and because the record shows that the \$28 mask price of the accused QSI-made drives is always higher than the price to the consumer.

[31] As the district court explained, “[Mr. Murtha's] approach appears to be a reasonable attempt to value [QCI's] drives based on arms-length transactions. Although the jury may ultimately determine that [Mr. Murtha's] approach is unreasonable, the approach is not subject to a *Daubert* challenge.” *LaserDynamics*, No. 2:06–cv–348–TJW–CE (E.D.Tex. Jan. 21, 2011). We conclude that the district court did not abuse its discretion in declining to exclude Mr. Murtha's use of the \$41 Sony-made ODDs on *Daubert* grounds.

2. Mr. Murtha's 6% Royalty Rate Per ODD

QCI contends that Mr. Murtha's opinion that a reasonable royalty in this case would be 6% of each ODD sold within a laptop computer by QCI was unreliable under [Federal Rule of Evidence 702](#) and should have been excluded. We agree.

The first of the fifteen factors in *Geor-*

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*gia-Pacific* is “the royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.” 318 F.Supp. at 1120. Actual licenses to the patented technology are highly probative as to what constitutes a reasonable royalty for those patent rights because such actual licenses most clearly reflect the economic value of the patented technology in the marketplace. See *ResQNet*, 594 F.3d at 869 (“[T]he trial court must carefully tie proof of damages to the claimed invention's footprint in the marketplace.”).

\*23 When relying on licenses to prove a reasonable royalty, alleging a loose or vague comparability between different technologies or licenses does not suffice. For example, in *Lucent*, where the patentee had relied on various licenses in the same general computer field without proving a relationship to the patented technology or the accused infringing products, we insisted that the “licenses relied upon by the patentee in proving damages [be] sufficiently comparable to the hypothetical license at issue in suit,” and noted that the patentee's failure to prove comparability “weighs strongly against the jury's award” relying on the non-comparable licenses. 580 F.3d at 1325, 1332.

Likewise, in *ResQNet*, the patentee's expert “used licenses with no relationship to the claimed invention to drive the royalty rate up to unjustified double-digit levels,” and which had no “other discernible link to the claimed technology.” 594 F.3d at 870. We rejected this testimony, holding that the district court “must consider licenses that are commensurate with what the defendant has appropriated. If not, a prevailing plaintiff would be free to inflate the reasonable royalty analysis with conveniently selected licenses without an economic or other link to the technology in question.” *Id.* at 872. On remand, we directed that unrelated licenses could not be relied on to increase the reasonable royalty rate above rates that are more clearly linked to the economic demand for the claimed technology. *Id.* at 872–73.

Actual licenses to the patents-in-suit are probative not only of the proper amount of a reasonable royalty, but also of the proper form of the royalty structure. In *Word-tech Systems*, the patentee relied on thirteen patent licenses that it previously granted to third parties. 609 F.3d at 1319. We rejected the patentee's reliance on eleven of the thirteen licenses for being in the form of a running royalty (whereas the patentee had sought a lump sum payment) and for including royalty rates far lower than the jury returned. *Id.* at 1320–21. The remaining two licenses, although in the form of lump sums, were also rejected for not describing how the lump sums were calculated or the type and volume of products intended to be covered by the licenses. *Id.* at 1320. We ultimately reversed the \$250,000 verdict and remanded for a new trial on damages because “the verdict was clearly not supported by the evidence and based only on speculation or guesswork.” *Id.* at 1319–22 (citation and internal quotation marks omitted).

[32] In this case, the district court denied QCI's *Daubert* motion and permitted Mr. Murtha to testify concerning his opinion of a 6% running royalty rate during the second trial. However, the district court insisted that LaserDynamics prove that two DVD-related patent licensing programs and the 1997 Licensing Executives Survey relied on by Mr. Murtha (to the exclusion of the many past licenses for the '981 patent) were sufficiently comparable to the hypothetically negotiated license Mr. Murtha proffered. *LaserDynamics*, 2011 U.S. Dist. LEXIS 42590, at \*8–\*11.

\*24 The district court correctly recognized that LaserDynamics' reliance on the two DVD-related patent licensing programs and the 1997 Licensing Executives Survey was problematic, but its ruling erroneously permitted continued reliance on this evidence where comparability between it and a hypothetical license to the '981 Patent was absent. The DVD-related patent licensing programs did not involve the '981 Patent, and no evidence shows that it even involves a disc discrimination method. A652.

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The 1997 licensing survey was even further removed from the patented technology, since it was not even limited to any particular industry, but “was across whatever technologies were being licensed by the people who responded.” A653–54. Like the licenses we rejected in *ResQNet*, this licensing evidence relied upon by Mr. Murtha “simply [has] no place in this case.” 594 F.3d at 871. Relying on this irrelevant evidence to the exclusion of the many licenses expressly for the '981 Patent served no purpose other than to “to increase the reasonable royalty rate above rates more clearly linked to the economic demand for the claimed technology.” *Id.* at 872–73.

Aside from the BenQ settlement agreement discussed above, the licenses to the patents-in-suit were all for lumps sum amounts not exceeding \$1 million. Mr. Murtha's 6% running royalty theory cannot be reconciled with the actual licensing evidence, which is highly probative of the patented invention's economic value in the marketplace, and of the form that a hypothetical license agreement would likely have taken. Although Mr. Murtha conceded that QCI would be aware of LaserDynamics' prior licenses in the hypothetical negotiation, he dismissed the probative value of the licenses because they were entered into between 1998 and 2003, before the August 2006 hypothetical negotiation date. Mr. Murtha reasoned that, by 2006, the DVD market was larger and more established such that the value of the patented technology was better appreciated and LaserDynamics had more bargaining power to insist on a running royalty. Thus, in his view, LaserDynamics' past licenses could not reflect an appropriate royalty for QCI in 2006.

This reasoning is not supported by the record, however, which undisputedly shows that by around 2000, the DVDs and ODD markets were already experiencing tremendous growth such that by 2003 those markets were highly saturated. *LaserDynamics Br.* at 8–9 (“The landscape for the acceptance of the DVD format began to change in about 2000. In a relatively short time span, from around 2001 to

2002, video rental stores transitioned their entire stock from VHS tapes to DVDs. By 2003, nearly every home had a DVD player, and nearly every computer had a DVD drive.” (citations omitted)); *QCI Br.* at 64 (“The increase in demand for optical disc drives was fully anticipated by the industry in 2000, before many of the prior license agreements were entered into.”). Most of the early lump sum licenses that were summarily rejected by Mr. Murtha were thus entered into when the value of the patented technology was readily apparent and demand was already projected to greatly increase. The resetting of the hypothetical negotiation date to 2003, the date of first direct infringement induced by QCI's conduct, further undercuts Mr. Murtha's reasoning that the licenses to the '981 patent from the 1997 to 2001 time frame were too early to be probative. That the Licensing Executives Survey relied upon by Mr. Murtha—which has no meaningful ties to the patented technology—was created in 1997 highlights the inconsistency in Mr. Murtha's selective reasoning. Such strained reasoning is unreliable and cannot be used to ignore LaserDynamics' long history of licensing the '981 Patent.

\*25 In sum, the 6% royalty rate was untethered from the patented technology at issue and the many licenses thereto and, as such, was arbitrary and speculative. See *Uniloc*, 632 F.3d at 1318; *ResQNet*, 594 F.3d at 873. A new trial is required because the jury's verdict was based on an expert opinion that finds no support in the facts in the record. See *Wordtech*, 609 F.3d at 1319–22 (prohibiting jury verdicts to stand if they are “clearly not supported by the evidence” or “based only on speculation or guesswork” (citation omitted)); see also *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 242, 113 S.Ct. 2578, 125 L.Ed.2d 168 (1993) (“When an expert opinion is not supported by sufficient facts to validate it in the eyes of the law, or when indisputable record facts contradict or otherwise render the opinion unreasonable, it cannot support a jury's verdict.”). On remand, LaserDynamics may not again present its 6% running royalty damages theory.

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As a final matter, we do not hold that LaserDynamics' past licenses create an absolute ceiling on the amount of damages to which it may be entitled, see 35 U.S.C. § 284, or that its history of lump sum licenses precludes LaserDynamics from obtaining damages in the form of a running royalty. Full consideration of all the *Georgia-Pacific* factors might well justify a departure from the amount or even the form of LaserDynamics' past licensing practices, given the appropriate evidence and reasoning.

#### IV. Conclusion

For the foregoing reasons, we affirm-in-part and re-verse-in-part the district court's judgment. We remand for further proceedings regarding the damages owed by QCI pertaining to the infringing ODDs not purchased by QCI via Philips and Sony/NEC/Optiarc, and for which QCI does not have an implied license to the '981 Patent. On remand, the hypothetical negotiation date shall be set in 2003, the BenQ settlement agreement shall not be admitted into evidence or relied upon at trial, and LaserDynamics shall not again present its 6% running royalty damages theory.

**AFFIRMED-IN-PART, RE-  
 VERSED-IN-PART, and REMANDED.**

Costs

No Costs.

**FN1.** While LaserDynamics contends that all ODDs performing a disc discrimination method are within the scope of the '981 Patent, Quanta Computer, Inc. ("QCI") disputes that Mr. Kamatani invented the concept of disc discrimination, alleging that "[t]here are numerous other techniques disclosed in the prior art for determining what type of disc is inserted in an optical disc drive." *QCI Br.* at 10; A648. The validity of the '981 Patent is not before us, and so we do not address whether the scope of the invention as alleged by LaserDynamics is accurate other than to consider QCI's non-infringement contentions

below.

**FN2.** This court has sanctioned the use of the *Georgia-Pacific* factors to frame the reasonable royalty inquiry. Those factors properly tie the reasonable royalty calculation to the facts of the hypothetical negotiation at issue." *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1317 (Fed.Cir.2011).

**FN3.** Citations to "A—" herein refer to pages of the Joint Appendix filed by the parties.

**FN4.** *Lucent* was issued two months after the jury verdict but before QCI's new trial motion was filed.

**FN5.** At oral argument before this court, counsel for LaserDynamics for the first time argued that the district court merely denied QCI's summary judgment motion on these issues, but did not also enter summary judgment against QCI, and that such a supposed denial of summary judgment cannot be appealed to us after a trial where QCI did not take further steps to preserve the issue. *Oral Arg.* at 11:18–13:57. QCI's briefing repeatedly characterized the district court's order as entering summary judgment against QCI, but LaserDynamics made no challenge to this characterization until oral argument. A subsequent motion refining this argument and seeking to dismiss these portions of QCI's appeal for lack of jurisdiction was filed on March 23, 2012.

LaserDynamics' belated argument hinges on an incorrect premise. The district court's order plainly went further than denying QCI's motion and made affirmative rulings on these issues as a matter of law. See *LaserDynamics*, 2009 U.S. Dist. LEXIS 115848, at \*3–5. The dis-



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district court indicated that “for purposes of trial, the court advises the parties of the following *holdings*,” e.g., “the Quanta defendants do not have an implied license with respect to drives that are manufactured by QSI and eventually sold to QCI (or another Quanta entity), notwithstanding the fact that those drives are sold through Philips or Sony/NEC/Optiarc, two of [LaserDynamics'] licensees.” *Id.* Thus, LaserDynamics' citing to *Ortiz v. Jordan*, — U.S. —, —, 131 S.Ct. 884, 889, 178 L.Ed.2d 703 (2011), for the proposition that an appellate court has no jurisdiction over a denial of summary judgment following a trial on the merits is to no avail. Fed.R.Civ.P. 56(f) permits the district court to enter summary judgment in favor of a non-moving party, and LaserDynamics points to nowhere in the record where it objected to any procedural defect in the district court's doing so. On this record, we see no genuine disputes of material fact that would preclude us from reversing the district court on the implied license issue.

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# **EXHIBIT 2**

1 responsibilities you had with you were the president of  
2 WesternGeco here in America?

3 **A.** When I was managing the North American business, I  
4 was in charge of all things that happened in North  
03:49:14PM 5 America: The people, the operations. Granted we had a  
6 lot of very talented people doing most of the work. It  
7 ultimately fell in my lap if it was successful or not.

8 **Q.** What sort of work does WesternGeco do here in North  
9 America?

03:49:28PM 10 **A.** WesternGeco conducts seismic surveys, and we process  
11 seismic data and then deliver this product to our client.  
12 As we do a good bulk of the work in offshore U.S. and the  
13 Gulf of Mexico, we have our largest processing center in  
14 the world based here in Houston, where we have a lot of  
03:49:45PM 15 people and a lot of computers and we take this data.

16 **Q.** Is WesternGeco's business only here in North America?

17 **A.** No, sir. We're located all over the world.

18 **Q.** And were you personally involved in any worldwide  
19 activities?

03:49:58PM 20 **A.** Yes, I was.

21 **Q.** Can you explain a little bit about what activities  
22 worldwide you had a role in?

23 **A.** Well, in my career, I started in the field and worked  
24 on lots of boats and field operations. So I've worked in  
03:50:08PM 25 30 countries. In addition, when I got to come back to the



*LOCASCIO Continued Direct of THOMAS SCOULIOS*

08:18 1 Q Do they communicate with one another?

2 A They do.

3 Q Is that necessary?

4 A It is, yeah, it's very necessary. It wouldn't work without  
08:18 5 it.

6 Q Does WesternGeco make and did it develop its own equipment  
7 to perform this technology?

8 A We do.

9 Q Does WesternGeco sell -- I mean offer services to oil and  
08:18 10 gas companies using this technology?

11 A We do. We are what we call a vertically integrated  
12 company. We design it, we engineer it, make it, we then use it  
13 and then we offer it for services. So we have the whole chain.

14 Q If I might, if this is WesternGeco -- at the bottom of this  
08:19 15 vertical integration, what part is that?

16 A That is the design engineering.

17 Q And then as you go up the chain, what are the next steps?

18 A Well, you design it. You engineer it. And then you use it  
19 in a survey.

08:19 20 Q So at the top of the chain is performing a service?

21 A Correct.

22 *THE COURT:* Is that typical of the industry, that you  
23 would -- that a geophysical company would be vertically  
24 integrated, or is the model more like the ION model?

08:19 25 *THE WITNESS:* There is both. There is examples of

*LOCASCIO Continued Direct of THOMAS SCOULIOS*

08:19

1 both.

2 BY MR. LoCASCIO:

3 Q At the top, where you perform the surveys, who are you  
4 performing them for?

08:20

5 A We are performing them for oil companies.

6 Q And they are the customers, sir?

7 A Yes.

8 Q I take it they pay for these services?

9 A They do.

08:20

10 Q In the ION Fugro model, do you understand who performs  
11 services for customers?

12 A Fugro does -- sorry, Fugro-Geoteam.

13 Q Are they at the top of the chain?

14 A They would be.

08:20

15 Q What part of it do they do?

16 A They perform the acquisition surveys. They process the  
17 data to some extent.

18 Q Are they paid by oil companies?

19 A They are.

08:21

20 Q Unlike WesternGeco, who designs the equipment and sells it  
21 to Fugro?

22 A In this case, it is ION.

23 Q Where are they in this chain?

08:21

24 A They are in the design stage at the bottom. They make the  
25 equipment, design it.

*LOCASCIO Continued Direct of THOMAS SCOULIOS*

08:21 1 Q Does WesternGeco compete with Fugro?

2 A We do.

3 Q Does WesternGeco compete with ION?

08:21 4 A We compete with Fugro as a function of them having ION  
5 equipment.

6 Q And do you believe that you would be competing with Fugro  
7 without equipment from someone, in this case, ION?

8 A No. Fugro couldn't do what they are doing if they didn't  
9 have equipment.

08:21 10 Q There was a comment yesterday about WesternGeco buying  
11 things from ION. Do you buy the birds that laterally steer  
12 from ION?

13 A We have been buying the orange older -- the 5011 cable  
14 level or device, I believe is what we used to call it. But we  
08:22 15 buy the Compass Bird.

16 Q Do you buy anything that laterally steers from ION?

17 A We do not.

18 Q Do you buy any software or any computers from ION that  
19 laterally steer your birds?

08:22 20 A We do not.

21 Q You mentioned you buy a Compass Bird, the orange one?

22 A Yes.

23 Q What do you mean?

08:22 24 A It is a -- we buy -- they have compasses inside them. They  
25 hang off the bottom of the cable, and they have the wings for

*Cross-Scoulios/By Mr. Thompson*

1 Q. But that doesn't that rarely happens; correct, that  
2 you find out that information?

3 A. Sometimes they tell you directly, sometimes the bids  
4 are open and public, and you can analyze them yourself,  
5 sometimes it's individuals, sometimes it's rumor and  
6 hearsay inside the oil company, and you get different  
7 versions back.

8 You try to understand why so you can  
9 improve and do better.

10 Q. And you look at all those sources of information to  
11 determine why competitors want a job to determine how to  
12 bid in the future?

13 A. We attempt to yes, sir.

14 Q. And all of those reasons and rumor and innuendo and  
15 anything else you would hear would go into the CRM  
16 database to help you try and track your competitors?

17 A. Not all of them, no.

18 Q. Most of them?

19 A. It's got a pretty -- it's relative -- depending on  
20 different groups, it has in some places very low  
21 utilization, in some places higher. It's very individual.  
22 Some of us aren't very good at putting stuff in the CRM.

23 Q. How about when you were regional manager for North  
24 America, was your group rather pretty good about putting  
25 stuff in CRM?

*Johnny C. Sanchez, RMR, CRR - jcscourtreporter@aol.com*

*Cross-Scoulios/By Mr. Thompson*

1 **A.** We weren't the best. So we were -- we would have  
2 used it -- we should have used it a lot more than we did.

3 **Q.** So it seems -- how many different regions are within  
4 WG for the marine seismic area?

12:22:46

5 **A.** Well, marine -- every region has marine in it. So  
6 you have North America, South America. You had Asia. At  
7 the time Asia was -- I don't know if it had been split  
8 into Asia and India or if it was one. You had MEA, which  
9 was Middle East Africa, and then you had Europe and West  
10 Africa.

12:23:05

11 **Q.** And you've already indicated that -- and you had  
12 experience in the North America region; correct?

13 **A.** I did.

12:23:12

14 **Q.** And went on your world tour earlier today. You've  
15 had experience in other regions; correct?

16 **A.** Yes, I've worked, yes, in many countries.

17 **Q.** Which of the five regions, if you could rank them, if  
18 you know, would be the best about keeping track and  
19 keeping up with the CRM database?

12:23:26

20 **A.** It's individuals. Some people are avid users of it.  
21 It's a very difficult database to use. We try to use it.  
22 We encourage people to use it. But, CRM happens to be  
23 something that we should be a lot better at.

12:23:43

24 **Q.** So even within WesternGeco, you yourself, and the  
25 management position, realize the CRM has its limitations?

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Cross-Scoulios/By Mr. Thompson*

1 **A.** If the users don't input everything in, you're not  
2 going to get everything back out.

3 **Q.** And it's only as good as the information that the  
4 people input?

12:23:53

5 **A.** That's correct.

6 **Q.** And much of the information they are including is  
7 based off rumor and innuendo, and as well as press  
8 releases and other sources of information?

12:24:04

9 **A.** Some of the information; correct. But most of the  
10 information at CRM with regards to win or loss job is  
11 simply they change the color if we want it. And if it's  
12 lost, they'll try to indicate the reason why through  
13 discussion.

12:24:21

14 **Q.** Now, going back, you said your understanding was the  
15 reason Furgo was chosen over WG for the Statoil and the  
16 Chukchi Sea was price?

17 **A.** That's correct.

12:24:36

18 **Q.** You had not had any other discussions about any of  
19 the exclusions or exceptions that you-all submitted a  
20 contract as to whether that had any effect?

21 **A.** I did not. I know that we worked for Statoil before  
22 and after, and we continue to work for Statoil today.

12:24:52

23 **Q.** Do you know, at least with regard to that job, do you  
24 know if Statoil, do they have a preference, at least  
25 between your alternative bids, between the Q vessel and

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Cross-Bittleston/By Mr. Burgert*

1 making solid streamers and things like that. So we looked  
2 at the number of different areas. This was one of them.

3 **Q.** And I think you told Mr. Gilman that others before  
4 you had looked at ways to move streamers laterally; is  
5 that right?

03:08:58

6 **A.** Of course, because the streamers are moved laterally  
7 by monowings, They existed before. In fact, the first  
8 time people started to move cables sideways like this was  
9 the second world war for minesweepers. So you know, the  
10 history of devices that pull cables sideways is a very  
11 long history.

03:09:15

12 **Q.** So any statement that you invented lateral steering  
13 is just wrong?

14 **A.** Yes. I am not the inventor of laterally steering.  
15 I'm an inventor of a global control system.

03:09:28

16 **Q.** And the global control system is software in a  
17 computer, isn't it?

18 **A.** It's rather more than that. There's many components  
19 of what I call an overall control system. It's the  
20 methods by which you're going to do it. It's the  
21 measurements you're going to need to do it and the other  
22 devices. But it depends on your terminology, I think, and  
23 how you -- what you encompass in that statement.

03:09:44

24 **Q.** All right. Well, one of the -- and the reason I  
25 asked that is because, in response to one of Mr. Gilman's

03:09:59

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*



1 times you were told that?

2 **A.** Yes.

3 **Q.** I want to talk to you for a few minutes, sir, about  
4 whether there's some other equipment you could use to do  
5 this work, other than ION's. Okay?

01:54:28PM

6 **A.** Okay.

7 **Q.** Today, does Fugro use -- withdrawn. Today Fugro  
8 doesn't use lateral steering recognized from any  
9 manufacturer other than ION; right?

01:54:44PM

10 **A.** That's correct.

11 **Q.** And the jury's heard a couple of different ways one  
12 could try to steer streamers, move right through that.  
13 You're not wear of anybody in the industry using ropes to  
14 perform lateral steering, are you?

01:54:59PM

15 **A.** I'm not aware of that.

16 **Q.** You're not aware of anybody in the industry using  
17 steerable tail buoys, are you?

18 **A.** I'm not aware of that.

19 **Q.** There's something called the E bird; right?

01:55:12PM

20 **A.** Correct.

21 **Q.** Is that from a company called Comberg?

22 **A.** That's also correct.

23 **Q.** And the E bird was not compatible with your  
24 streamers; correct?

01:55:25PM

25 **A.** That's correct.

1 Q. And so, at the time you decided to go with ION's  
2 equipment or even in the years that followed, the E bird  
3 was not an option or an alternative to you because it was  
4 not compatible with your streamers; correct?

01:55:40PM

5 A. Correct.

6 Q. And as of 2012, five years after you started using  
7 DigiFIN, the E bird was still not compatible with your  
8 system; correct?

01:55:57PM

9 A. I believe they have one prototype unit, which is  
10 supposed to be compatible with our sections now.

11 Q. Six, five and a half years later, after you started  
12 using ION's equipment?

13 A. Yeah.

01:56:09PM

14 Q. And even today, it's not commercially available, it's  
15 just a prototype?

16 A. No, but remember the E bird system hasn't been in the  
17 market for so long. It's a fairly new product.

18 Q. So back in 2008, when you started buying and using  
19 ION's equipment on your fleet the E bird wasn't even  
20 available at the time?

01:56:24PM

21 A. That's correct.

22 Q. And it's only more recently become available because  
23 it's never been acceptable to you because it doesn't work  
24 on your streamers?

01:56:33PM

25 A. That's correct.

1 Q. There's a company called Nautilus. Do you know who  
2 they are?

3 A. The company is called Sercel.

4 Q. Thank you. Sercel makes your streamers?

01:56:43PM 5 A. That's correct.

6 Q. They have something called the Nautilus; right?

7 A. That's correct.

8 Q. And that also came out after ION launched DigiFIN;  
9 true?

01:56:54PM 10 A. Yes.

11 Q. And there was actually a point unlike E bird where  
12 you did a test on the Nautilus; right?

13 A. That's correct.

14 Q. And you decided to stop pursuing Nautilus because it  
01:57:08PM 15 didn't work very well on your tests; correct?

16 A. We never really got to test it because we ran into  
17 some fishing nets and basically that -- that ruined the  
18 test for us.

19 Q. Sir, you did evaluate Nautilus as a potential device;  
01:57:20PM 20 correct?

21 A. Yes, that's correct.

22 Q. And you consider that evaluation to be a complete  
23 failure; correct?

24 A. We never really got to evaluate it. It was some  
01:57:38PM 25 flaws with the design that we identified straight away.

1 It sort of deferred us from continuing with that device  
2 until it was properly fixed.

3 **Q.** You found flaws in the Nautilus device that rendered  
4 it unacceptable in your view?

01:57:54PM 5 **A.** That's correct.

6 **Q.** And as far as you know today you still don't know --  
7 withdrawn. You still don't today use it; right?

8 **A.** We don't use it today, but we believe those issues  
9 has been rectified.

01:58:05PM 10 **Q.** But you haven't actually done another test since the  
11 one that was a failure?

12 **A.** That's correct.

13 **Q.** There were in 2008, no alternatives for you, other  
14 than ION to offer lateral steering; correct?

01:58:25PM 15 **A.** Nautilus was available in 2008. So it was available  
16 although it was, it wasn't so -- it was sort of preferred  
17 product.

18 **Q.** It wasn't preferred because of this failure you had  
19 trying it? Is that why you're saying that?

01:58:50PM 20 **A.** That's correct.

21 **Q.** It tore up the streamers; right?

22 **A.** That was the end result. But do you blame that on  
23 the Nautilus unit or the fishnets, yeah?

24 **Q.** At the time you blamed it on Nautilus, correct?

01:59:03PM 25 **A.** Yeah. We thought that the Nautilus with the fishing

*Cross-By/By Mr. Torgerson*

1 that fair?

2 **A.** Yes.

3 **Q.** Now, there was also a discussion -- you can take that  
4 down, Mr. Carlock. If we could switch to the ELMO,  
5 please.

08:02:00

6 There was a discussion yesterday with  
7 Mr. LoCascio about different lateral steering control  
8 devices. A few months after the initial tested on the  
9 Atlantic of DigiFIN Fugro also go test of DigiFin, Furgo  
10 also tested the Nautilus device that's manufactured by  
11 Sercel; right?

08:02:15

12 **A.** A few months.

13 **Q.** What was the timeframe? You tell me, what was the  
14 timeframe?

08:02:25

15 **A.** I think it tested DigiFIN in December 2007, and that  
16 that it tested Nautilus in January 2009, I think.

17 **Q.** A year later, perhaps?

18 **A.** I think so, maybe, yeah.

19 **Q.** Okay. And in connection with that -- that was aboard  
20 the NATUNA vessel?

08:02:39

21 **A.** That's correct.

22 **Q.** And that Nautilus test didn't work because of the  
23 issue with the fishing gear; correct?

24 **A.** We basically never got to the point where we could

08:02:50

25 test Nautilus because we caught the fishing gear while we

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*Cross-By/By Mr. Torgerson*

1 were deploying the streamers, and so we couldn't really  
2 test the lateral benefits of it or that sort of technical  
3 ability. So we just saw had an wanted effect that the way  
4 that it caught the fishing nets.

08:03:09

5 **Q.** Mr. By, today, who are the four largest players in  
6 the towed marine seismic market by way of contractors?

7 **A.** That would be CCGV, Veritas, PGS, WesternGeco, and  
8 then you have Fugro or Palorkus that's number 4. That's a  
9 close race.

08:03:37

10 **Q.** Since you're here let's talk about Fugro. What kind  
11 of device does CCGV, which was resulted from the merger of  
12 CGG and Veritas, what type of lateral steering device do  
13 they utilize?

08:03:55

14 **A.** I don't know with certainty that. I know they have  
15 Nautilus on board but I also believe they have DigiFINs.

16 **Q.** What about PGS?

08:04:17

17 **A.** I believe again it's not absolute -- I don't have any  
18 evidence for it, but it's from my understanding that they  
19 have used the DigiFIN and that they are also now using  
20 this eBird system.

21 **Q.** And eBird is manufactured by yet another company  
22 called Kongsberg?

23 **A.** That's correct.

08:04:26

24 **Q.** And WesternGeco we know was has its Q-FIN device;  
25 right?

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*Cross-By/By Mr. Torgerson*

1 **A.** Yes, but I know very little about WesternGeco.

2 **Q.** And Fugro uses DigiFIN, clearly?

3 **A.** That's correct.

08:04:47

4 **Q.** So as we sit here today, there are one, two, three,  
5 four devices that can accomplish lateral steering in the  
6 towed marine seismic market. Would you agree with that?

7 **A.** Yes.

08:05:01

8 **Q.** And you would agree with me that CGG Veritas -- well,  
9 let me back up. Nautilus is manufactured by a company  
10 called Sercel?

11 **A.** That's correct.

12 **Q.** And Sercel is wholly owned by CGG Veritas?

13 **A.** I believe so, yes.

08:05:10

14 **Q.** All right. So you would agree with me, that  
15 WesternGeco's largest competition in the market, in the  
16 form of CGGV and PGS is utilizing at least two other  
17 devices than DigiFIN to compete against WesternGeco in the  
18 lateral steering market; fair?

19 **A.** That's fair.

08:05:24

20 **Q.** So it appears that CGG Veritas and PGS have accepted  
21 an alternative product that can accomplish lateral  
22 steering; fair?

23 **A.** Yes.

08:05:45

24 **Q.** All right. Can we switch back, if we could, and I'll  
25 mark this as ION Demonstrative 3. I think that's right.

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*Cross-By/By Mr. Torgerson*

1 device and a DigiBird device; is that fair?

2 **A.** That's fair.

3 **Q.** Okay. Briefly we had also talked -- we just talked  
4 about Sercel that makes this Nautilus device. They also  
5 make solid streamers; correct?

08:07:29

6 **A.** That's correct.

7 **Q.** And those streamers are called Sentinel?

8 **A.** That's correct.

9 **Q.** And are those the streamers that Fugro uses?

08:07:38

10 **A.** Yes.

11 **Q.** So when we talk about assembling these different  
12 pieces parts, you use ORCA; right?

13 **A.** Correct.

14 **Q.** And ORCA is manufactured out of Edinburgh, Scotland  
15 by Concept Systems?

08:07:52

16 **A.** Yes.

17 **Q.** And the lateral controller and the DigiFIN are also  
18 manufactured by ION or provided by ION?

19 **A.** That's correct.

08:08:01

20 **Q.** And the streamers that you use, those are provided  
21 throughout your entire fleet by Sercel; right?

22 MR. LOCASCIO: Your Honor, given the alignment  
23 of the parties, ION and Fugro and they have the same  
24 interest, we object to leading the witness.

08:08:18

25 MR. TORGERSON: It's not my witness. I'm also

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Direct-Walker/By Mr. LoCascio

1 technology to others?

2 **A.** We don't.

3 **Q.** Why not?

4 **A.** Because we use our technology to provide services,  
08:23:17 5 and we're constantly trying to make better services and  
6 improve the industry overall. And if we -- we want to do  
7 what we do, and we encourage others to do what they want  
8 to do and innovate and do different things.

9 **Q.** And is that part of your culture of inventing is  
08:23:38 10 investing in your technology and then using it with your  
11 customers?

12 **A.** Exactly, yes.

13 **Q.** Is it valuable to have the benefits of that  
14 investment so you can differentiate yourself in the  
08:23:48 15 marketplace?

16 **A.** Yeah. That's what we want to do is make money from  
17 providing better services or more valuable services to our  
18 customers so they've got a better quality of product, and  
19 they -- because, you know, these surveys, they may only  
08:24:05 20 cost millions, but the companies are making saving through  
21 better optimized billions. In Jack with BP, I remember  
22 once, said, you know, this 3D seismic will save us  
23 billions, because that's -- that's very highly geared.

24 **Q.** Prior to the launch of Q-Marine, how did companies  
08:24:28 25 differentiate themselves? Was it just sort of a price

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Direct-Walker/By Mr. LoCascio

1 Q. With more than a hundred tenders a year, how do you  
2 keep track of them all?

3 A. Several hundred, I said.

4 We put them into a database called CRM.

08:39:32 5 Q. What does C --

6 A. Customer relationship -- sorry.

7 Q. What does CRM stand for?

8 A. Customer relationship management. It's not specific  
9 to us. I mean, it's used in a lot of industries. It's an  
10 approach. And Schlumberger uses it for all -- we use it  
11 for all Schlumberger bids.

12 Q. How did CRM or customer relation management get its  
13 start at WesternGeco?

14 A. Well, actually, I started it a good long time ago  
15 because what you have to have -- we started with a vessel  
16 schedule, where you live or die by the vessel schedule.  
17 And that vessel schedule is our vessels, of course, but  
18 it's also the competitor vessels.

19 When you lose a bid, which of course, we  
20 do, then it goes to one of your competitors, and we want  
21 to know where or when. So having a schedule put in helps.

22 So I did that, and then I linked the  
23 module that's we used to cost the survey, because it's a  
24 lot of parameters. It's a quite complicated thing, and  
25 you pull up statistical databases and all the rest of it.

08:40:30

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Direct-Walker/By Mr. LoCascio

1 the competitor wins, we don't know which one they've  
2 selected because the customer hasn't chosen. But what we  
3 do know is when we look, when we win it, we do our best to  
4 find out what the price is and the customers will usually  
08:45:01 5 tell us, they're quite pleased to tell us if we lost  
6 something on price, and we know what the scope was, so we  
7 know the price and the scope and that gives us an idea of  
8 what people are charging per vessel month and we're  
9 watching that very closely.

08:45:17 10 **Q.** Where else do you get information that finds its way  
11 into the CRM -- about what your competitors are doing?

12 **A.** So we get it directly from the customer. We may get  
13 it from public bidder, so it's a small, like 10 percent of  
14 the country -- of the world, where the bids are opened in  
08:45:36 15 public, even when it's a western oil company ExxonMobile  
16 or Chevron, they're all public, and they're all published  
17 so that you know the price and usually the duration for  
18 the specification of work.

19 So that is very clear and then we'll have  
08:45:54 20 a clear idea and we'll put that in that data.

21 **Q.** Is there a standard policy about entering data in a  
22 timely fashion?

23 **A.** Oh, yeah. I want it to be put in very clearly in a  
24 timely fashion and example for marine Sam Gracon who is my  
08:46:12 25 marine sales manager, which she just changed roles, she

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Direct-Walker/By Mr. LoCascio

1 will be phoning people up and nagging them if there wasn't  
2 something, and she was -- or she is very obsessed about it  
3 being accurate. So if we're not certain if we don't think  
4 it's reliable, it doesn't go in there.

08:46:27

5 So I wouldn't -- to be honest I wouldn't  
6 say it's complete, its incomplete, but I trust what's in  
7 there and that is what I'm -- I need to use in my  
8 business.

08:46:39

9 **Q.** Have you ever seen a print out of some piece of the  
10 CRM?

11 **A.** I did see a -- yeah, I think you had that in the  
12 office, yeah. That's not what I use.

13 **Q.** You don't carry the -- this is Plaintiff's 547, you  
14 don't haul this around with you like this?

08:46:54

15 **A.** No, I don't even haul it around. I think that's an  
16 Excel. I don't haul it around in Excel either.

17 THE COURT: Could you tell us what you do?

18 THE WITNESS: Yes, absolutely.

19 THE COURT: You put that on the screen?

08:47:03

20 THE WITNESS: I look at it on the screen. It's  
21 a Web application, so I can log in from anywhere, it's  
22 obviously secure, log in from anywhere I am in the world,  
23 get on to the application, then I can search by  
24 opportunity.

08:47:17

25 And then we've got something called

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Direct-Walker/By Mr. LoCascio

1 Q. You can actually select what level of the employees  
2 you want to include?

3 A. Yeah. One-by-one, yes.

4 Q. And what's the result of the data? If we could go to  
5 the next slide, Dave.

09:53:43

6 For this question about value and steerable  
7 streamers, what were the results for your approximate  
8 market?

9 A. So you can see for our approximate market, this is --  
10 the question was asked was: Do you see -- how do you  
11 value where 10 is actually the, you know, gang busters and  
12 1 is I don't care. And you can see this is the mean of  
13 the medians, so two average responses. And we can see  
14 it's around eight for those six categories of value in  
15 steerable streamers.

09:54:21

16 Deployment is a little bit lower, which we  
17 would expect, because we charge a lump -- a fixed sum for  
18 deployment. So the customer -- it takes us a day or three  
19 days. The customer isn't paying. He doesn't really care.  
20 He wants it done quickly.

09:54:37

21 Q. Okay. Thank you, Mr. Walker.

22 I want to talk to you a little bit about the  
23 damage to WesternGeco from ION introducing DigiFIN into the  
24 marketplace and its use by Fugro.

09:54:53

25 First of all, who are WesternGeco's main

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Direct-Walker/By Mr. LoCascio

1 competitors?

2 **A.** Our main competitors are Fugro CGV and PGS.

3 **Q.** And what companies are currently competing against  
4 WesternGeco Q-FIN lateral steering, using ION's DigiFIN  
5 equipment?

09:55:10

6 **A.** Fugro had it on I think all their fleet, and CVG and  
7 PGS have some.

8 **Q.** What was the lateral steering market like before  
9 DigiFIN entered the market?

09:55:23

10 **A.** So lateral steering market was stable, it was  
11 constantly growing. We obviously had a hundred percent of  
12 it, but it was growing year on year.

13 **Q.** And what happened after DigiFIN entered the market?

09:55:47

14 **A.** Well, then we started losing jobs and the premium  
15 which I discussed that we could get in the marketplace,  
16 evaporated very quickly.

17 **Q.** Was there a decrease in your market share as a result  
18 of ION's introduction to this technology?

19 **A.** Yes. We started losing jobs with lateral steering.

09:56:04

20 **Q.** There are -- I think 200 or so jobs, 25 of those are  
21 jobs where WesternGeco is seeking its lost profits for the  
22 infringement. Did WesternGeco bid on all those jobs?

23 **A.** Yes, we did.

09:56:23

24 **Q.** Did you have the capability of actually doing the  
25 work on all those jobs if you had gotten them?

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Direct-Walker/By Mr. LoCascio

1 **A.** Yes, we did.

2 **Q.** How so?

3 **A.** Well, after DigiFIN was introduced, we -- and we  
4 started losing market share, as you've said, then we -- we  
09:56:42 5 had in 2009, we had some empty slots on the vessel  
6 schedule. So that's the vessel is there willing to do  
7 work, but we couldn't find a project for it. So they were  
8 tied up at the dock cite, not for a long time, but that is  
9 time that we would have used in doing these projects.

09:57:00 10 **Q.** Have you looked specifically at those 25 jobs to see  
11 if there was a ship that would be able to have done that  
12 work, if it wasn't for the infringement?

13 **A.** There was in some cases. We couldn't have done all  
14 of them, we could have done some of them, yes.

09:57:13 15 **Q.** You couldn't have done all the hundreds, but you  
16 could have done the 25?

17 **A.** Just with the slots we might have done, but we had  
18 extra capacity we could have used anyway.

19 **Q.** So you had some you could have the boats you had.  
09:57:29 20 What's the excess capacity?

21 **A.** We had -- we built six vessels. And the last two of  
22 those we held back. We held back for -- one for 13 months  
23 and the other one for 15 months. So we could have brought  
24 them out earlier, and we didn't because of the loss of  
09:57:48 25 market share. So we didn't have the -- we didn't have the

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Direct-Walker/By Mr. LoCascio

1 work for them to do.

2 **Q.** Which ships are those?

3 **A.** That was the TAZMAN and the COOK.

4 **Q.** Were there any other ships you could have used to do  
5 this work?

09:57:59

6 **A.** Yes. We had three 8 streamer Q-marine vessels, so 8  
7 for Fugro. I talked about earlier, Fugro started that  
8 with an 8 streamer, a lateral steering boat. So it's  
9 perfectly saleable in the market today.

09:58:17

10 We had three of those vessels, the TOPAZ,  
11 THE SEARCHER and the PRIDE, that were equipped with  
12 Q-Marine, and we actually derigged them. So we could have  
13 just kept those operating. We turned them into source  
14 boats.

09:58:32

15 **Q.** A source boat is the same type of boat, but it only  
16 has the airgun?

17 **A.** It only has the airgun, but when we're doing  
18 undershoot projects or we're doing azimuth, then we need  
19 source boat for some of that time as well.

09:58:42

20 **Q.** When you're in a situation where you have a job and  
21 you need to be there, but you don't have a ship, are there  
22 other ways you can solve that?

23 **A.** Well, we could if we wanted to charter a vessel and  
24 put our equipment on it. And very often the customer may  
25 be -- the timing may be critical, it may not be critical.

09:58:57

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*Cross-Walker/By Mr. Torgerson*

1 **A.** You mean what is the driver?

2 **Q.** Let me restate it.

3 **A.** Yes.

4 **Q.** That was a long question. I want to be compact for  
5 you on this.

10:36:05

6 At no time has WesternGeco attempted to  
7 allocate any portion of revenue attributable to a single  
8 aspect of Q-Marine; for example, lateral steering?

9 **A.** We only -- we have a kilometer rate that includes  
10 whatever is there, yes.

10:36:19

11 **Q.** So there's the premium -- likewise, the premium price  
12 that you charge to your customers, say, for example, X  
13 times over conventional, that would be as a result of the  
14 combined suite of all the different technical aspects of  
15 Q-Marine, not just lateral steering?

10:36:37

16 **A.** We can separate out the CMS, because that's on the  
17 whole fleet, and we've never succeeded in sort of selling  
18 that as an add-on to the conventional.

19 **Q.** Remind us of CMS again.

20 **A.** That's the source -- I'm sorry. That's the source  
21 component. So that's -- in marketing terms, it's added to  
22 Q-Marine, but it isn't really linked to it.

10:36:50

23 **Q.** Okay.

24 **A.** It was preexisting. So that we know we haven't been  
25 able to sell despite trying.

10:37:04

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*Cross-Walker/By Mr. Torgerson*

1 We know that, of the remaining three  
2 elements, lateral steering is the one that's asked for.

10:37:20

3 **Q.** And yet even though it's the one that's asked for,  
4 there is no attempt within WesternGeco to break out and  
5 say, This particular survey was won because of lateral  
6 steering?

7 **A.** If it says lateral steering on the tender and we won  
8 the project, then that's our assumption.

10:37:35

9 **Q.** Would you also agree, then, if you lost a survey to  
10 another company, like Fugro, we've heard several examples  
11 today with Mr. LoCascio, that somewhere within  
12 WesternGeco's records, there would be an indication that  
13 you lost a survey because of lateral steering?

10:37:52

14 **A.** We would know lateral steering -- lateral steering  
15 was a requirement and we lost it, then we would know that  
16 would be -- that would mean that another company that won  
17 it had lateral steering and they had got through that  
18 technical barrier I was talking, and then it's into that  
19 triangle.

10:38:10

20 **Q.** Well, we'll get into the specifics of the CRM  
21 database in a moment, Mr. Walker.

10:38:24

22 But would you expect if, in connection  
23 with a monitoring of a competitive tender situation, that  
24 if WesternGeco lost a survey bid because of a competitor  
25 using lateral steering, you would expect someone to make

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*Cross-Walker/By Mr. Torgerson*

1 an entry in that database that says, We lost because of  
2 lateral steering?

10:38:43

3 **A.** It would depend on -- the CRM is used by all of  
4 Schlumberger. So we've got thousands of technologies, so  
5 we couldn't have a tick box that would tell us that. It  
6 would be either in the comments or it would be in the  
7 system, maybe in one of the e-mails.

10:38:58

8 **Q.** Would you expect to see any kind of record that  
9 specifically says, Mr. Walker, WesternGeco lost this  
10 Tellow survey, for example, to Fugro because of lateral  
11 steering? Would you expect to see that some sort of  
12 record at WesternGeco?

10:39:16

13 **A.** Not necessarily. Because we have -- if there's more  
14 than one -- if lateral steering is a specification and  
15 there's more than one that are qualified that meet that  
16 specification, then the reason, once you may be one of the  
17 others on the triangle; but without the specification --  
18 oh, my apologies I hit the mike -- without the -- meeting  
19 the specification, we'd be the only people.

10:39:36

20 **Q.** Well, let's look.

21 MR. TORGERSON: If we could go back to the  
22 ELMO, please.

23 BY MR. TORGERSON:

10:39:52

24 **Q.** Under Demonstrative 6 -- do you still have your  
25 demonstratives up there with you, sir?

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*Cross-Walker/By Mr. Torgerson*

1 information in or we see it from some public source.

2 So if, for example, a customer says  
3 something to us, then we would regard that as useful  
4 information. We wouldn't regard that as hearsay.

10:45:05 5 **Q.** So you know, Mr. Scoulios here in the courtroom?

6 **A.** Yeah.

7 **Q.** And he used to be -- work in North America region for  
8 sales and was responsible for tendering?

9 **A.** Yeah.

10:45:17 10 **Q.** And we know that he actually helped put together  
11 WesternGeco's bid for the Chukchi survey for -- against  
12 Fugro for Statoil up off the coast of Alaska?

13 **A.** Yes. I think so.

14 **Q.** And if he stated that the CRM database was founded at  
10:45:35 15 least in part on rumor and hearsay, you would think that  
16 would not be an accurate description?

17 **A.** I would -- I'm still asking what exactly rumor and  
18 hearsay means. We try to qualify everything that goes  
19 into it. Now, there may be something that is just a  
10:45:53 20 customer's opinion, and if that counts as rumor, then it  
21 would be rumor.

22 **Q.** Fair. Would you agree that some groups -- agree or  
23 disagree is the same, would you agree or disagree that  
24 different sales groups have varying utilizations of  
10:46:10 25 actually putting information into the CRM database?

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Cross-Walker/By Mr. Torgerson*

1 adopting it straight off and Shell adopting it for the  
2 survey, and in the Far East Chevron adopted it and Total  
3 adopted it, but not everyone adopted it in the first two  
4 years.

10:59:53

5 **Q.** At the outset, Mr. Walker, you would agree with me  
6 that some companies made it clear to you or to  
7 WesternGeco, that they would never pay more for this  
8 single sensor technology?

11:00:06

9 **A.** They'd never pay more for Q-Marine. That was the  
10 statement made by a couple in the early days, yes.

11 **Q.** Who was the couple in the early days?

12 **A.** Chevron and ExxonMobil were.

11:00:23

13 **Q.** Now, there's a word, I don't know if it's been used  
14 today, but it's been used in the past in this trial about  
15 commoditization?

16 **A.** Yes.

17 **Q.** What does commoditization mean to you, sir?

11:00:39

18 **A.** So, commoditization means the flattening of the  
19 equalization of technical operational consideration, so  
20 that really all that's left is people fighting on price,  
21 so spreading uniformity of specification.

22 **Q.** Some of these oil companies attempted to commoditize  
23 Q-Marine by pushing down the price; right?

11:01:00

24 **A.** Well, most oil companies will push down on price,  
25 they're big projects, yeah.

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*



*Cross-Walker/By Mr. Torgerson*

1 you recall that testimony?

2 **A.** I do.

3 **Q.** If you look at the ION Exhibit 178, this is an  
4 e-mail, if you'd look at the top portion, Mr. Carlock, so  
5 we get our context.

11:02:32

6 This is an e-mail from John Paul Herman on  
7 November 11th, 2009. Who is Mr. Herman?

8 **A.** He was the account manager for Anadarko and other  
9 customers in Europe for Europe, Africa.

11:02:51

10 **Q.** And you're copied on this e-mail?

11 **A.** I am, yes.

12 **Q.** And it's about feedback from jubilee partner meeting  
13 Q-Marine. Do you recall this discussion?

14 **A.** I recall the meeting. I joined it remotely.

11:03:08

15 **Q.** What was the jubilee?

16 **A.** The jubilee was a project. That's the name of the  
17 project, and Cos (phonetic) Moss was the operator, and  
18 Anadarko and other companies -- I'm afraid I can't  
19 remember who -- were partners, and we had operated the  
20 project for Cos Moss ^ ? and there had been a lot of  
21 internal decent as it later emerge between the members of  
22 that partnership about the survey design that Cos Moss ^ ?  
23 had run with.

11:03:33

24 They wanted to get a particular data set,  
25 and the way you design a survey will cause you to get a

11:03:55

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Cross-Walker/By Mr. Torgerson*

1 certain data set.

2 **Q.** Do you recall that Anadarko was critical of the  
3 Q-Marine technology in connection with this discussion?

4 **A.** In this discussion they were critical of what they'd  
5 seen on this particular project.

11:04:12

6 **Q.** Let's look at number 2, specifically, Mr. Carlock,  
7 and can we blow that you?

8 Let's reset it, if we can. And just focus  
9 on that Paragraph 2. "They found the jubilee survey to

11:04:33

10 have been slow, problematic and expensive and gave them a  
11 finished product that they felt was no better than a  
12 conventional shoot." Do you agree or disagree with that  
13 assessment by Anadarko.

14 **A.** I agree that's what they said.

11:04:47

15 **Q.** And if you go down to number six, "Excessive feather  
16 busted their budget, Cosmos had not factored in feather  
17 over 15 percent, that was included. The 35 to 40 percent  
18 infill was more than they expected. They are also

19 concerned about using this data with so much feather and  
20 infill for 4D." Do you recall that being discussed?

11:05:11

21 **A.** It was -- I mentioned it was a survey designed and we  
22 had told Cosmos that we didn't think what they wanted to  
23 do was the right way to shoot it and it turned to be the  
24 case.

11:05:26

25 **Q.** All right. If we can pull back out to the larger

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Cross-Walker/By Mr. Torgerson*

1 documents, Mr. Carlock, and focus on these last few points  
2 here at the bottom.

3 General Q-Marine and technology comments.

11:05:43

4 "Number one, Q-Marine document's and advertising does not  
5 live up to expectation with Anadarko." Number 2, "Anadarko  
6 has yet to see an uplift with Q-Marine over conventional on  
7 their few proprietary projects."

11:06:03

8 Number 3. "Anadarko prefers not to use  
9 Q-Marine on their proprietary work. They don't believe it  
10 would be better than conventional."

11 And number 4, "Anadarko does not see  
12 anything wrong with Q-Marine and if it was priced equally  
13 with conventional, would not have a problem with Q-Marine,  
14 they just don't see the uplift."

11:06:19

15 Now, the term uplift, would you agree that  
16 that's a synonymous with premium?

17 **A.** It is synonymous with premium, yeah.

18 **Q.** And do you recall Anadarko tapping on these comments  
19 about its perception of Q in November 2009?

11:06:35

20 **A.** They didn't have a lot of experience, and I remember  
21 all five of those comments. If you look at five as well.

22 **Q.** Sure. Let's look at five. Made a comment that the  
23 conventional WAZ, that's white azimuth?

24 **A.** Azimuth.

11:06:49

25 **Q.** Data.

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Cross-Walker/By Mr. Torgerson*

1 **A.** Originally they wanted to know what we'd done. They  
2 were saying, Wait a minute. We want to see this black  
3 box. Tell us what you're doing.

11:20:27

4 And when we sat down with them and  
5 explained what we were doing, then the whole thing went  
6 away. It was a bit of drama.

7 **Q.** Has WesternGeco released -- agreed to release that  
8 data as you sit here today?

11:20:45

9 **A.** No, we haven't. It's the measurements. It's not  
10 data. It's noise.

11 **Q.** Okay. And this was an issue, this refusal to release  
12 the raw sensor measurements? At least back historically,  
13 in the 2001 timeframe, that was a concern expressed to you  
14 by Chevron?

11:21:02

15 **A.** Yes.

16 **Q.** Exxon?

17 **A.** Yeah.

18 **Q.** Total?

19 **A.** Total raised it.

11:21:07

20 **Q.** Kerr-McGee?

21 **A.** Kerr-McGee said they wanted it and we had a  
22 discussion and it was a storm in a teacup.

23 **Q.** You think you resolved it favorably?

24 **A.** Yes.

11:21:21

25 **Q.** Now, if you keep reading on this document, right

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Torgerson Cross of Robin Walker*

12:56 1 BY MR. TORGERSON:

2 Q It says: Upscaled Q-Fin currently in testing, available  
3 2009.

4 So this was for the 2008 SEG?

12:57 5 A Yes.

6 Q Do you remember what city the 2008 SEG was?

7 A It might have been here actually.

8 Q Was it Las Vegas?

9 A Maybe it was Las Vegas. After 20 of them, you tend to  
10 forget.

11 Q I have never been to one of those. I don't get to go to  
12 those.

13 But just for purposes real quick, the SEG is the  
14 American trade show and the EAG is the European trade show?

12:57 15 A Yes.

16 Q The EAG is usually in June and the SEG is usually in the  
17 fall?

18 A Yes.

19 Q All right. And here we see at the bottom: WG response to  
12:57 20 DigiFIN and Nautilus. Any client who claims our leadership is  
21 being eroded, needs to see this and read our frequently asked  
22 questions.

23 A Yes.

24 Q Would you agree with me, Mr. Walker, that WesternGeco was  
12:58 25 marketing this potential increased steerage of the Q-Fin 2 to

*Torgerson Cross of Robin Walker*

12:58 1 respond to the market reaction to DigiFIN and Nautilus?

2 A Yes.

3 Q And you would agree with me that you were, consistent with  
4 what we discussed before lunch, trying to make something new to  
12:58 5 Q-Fin that would differentiate it technologically from the rest  
6 of the competitive field?

7 A Yes.

8 Q And clearly you are touting your leadership in the industry  
9 at that stage, fair?

12:58 10 A We had a lot of experience and we wanted to lead on the  
11 experience.

12 Q All of that experience, in fairness, was a monopoly. You  
13 were the only one in the field until late 2007, right?

14 A It had originally been a monopoly. It wasn't at this  
12:58 15 stage.

16 Q And the reaction from WesternGeco at that point was to say:  
17 We have been working in anticipation of this new device. We  
18 are going to give it some new capabilities and tout those  
19 capabilities?

12:59 20 A We were trying to extend leadership, yes.

21 *MR. TORGERSON:* If we could go to the Elmo, Ms. Loewe.

22 BY MR. TORGERSON:

23 Q We talked about some reasons for losing bids in this  
24 industry. And can we all agree that probably the number one  
12:59 25 reason for losing bids is price?

*Torgerson Cross of Robin Walker*

13:00 1 those to me before as lateral steering, broadband data and  
2 solid streamer, correct?

3 A They are not related, but those are three big drivers at  
4 present.

13:01 5 Q Fair. And I'm not implying that they are related. I'm  
6 just saying those are sort of the three large ticks that you  
7 look in the box and say you will typically see three primary  
8 drivers, solid streamer, lateral steering and broadband data,  
9 right?

13:01 10 A So the solid streamer is about noise attenuation generally,  
11 yes.

12 Q Until 2010, specifically with regard to the TASMAN vessel,  
13 WesternGeco did not have solid streamer capability on any  
14 Q-Marine vessel?

13:01 15 A No. We delayed its rollout because TASMAN was delayed.

16 Q Why weren't solid streamers put on the other Q vessels  
17 before 2010?

18 A Because they were already equipped.

19 Q And they had gel filled streamers?

13:01 20 A They had a fluid filled streamer.

21 Q What was the fluid?

22 A Isopar, Isopar N. My apologies. If I'm going a bit fast,  
23 I will slow down.

24 Q One of the reasons for not replacing the fluid filled  
13:02 25 streamers with solid streamers is you wanted to age those out



*Torgerson Cross of Robin Walker*

13:03 1 A I would disagree and state that I'm not an engineer, so I'm  
2 not sure. But I can't see how it would be that different  
3 because it is a gel, a streamer is a gel, a reversible gel.

4 Q Fair. And you would agree with me that until 2010 with the  
13:04 5 TASMAR -- and what month in 2010 did the TASMAR come out with a  
6 solid streamer?

7 A We came out in April 2010.

8 Q So before April 2010, as it relates to Q-Marine vessels  
9 being bid on projects, you would agree with me that WesternGeco  
13:04 10 could only meet two of the technical qualifications and not all  
11 three?

12 A It would depend upon why the solid streamer was required.  
13 Because if the solid streamer was a way of reducing the  
14 noise -- which it is, it's a big selling point -- then we did  
13:04 15 that perfectly well with the single sensor approach.

16 Q You would agree with me that some oil companies, just like  
17 you have testified about with lateral steering having primary  
18 importance, some oil companies had primary importance of solid  
19 streamers?

13:05 20 A I have seen it expressed as a preference. I don't think we  
21 have ever lost a job because we don't have solid streamer. It  
22 is expressed as a preference because of noise generally.

23 Q And we have seen in connection -- we will get to the  
24 specific document in a moment -- with regard to the Statoil  
13:05 25 survey and the Chukchi that was lost to Fugro, that WesternGeco

*Torgerson Cross of Robin Walker*

13:07 1 to place Q-Fin devices on its solid streamers non-Q boats  
2 before 2010?

3 A There was a discussion and people looked about whether it  
4 would be worthwhile from the point of view of engineering the  
13:07 5 coupling because a lot of sections have particular coupling and  
6 particular requirements and then you go through the other end.

7 Q But to be clear, it was never actually done?

8 A No. And I don't think it was tested.

9 Q So if there was a demand for a streamer with lateral  
13:07 10 steering capability, WesternGeco never really investigated  
11 putting Q-Fins on its non-Q vessels?

12 A No. We -- it was just on the Q streamer. It was designed  
13 to work with the Q streamer.

14 Q How many vessels are in WesternGeco's fleet today?

13:08 15 A 16 -- 15.

16 Q And how many of those are seismic vessels?

17 A Sorry. Those -- I thought you meant -- those are 15  
18 3D seismic vessels.

19 Q All right.

13:08 20 A We have an additional five or six vessels that we use for  
21 source of command.

22 Q And of those 15 3D capable vessels, how many are equipped  
23 with Q?

24 A 11.

13:08 25 Q And of those 11 that have Q, how many have Q solid

*Torgerson Cross of Robin Walker*

13:08 1 streamers?

2 A Seven.

3 Q What are some other reasons for losing bids? We can talk  
4 about -- we've talked about technical qualifications. What are  
13:08 5 some non-technical reasons or perhaps business reasons why bids  
6 are won or lost, based on your experience?

7 A We have -- we talk about whether we have -- we have  
8 contractual discussions and relationship, and operational  
9 experience is very important.

13:09 10 Q Especially in a given area that might have peculiar  
11 specific physical characteristics, like riptides or things of  
12 that nature?

13 A Yes. Obviously I mean lack of operational experience from  
14 operational experience.

13:09 15 Q What about age of vessels?

16 A Age of vessels, if they are not purpose built for seismic  
17 is a question mark with one oil company at the moment.

18 Q Who is that?

19 A Total.

13:09 20 Q Operational experience, I could also add -- for example, I  
21 believe you also mentioned business experience, like the  
22 history of the companies together?

23 A Yes.

24 Q That's important, right?

13:09 25 A Hope so.

*Torgerson Cross of Robin Walker*

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4 about -- we've talked about technical qualifications. What are  
5 some non-technical reasons or perhaps business reasons why bids  
6 are won or lost, based on your experience?

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14 operational experience.

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21 believe you also mentioned business experience, like the  
22 history of the companies together?

23 A Yes.

24 Q That's important, right?

25 A Hope so.

*Torgerson Cross of Robin Walker*

13:10 1 Q What else am I missing on the different reasons that a  
2 company might lose a seismic bid?

3 A We talked about contracts, which is a part of the  
4 negotiation. And other than that, I don't -- I can't think of  
13:10 5 anything else.

6 Q You feel like this is a pretty comprehensive list?

7 A I would think so, yeah.

8 Q Now, you would agree with me that you often don't know why  
9 a particular bid was won or lost, correct?

13:10 10 A If we have met the key technical specifications, we will  
11 always try and find out. We will usually find out on price,  
12 where were we on price. Usually find out on availability and  
13 who won. We usually get, with Total, a clear message on vessel  
14 age, so they signal that very loudly.

13:10 15 Q You had agree -- go ahead. I'm sorry.

16 A So we have that mix.

17 Q You would agree with me, Mr. Walker, that information is  
18 actually rarely available to WesternGeco or even its  
19 competitors because oil companies decline to say the reason why  
13:11 20 bids are won or lost?

21 A It is rarely available in a concise, clear, transparent  
22 manner.

23 Q And specifically when you approach them, if an oil company  
24 says, Well, here is the reason why you lost the bid, you would  
13:11 25 agree with me that you can't believe them?

*Torgerson Cross of Robin Walker*

13:11 1 A We will believe them if -- in general we will believe them  
2 what they -- what they will tell us. There may be something  
3 else that they don't tell us. We can't possibly know what they  
4 don't tell us, but we will believe the words coming out of  
13:11 5 their mouth. Of course we will.

6 Q You are going to believe the words that come out of their  
7 mouth?

8 A We are going to take them that they are not necessarily out  
9 and out lying to us. We may have a view that they are watching  
13:12 10 what they say carefully.

11 Q Mr. Walker, do you remember having your deposition taken in  
12 this case in September of 2011?

13 A I do, yes.

14 Q Do you remember being asked that very often you don't know  
13:12 15 firsthand from a client or a customer what their rationale  
16 might be as to selecting Contractor A versus Contractor C, D or  
17 F? Do you remember that question being posed to you?

18 A Yes. I personally don't necessarily know.

19 Q And at the time you said, in response to that specific  
13:12 20 question: No, we don't, we don't necessarily know, right?

21 A Yes.

22 Q And you continued: And if we asked them, I don't want to  
23 sit having made notes and say, I believe what they say.

24 In September 2011, Mr. Walker, you told me you  
13:13 25 can't believe what they say when they do tell you a reason,

*Torgerson Cross of Robin Walker*

13:50 1 from the market, right?

2 A Yeah.

3 Q Nobody has this, right?

4 A Not at the moment.

13:50 5 Q Okay. And you would agree with me that this is, in a  
6 sense, oversampling, a -- a 2012 version of what the industry  
7 has called oversampling before?

8 A Yes. So what we are hoping is, by having this very fine  
9 sampling that we will -- we have ideas on how to process this  
10 data, and our customers have ideas on how to process the data.

11 If you talk about oversampling, we would say six  
12 and a quarter by six and a quarter is correct sampling.

13 Q Okay. Are you familiar with PGS's HD3D offering back in  
14 the mid 2000s?

13:51 15 A Yes.

16 Q Was that an approach to oversampling?

17 A That was still undersampled, because they were -- that was  
18 a branded approach to streamers 50 meters apart.

13:51 19 Q Now you would agree with me, Mr. Walker, that at the end of  
20 the day, based on what we have talked about for reasons for  
21 losing bids and that you might not necessarily be able to  
22 believe the oil companies when they tell you why, you would  
23 admit, would you not, that you don't ultimately know the reason  
24 why oil companies select another company other than WesternGeco  
13:51 25 for a particular survey?



*Torgerson Cross of Robin Walker*

13:51 1 A We some- -- well, sometimes we know. We talked about the  
2 10 percent where it's clear.

3 We know if we've met the technical, the must-have  
4 technical specs written in the tender.

13:52 5 We know if we've not met the technical  
6 requirements, for example on broadband. If we haven't got a  
7 broadband offering, that is -- then that would be very clear.  
8 We don't win all of them.

9 Q And is WesternGeco taking the position in this lawsuit that  
10 every survey bid that it lost between today and before, that  
11 had a preference for lateral streamer steering, was because of  
12 ION's DigiFIN or some other competing technology related to  
13 lateral steering?

14 A No. It's a very small proportion of them.

13:52 15 Q And in fact, you don't know the reasons from these  
16 companies?

17 A What they are saying is there were -- as I understand it --  
18 200-something projects, and we're just looking at the 25 where  
19 lateral steering was required.

13:53 20 And if there had not been anyone else in the  
21 market to provide lateral steering, then we're saying we would  
22 have won those projects.

23 Q And that lateral steering, that might be a dominant  
24 component or it might be a smaller component. You just don't  
13:53 25 know how those companies are weighting those decisions, right?

*Torgerson Cross of Robin Walker*

13:53 1 A What we are saying, looking at it, is we believe those  
2 are -- that is a technological barrier. From what we have seen  
3 in the tender documents, what we have seen as a requirement,  
4 lateral steering is a must-have, and other qualifications are  
13:53 5 nice to have. The weighting will be on the nice-to-haves and  
6 not on the must-haves.

7 Q Do you recall, when I took your deposition in  
8 September 2011, Mr. Walker, I asked you that very question?

9 And you answered, in talking about the  
13:53 10 components, and you admitted that you don't know the reasons  
11 and the weights that oil companies provide to lateral steering.

12 A I said -- no. I said, in general, we would -- if it's --  
13 let me clarify.

14 In general, if it's not written in the tender as  
13:54 15 a requirement as a must-have, then if there are multiple  
16 requirements, that is one of them. And we can't say what the  
17 weighting is at this distance.

18 If it's a definite requirement in the tender,  
19 then we say that is a priority.

13:54 20 Q So with regard to these 25 surveys that you are claiming  
21 lost profits on, can you confirm for me that every single one  
22 of those surveys took place more than 12 miles outside the  
23 coast of the United States?

24 A If that is relevant to the extent, yes, as far as I know.

13:54 25 Q You can confirm that every one of these surveys of these

*Thompson Cross of Robin Walker*

13:54 1 lists of lost profits, 25, they all occurred more than 12 miles  
2 outside the U.S., yes?

3 A They -- offshore?

4 Q Yes.

13:55 5 A No, you said outside the U.S.

6 Offshore, the coast.

7 Q Off the coast. 12 miles off the coast of the  
8 United States, yes.

9 A Yes.

13:55 10 *MR. TORGERSON:* I pass the witness.

11 **CROSS-EXAMINATION**

12 BY MR. THOMPSON:

13 Q Good afternoon, Mr. Walker.

14 A Good afternoon.

13:55 15 Q We haven't had a chance to meet. My name is James  
16 Thompson. I'm representing Fugro-Geoteam.

17 You will be happy to know that Mr. Torgerson has  
18 covered most of my areas of inquiry, so we will be quicker.

19 I want to follow back up, if we could, and go  
13:55 20 back and talk a little bit more about the Statoil job.

21 A Yes.

22 Q If I understood your testimony correctly, you indicated  
23 that Statoil was one of the early adopters of streamer  
24 steering, correct?

13:55 25 A Yes.

*Thompson Cross of Robin Walker*

15:04 1 But you testified that you believed customers  
2 today are wanting lateral steering the most of those -- of the  
3 technology in the suite, correct?

4 A That's what they are saying in their tenders and in their  
15:04 5 communication to us at these trade shows.

6 Q Okay. And we talked a little bit -- do you know, has  
7 WesternGeco ever attempted to allocate any of the Q-Marine  
8 revenue broken down by these discrete components of Q-Marine?

9 A No. We just have a kilometer rate.

15:05 10 Q And would you agree with me -- and you have actually said  
11 that would be impossible to do, to break out the valuation of  
12 the different technologies?

13 A Yes. Because if I give you one kilometer rate, then that's  
14 it. It's -- I -- I can't make a value judgment about what you  
15:05 15 find important.

16 Q And actually, do you remember, sir, at your deposition, you  
17 actually said that would be impossible to do?

18 A Yes.

19 Q Okay. And so it would be impossible for WesternGeco to  
15:05 20 break out by percentage of total survey revenue the value of  
21 lateral steering?

22 A We tried to do -- at one stage internally, we messed around  
23 with sort of a Chinese menu where we just stuck numbers on it,  
24 but it didn't go anywhere, and I don't think we ever sent it as  
15:05 25 a proposal.

Direct-Morton/By Ms. Tsou

1 Q. What's the next slide the show?

2 A. Well, I know this has been shown before, but this is  
3 a live case of a seismic vessel without steering on the  
4 left. And they turn the cable -- or they turn the  
5 steering on, and 20 minutes later it was well behaved.

10:29:18

6 This kind of steering is very important  
7 for some of the jobs I did because we brought the cable up  
8 into the wave base, above the wave base.

9 Q. So it's not just a matter of putting the streamers  
10 close together if you don't have something to keep them  
11 separated?

10:29:38

12 A. Oh, no. You can see some of those streamers are very  
13 close together, but you have huge gaps. And if you were  
14 to shoot with that, it makes odd holes in the picture,  
15 and -- if the left is what you shoot with. So they either  
16 have to be fixed with infill or whatever, but you really  
17 don't want the picture -- you don't want the data that was  
18 acquired by the boat on the left.

10:29:52

19 Q. Is avoiding the kind of tangle risk we see on the  
20 left important for an oil company?

10:30:15

21 A. Yes, ma'am, indirectly. It may not cost me directly  
22 to untangle all that stuff, but it will cost the oil  
23 company maybe loss of the weather window.

24 In the North Sea, you have, I don't know,  
25 something like that May to October, they will shoot. And

10:30:32

Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com

Direct-Morton/By Ms. Tsou

1 after October, the waves are so high nobody wants to be  
2 out on a boat, and you can't acquire data anyway. So if  
3 you had a tangle on that block -- and I've had this  
4 several times in my career where blocks are about to  
5 expire and you've got to go shoot. If you miss the  
6 weather window because of a tangle and you don't acquire  
7 the data, you've just lost the business opportunity that  
8 you needed to -- because you don't have the data.

10:30:48

9 **Q.** Did you see any support in the documents you reviewed  
10 from this case for this opinion?

10:31:06

11 **A.** For what?

12 **Q.** Did you see any documents in the case that support  
13 your opinion?

14 **A.** Oh, yes, ma'am.

10:31:15

15 **Q.** Let's turn together to PTX 214.

16 Can you tell us what this document is?

17 **A.** Yes, ma'am. This is -- looks like either internal or  
18 external -- I think it's external -- sales presentation by  
19 I/O or ION.

10:31:39

20 **Q.** And let's turn to 211.

21 **A.** Yes, ma'am.

22 **Q.** What are we seeing here?

23 **A.** Well, this is -- the slide is basically saying that  
24 you're going to get better resolution. It talks about --

10:31:56

25 it uses it in terms of cross-line bin size.

Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com

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15:09 1 A Well, as I indicated, I was asked to determine the harm  
2 suffered by WesternGeco. And based on my analysis, the  
3 conclusion I reached was that WesternGeco has suffered lost  
4 profits of \$159.1 million as a result of the assumed  
15:09 5 infringement by the parties, by ION and Fugro.

6 And for those surveys that are -- use the DigiFIN  
7 products, the infringing DigiFIN product systems for which we  
8 are not claiming lost profits, they would be entitled to a  
9 reasonable royalty of \$101.9 million.

15:09 10 Q Are these overlapping damages or separate damages to be  
11 considered in addition to one another?

12 A They are separate.

13 Q Did you do an analysis of --

14 A In other words, they are added.

15:09 15 Q All right. So the total damages to which you are  
16 testifying is \$261 million in this case?

17 A That's correct.

18 Q All right. Let's start with the lost profits analysis.

19 A Okay.

15:10 20 Q And what are lost profits?

21 A Well, lost profits are the profits that -- that the  
22 defendant in this case -- I'm sorry, the plaintiff in this  
23 case, WesternGeco, was prevented from making because of the  
24 infringement in this case, the infringing DigiFIN systems, that  
15:10 25 were in the marketplace and being used by WesternGeco's



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15:10 1 competitors.

2 So if ION's infringing DigiFIN system had not  
3 been on the market and had not been used by WesternGeco's  
4 competitors to compete against WesternGeco for some of those  
15:10 5 surveys for which it was used, WesternGeco would have won those  
6 surveys, would have earned those revenues and then earned the  
7 profits on those revenues from those surveys.

8 Q And have you determined, from the review of the  
9 documents and the testimony, how many surveys are involved  
10 total that are part of the damages analysis in this case?

11 A Yes. Through -- throughout March of 2012, which was the  
12 period for which we had data, there were 207 total surveys that  
13 I identified that had -- that used the DigiFIN -- infringing  
14 DigiFIN systems.

15:11 15 And the total revenues that were generated from  
16 those surveys, based on the information that I had, were  
17 \$3 billion. And I concluded that WesternGeco would have won 25  
18 of those surveys, and the revenue on those 25 surveys was  
19 \$319.3 million.

15:11 20 The cost that WesternGeco would have incurred in  
21 order to conduct those surveys would have been about  
22 \$160.3 million. And, therefore, their profit that they would  
23 have earned had they done those surveys, so it's profits that  
24 they lost, would be -- would have been \$159.1 million.

15:11 25 Q Now, we're going to discuss this a little bit further. But

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15:16 1 accordance with their regular market share, but you have not  
2 assigned those into the lost profits category?

3 A That's correct. I have not.

4 Q All right. Well, what are the factors that go into a lost  
15:16 5 profits analysis in a patent case?

6 A In order to determine lost profits, what we have to do is  
7 reconstruct the market. We want to know what would have  
8 happened but for the infringement, or in this case but for the  
9 presence of the DigiFIN systems in the marketplace.

10 So we take DigiFIN out and we say, What would the  
11 market have looked like, and how -- who would have made the  
12 sales? Who would have conducted those surveys that were  
13 otherwise conducted using DigiFIN?

14 And so typically, when we do a reconstruction,  
15 there are four factors that were actually set forth in a court  
16 case and typically used in litigation to identify or to help us  
17 reconstruct the market. First is: Is there a demand for the  
18 patented product?

19 The second is: Are there any available  
15:17 20 acceptable noninfringing alternatives?

21 The third is: Does the patent owner, in this  
22 case, WesternGeco, have the capacity to satisfy additional  
23 demand?

24 And then finally: Is the data available to be  
15:17 25 able to quantify the profits that the patent owner would have

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15:17 1 made but for the infringement?

2 And so that's what I have done in this case.

3 Q All right. Well, let's look at that first bullet point,  
4 the demand for the patented product.

15:17 5 And have you listened to the testimony and  
6 reviewed the documents and reached some conclusions about that?

7 A Yes, I have.

8 Q All right. What we've done is we have taken a sample of  
9 some of the documents that you've reviewed, and many of which  
10 have already been discussed explicitly by witnesses in trial,  
11 have we not?

12 A Yes. I mean, I have gone through a number of -- a lot  
13 of -- like I said, hundreds of thousands of documents and  
14 identified a number of them that reflect demand.

15:18 15 Some of them have actually been displayed here  
16 today in some of these other deposition videos, so you may have  
17 seen them already, but I will try to go through them quickly in  
18 that event.

19 Q And before we get to them, have you also seen the responses  
15:18 20 to discovery by ION and Fugro in the case?

21 A Yes.

22 Q All right. And is this ION's amended response to  
23 WesternGeco's Interrogatory Number 10?

24 A Yes, it is.

15:18 25 Q Okay. And rather than read the whole thing out loud, do

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15:33 1 revenue for all of their surveys.

2 Q Now, in addition to Fugro and some others, was WesternGeco  
3 also in that market, and did its business operations reflect a  
4 demand?

15:33 5 A Well, yes. I mean, WesternGeco created the market. They  
6 were there long before DigiFIN.

7 And I have here sales from 2006 through 2011.

8 And during that time period, service revenue from their  
9 Q-Marine, which is their lateral steering, was \$2.7 billion.

15:33 10 So WesternGeco alone conducted surveys and generated revenue of  
11 \$2.7 billion over this time period using their lateral  
12 steering.

13 Q If we're talking about the first bullet point, that is: Is  
14 there a demand for the patented product? What was your  
15:34 15 conclusion?

16 A My conclusion is that there is definitely a demand. There  
17 is a very strong demand for -- for the patented technology.

18 Q So we see a multibillion-dollar industry?

19 A Yes.

15:34 20 Q All right. Now, that's the first factor.

21 I think the second factor that you mentioned in  
22 your set of bullet points was the availability of noninfringing  
23 alternatives.

24 A Correct.

15:34 25 Q And did you also --

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15:34 1 A Availability of acceptable noninfringing alternatives.

2 Q Right. And did you also make an inquiry and analysis into  
3 that?

4 A I did.

15:34 5 Q Okay. And what is an acceptable noninfringing alternative?

6 A Well, an acceptable noninfringing alternative would be a  
7 lateral steering system that provides the same benefits as the  
8 patented lateral steering system that doesn't use the patents.  
9 So it is something that someone else could use and not infringe  
10 the patents.

11 And, of course, it would have to provide the same  
12 benefits. It would have to work. It would have to be  
13 acceptable not only to the contractor but also to the customers  
14 and it would have to be available during the appropriate time  
15 period.

16 Q You have heard, I assume, some of the testimony about the  
17 Nautilus bird, an eBird bird?

18 A I have.

19 Q Or eBird. Why don't we take a look at what Fugro and ION  
15:35 20 determined about the availability of those potential  
21 alternatives?

22 A Okay.

23 Q What did Fugro have to say about this in 2009?

24 A Well, in 2009, they were doing a CAPEX application to get  
15:35 25 funds to buy DigiFINs, additional DigiFIN systems. And they

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15:35 1 indicated on that document that there were no alternatives.

2 Q And that's in June of 2009?

3 A That's in June of 2009. And also in 2009, ION sent to  
4 Fugro a customer satisfaction survey. Fugro was a customer of  
15:36 5 ION. And one of the questions in that survey was: If DigiFIN  
6 was no longer available, what would you replace it with?

7 And the comment -- the response was: Good  
8 question. There are no real alternatives around at this time.

9 Q And that was Mr. By?

15:36 10 A That was Morten By -- his name is highlighted -- who  
11 responded to the questionnaire.

12 Q Those are Plaintiff Trial Exhibit 313 and 920, both of  
13 which are Fugro documents; is that right?

14 A That's correct.

15:36 15 Q Now, did Mr. By also get deposed just a few weeks ago  
16 before he testified in this case?

17 A Yes, he did.

18 Q And was he asked in particular about the eBird unit?

19 A I believe he was asked about both, but yes.

15:36 20 Q Let's start with eBird.

21 A Okay. At his deposition, he was asked about the eBird and  
22 asked whether Fugro had ever purchased eBird units and his  
23 answer was no. And he indicated that there was an issue with  
24 the connector with eBird, with using eBird on Fugro's  
15:37 25 streamers. And he said it is not commercially available to fit

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15:37 1 the Sentinel stream, which is the streamer that Fugro uses.

2 So as late as -- I think it's July 12 of 2012,  
3 the eBird wouldn't -- wouldn't work -- even if it were  
4 commercially acceptable, it wouldn't work on the streamers used  
15:37 5 by Fugro.

6 Q Now, do we have any information about what ION really  
7 thought about this potential competing bird?

8 A Yes.

9 Q And what information is that?

10 A Well, here we have an email, and I believe it's a business  
11 plan, one dated October, late October of 2009 and it is talking  
12 about Kongsberg, which is the manufacturer or developer of  
13 eBird. And it indicates that they were doing some tests and  
14 there were not any good comments. The test period was  
15 shortened significantly and they destroyed the cable that was  
15:38 16 being used for testing. And obviously destroying the cables is  
17 not a good thing because the cables cost a lot of money.

18 Q And did ION learn about any defects in the eBird around  
19 that time?

15:38 20 A Well, the bottom document, it is important for a couple  
21 reasons. Number one, if you look in the middle there, it says  
22 they have no high-level control system. It only offered  
23 drivers for contractors to develop their own control system,  
24 which means they have got the bird but they don't have the  
15:38 25 lateral control system. It has to be developed by the



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15:38 1 customer. So it is really not an option unless you have got  
2 your own lateral control system.

3 And then they go on to say they tested 12 of the  
4 devices and had nothing good to say about them and they  
15:38 5 acknowledged that the device caused damage to the cable from  
6 twisting, so they weren't very good.

7 Q All right. That was two years ago. Did ION have any more  
8 to say about this in late 2011 when one of their people were  
9 deposed in this case?

15:39 10 A Well, Mr. Gentle indicated that even at the end of 2011, it  
11 still was not commercially available. It is not commercially  
12 proven and it's not commercially available. And to his  
13 knowledge, it had never been employed on a commercial survey.  
14 And this is the 27th of October 2011.

15:39 15 Q Now, when somebody introduces what they hope is a  
16 competing, noninfringing alternative, does the industry  
17 suddenly rush to it or is there some time while people try to  
18 test it and find out if it works and perhaps overcome whatever  
19 skepticism there may be?

15:39 20 A No. I mean, as you've seen -- as you heard Mr. Walker talk  
21 about it, even when they introduced the Q-Marine system with  
22 their lateral steering, when DigiFIN was introduced, they had  
23 to do testing, they have to convince the customers that it  
24 worked, they had to show them data. And so it takes time to  
15:40 25 establish yourself in the market.

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15:40 1 More importantly, in order to win a survey and  
2 bid a product on a survey, you to have it and if you don't have  
3 it in October of 2011, the surveys that you are bidding for in  
4 October of 2011 are going to take place in the summer or fall  
15:40 5 of 2012. So if it is not on the market in 2011, you have  
6 pretty much lost the 2012 survey season for a lot of the areas.

7 Q Has any information come your way to the effect that the  
8 eBird would be an available noninfringing alternative even as  
9 of today?

15:40 10 A No. Not during this time period, no.

11 Q Why don't we talk about Nautilus for a second because  
12 that's also something that was mentioned.

13 A Okay.

14 Q Once again, did one of ION's directors, Mr. Gentle, have  
15 anything to say about that in late 2011?

16 A Yes. He indicated that, again -- his recollection was that  
17 at the beginning of 2010, Nautilus was still not seen as  
18 commercially viable. In other words, they hadn't been tested  
19 and shown to be commercially viable or acceptable in the  
15:41 20 marketplace.

21 Q What did Fugro have to say -- assuming just for a moment  
22 that Fugro might have been evaluating the possibility of  
23 changing its mind about the then decision that there were no  
24 alternatives, what did Mr. By have to say about Nautilus when  
15:41 25 he was deposed just three weeks ago?

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15:41 1 A Well, remember that ION was looking at it from the  
2 perspective as a competing product. Fugro would have been  
3 looking at it from the perspective of something to use instead  
4 of DigiFIN. They actually testified -- tested the Nautilus  
15:41 5 device. And what happened was that the Nautilus device  
6 destroyed some of their streamers. They went back to Sercel,  
7 the manufacturer, and demanded their money back.

8 Mr. By indicated the test was a complete failure  
9 and that they never bought a Nautilus device as a result of  
10 that. And that is consistent with the prior testimony from ION  
11 which indicated that, you know, as of 2010, it still wasn't  
12 proven in the marketplace.

13 Q There was some discussion in the courtroom by Mr. By that  
14 this had something to do with some stray fishing nets. I'm not  
15:42 15 sure if you were here for that testimony.

16 A I was.

17 Q But does this indicate to you that that mishap, whatever it  
18 was, was something that Fugro considered to be a problem or a  
19 fault with the device rather than just some sort of stray or  
15:42 20 random accident?

21 A Well, I mean, he said it was a complete failure and they  
22 are not buying any Nautilus units as a result. So I would say  
23 they didn't want to risk using the Nautilus product because  
24 they didn't think it worked properly.

15:43 25 Q And they also demanded that Sercel give them their money

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15:43 1 back --

2 A Yes.

3 Q -- or reimburse them for the streamers the Nautilus had  
4 destroyed?

15:43 5 A Correct. And the word they used -- well, the question they  
6 asked was that the Nautilus had destroyed, and Mr. By said yes.  
7 He didn't say the Nautilus had destroyed. He just said the  
8 implication was that they did destroy them.

9 Q Any further information about Nautilus from Fugro's files?

15:43 10 A Yes. There is an email, an internal Fugro email and this  
11 is communicating a discussion that someone at Fugro had with  
12 someone who works for CGGVeritas, which owns Sercel, which was  
13 testing the Nautilus. And this is dated late May of 2010 and  
14 it indicates that there were failed Nautilus birds. And he  
15:44 15 said, "If you hear rumors in the industry that the Nautilus  
16 birds are revolutionary and fantastic, disregard them. It  
17 doesn't work. The modules failed."

18 So as late as May 17, 2010, the Nautilus still  
19 wasn't -- hadn't shown that it was acceptable in the  
15:44 20 marketplace.

21 Q I'm not sure if you were here for the deposition testimony  
22 earlier today from Mr. Cunkelman and perhaps one other  
23 individual at ION, but both of them said, as I recall -- you  
24 tell me if this is true -- that CGGVeritas buys DigiFIN from  
15:44 25 them?

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15:44 1 A They certainly have bought DigiFIN from them, yes, over the  
2 years, yes.

3 Q Do you have any information that they are actually buying,  
4 instead of that, Nautilus because they think that is a better  
15:44 5 or acceptable noninfringing alternative?

6 A Well, they may be today. I don't -- but my damages period  
7 doesn't cover today.

8 Q Right. So did you reach a conclusion as to the second  
9 issue or requirement in your lost profits analysis?

15:45 10 A Yes. I concluded that during this period, there were no  
11 acceptable noninfringing alternatives that would have been  
12 available in the marketplace and that the only lateral steering  
13 device that would have been available in the market would have  
14 been WesternGeco's Q-Marine systems.

15:45 15 Q In doing your lost profits analysis, we are talking about  
16 just the 25 surveys; is that right?

17 A Right.

18 Q Not the other 182 surveys?

19 A Right.

15:45 20 Q The third factor that you identified as being an important  
21 part of the analysis was capacity; is that right?

22 A Correct.

23 Q And why don't you explain that briefly to the jury?

24 A Well, I mean, it is one thing that there are these surveys  
15:45 25 that are available to people who want steerable streamers but

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15:45 1 if WesternGeco didn't have the capacity to conduct those  
2 surveys, then they couldn't have done them and couldn't have  
3 generated the revenue and they wouldn't have earned the  
4 profits. I'm not sure who would have done them, but they would  
15:46 5 have to have the capacity.

6 So what I did was I looked at the information,  
7 talked to people at WesternGeco, identified -- looked at their  
8 fleet and determined whether they had capacity available. Not  
9 necessarily that they actually had the capacity but they had  
10 capacity available to conduct those surveys.

11 And, for example, you heard Mr. Walker testify  
12 that during this time period, WesternGeco, because of the  
13 competition from DigiFIN, had actually delayed some boats from  
14 being delivered and had derigged some boats. So those are  
15 things that if DigiFIN hadn't been on the market and the  
16 demand -- they were getting the demand, they were getting the  
17 surveys. Those are the things that they likely would not have  
18 done and they would have been able to plan for it.

19 Q What is derigging?

15:46 20 A Derigging is taking the equipment, the Q equipment off a  
21 vessel that already had it on. So, for example, there were  
22 three boats that had Q-Marine systems equipment on them and  
23 they took that equipment off those boats and they converted  
24 those boats to source boats.

15:47 25 Q And did you make a detailed investigation as to the amount

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1 of capacity required to do these extra surveys?

2 A Yes.

3 Q And did you determine whether or not WesternGeco had the  
4 capacity available?

5 A Yes, I did. Based on the information in the record, the  
6 length of the surveys, the number of days, the duration of the  
7 surveys, I determined that they would need 54 months of  
8 capacity, of vessel capacity, in order to conduct those surveys  
9 over this time period.

10 I also determined, based on looking at the  
11 available capacity, the actual capacity of the Q fleet, the  
12 actual capacity of other boats that WesternGeco had, would have  
13 had 59 months of capacity, at least. And that's without even  
14 doing some other things that they could have done.

15 So, for example, I think if you go to the next  
16 slide, one of the things they would have done, as Mr. Walker  
17 testified earlier, was that they had deferred the delivery of  
18 the COOK and the TASMAN. They were originally scheduled to be  
19 delivered in 2009 and they deferred them until mid-2010 because  
20 they didn't have a need for them. So they could have taken  
21 those boats when they were originally scheduled.

22 Now, one of those boats, the COOK, was outfitted  
23 with Q equipment that had been taken from the PRIDE, SEARCHER,  
24 and the TOPAZ. So they took Q equipment off of it and stored  
25 some of it and put the rest of it on the COOK. So if they had

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15:48 1 accelerated the COOK and the TASMAN, they would have to have  
2 purchased another set of Q equipment. They would have had to  
3 equip the COOK with Q equipment, and that would have cost them  
4 \$36 million of capital expenditure.

15:49 5 And over the course of the damages period, the  
6 depreciation on that Q equipment would have been about  
7 19.2 million, so it would have cost them money to get this  
8 capacity, but it was there ready to be taken advantage of.

9 Now, in addition to that, I just mentioned that  
15:49 10 they took the Q equipment off of the PRIDE, the SEARCHER and  
11 the TOPAZ and used some of that equipment to put on the COOK.  
12 Well, what I'm suggesting is they wouldn't have done that and  
13 what Mr. Walker has suggested is they wouldn't have done that.  
14 They would have left those three vessels as Q vessels. And  
15:49 15 during that time period, those vessels had 31 months of  
16 capacity. The COOK and the TASMAN would have had 28 months of  
17 capacity. That's the 59 months of capacity that they could  
18 have had.

19 Now, that doesn't include the fact that that's  
15:50 20 only 31 months for the PRIDE, SEARCHER, and TOPAZ out of about  
21 three years that they would have been doing Q surveys. They  
22 could have done -- there is another 77 months during that  
23 three-year time period that they could have done Q surveys but  
24 they were doing other things. They were doing source -- they  
15:50 25 were being used as source boats.



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15:50 1 Well, what Mr. Walker indicated is that they can  
2 charter source boats. In fact, they had chartered boats. And  
3 during this time period, they terminated some of those charters  
4 because they didn't need them anymore. So they could have  
15:50 5 chartered those boats and if they needed another month or  
6 another two months or another four months, they could have  
7 chartered source vessels and used the PRIDE, SEARCHER and TOPAZ  
8 as Q vessels to do Q surveys. That would have had a cost of a  
9 million and a half dollars a month to charter the source vessel  
15:51 10 and I don't believe they would have had to do that because they  
11 had capacity to do the surveys without that, but they had  
12 additional capacity available if they needed it.

13 Q I don't know if you recall the last question that  
14 Mr. LoCascio asked Mr. Walker, and that is --

15:51 15 A My memory is not that good.

16 Q And that is: When people are infringing and you are in a  
17 recession, when does it hurt the most?

18 And he said: In a recession, the reason is you  
19 have got all this slack time and slack capacity.

15:51 20 Is that right?

21 A That's correct. I mean, if you have got the capacity and  
22 other people -- if there is a recession and you have got a lot  
23 of excess capacity and other people are doing the surveys that  
24 you should be doing, it's costing you money.

15:51 25 Q One of the things you haven't calculated, I assume, in your

Direct-Sims/By Mr. Kaplan

1 think where we were is that the \$319 million in revenue is  
2 not some kind of premium pricing that WesternGeco might  
3 have wanted to charge, but the assessment of the actual  
4 revenue on those surveys.

07:57:45

5 The Fugro survey is their actual numbers,  
6 the other surveys that were lost to other infringers or  
7 competitors are the best numbers from the intelligence  
8 that everybody's gathered at the company; is that right?

9 **A.** Correct.

07:57:57

10 **Q.** All right. So how did you go about determining that  
11 there were 25 lost surveys out of 207 total surveys, that  
12 were using DigiFIN systems?

13 **A.** Well, we looked at all those surveys and tried to  
14 identify what the requirements were for those surveys.

07:58:19

15 And as I indicated yesterday, what I did was I concluded  
16 that if there was a requirement for lateral steering,  
17 either the survey required it or the customer required it,  
18 that if WesternGeco was the only provider that could  
19 provide lateral steering, that since there was a

07:58:40

20 requirement for lateral steering, WesternGeco would have  
21 made those sales.

22 So what I did was go through those 207  
23 surveys, and I identified 25 surveys, where I concluded  
24 and I confirmed with Mr. Walker, that there was a

07:58:53

25 requirement for lateral steering. And so, those are the

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Direct-Sims/By Mr. Kaplan

1 25 surveys that I have calculated lost profits on. And  
2 there are basically three different categories. The first  
3 one is 4D surveys for three oil companies, Statoil, Total  
4 and BP. The second is Apache surveys that were done by  
5 Fugro, and the third is sort of a catchall, which is other  
6 surveys that required lateral steering.

07:59:14

7 **Q.** And what is the timeframe in which these 25 surveys  
8 fall?

9 **A.** Well, the first survey was started literally like New  
10 Year's Eve of 2008, and the last one went into 2012. So  
11 they're spread out over that time period.

07:59:32

12 **Q.** Now, Mr. Walker testified to another survey that I  
13 think he called Total Holland, or the Pistolet survey?

14 **A.** Yes, I heard that for the first time when he  
15 testified here the other day.

07:59:50

16 **Q.** The \$64 million survey?

17 **A.** Correct.

18 **Q.** Is that included in your analysis?

19 **A.** It is not. We only included surveys based on the  
20 information that we had and the information we had was  
21 through March of 2012.

08:00:00

22 **Q.** All right. And that's a survey that's actually  
23 either being done or about to be completed by Fugro as  
24 best you know, is that right?

08:00:12

25 **A.** That's my understanding from Mr. Walker's testimony,

Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com

Direct-Sims/By Mr. Kaplan

1 steerable streamers are required. A method for steering  
2 of the streamers will be considered as a prerequisite.

08:16:19

3 **Q.** All right. So going through the Apache surveys, your  
4 conclusion was that you could safely assess these as being  
5 surveys that required the patented technology?

6 **A.** Correct.

08:16:32

7 **Q.** And had WesternGeco been the only company in the  
8 market able to offer its patented technology, what was  
9 your conclusion as to whether or not these surveys would  
10 have been won by WesternGeco as opposed to Fugro?

11 **A.** My conclusion is that's why here, that they would  
12 have been won by WesternGeco. If there's no one else with  
13 lateral steering, then WesternGeco would have won the  
14 surveys.

08:16:46

15 **Q.** Well, let's go to the third bucket that makes up the  
16 25 surveys that you assessed.

17 **A.** Okay.

18 **Q.** And what is Slide 46?

08:16:58

19 **A.** Well, Slide 46 is I think a list of -- I think  
20 there's 10 here maybe that -- additional surveys that  
21 we've identified that indicated that there was a  
22 requirement for lateral steering. In one source or  
23 perhaps many sources indicated that there was a request or  
24 a requirement for lateral steering devices to conduct

08:17:13

25 those surveys.

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1 discussion with Mr. Walker, indicates that although -- and  
2 they said steerable would be required, but he indicated  
3 that steerable would definitely be needed for that type of  
4 a survey.

08:25:05

5 **Q.** All right. And that's Plaintiff's Trial Exhibit 650,  
6 that's from Fugro's copy of the tender; is that right?

7 **A.** That's correct.

8 **Q.** All right.

08:25:20

9 **A.** Maybe I should reiterate, make it clear, that all of  
10 these surveys were conducted using the DigiFIN lateral  
11 steering. So they did, in fact, use lateral steering for  
12 all of these surveys.

13 **Q.** All right. Let's look at Statoil Alaska. This is  
14 the Chukchi Seas; is that right?

08:25:36

15 **A.** Yes.

16 **Q.** Okay.

08:25:47

17 **A.** And we've heard some testimony about this from  
18 Mr. Scoulios and from Mr. Walker, and they indicated that  
19 based on the conditions that lateral steering would be  
20 required. They also indicate -- Mr. Walker indicated that  
21 he was working with Statoil to try to convince them that  
22 they should use fan mode, that would be preferred, which  
23 of course, requires lateral steering.

08:26:09

24 **U.** Ultimately, as Mr. Stiver testified, they  
25 did use fan mode -- "they" being Fugro did use fan mode to

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1 incorporation of DigiFIN units?

2 **A.** Correct. That's a document we saw earlier indicating  
3 that DigiFIN allows them to do fan mode.

08:31:36

4 **Q.** All right. So we've now looked at the three buckets  
5 of surveys that make up the 25 surveys that you talked  
6 about.

7 MR. KAPLAN: If we can turn to Slide 33 for  
8 just a second.

9 BY MR. KAPLAN:

08:31:44

10 **Q.** And those are the three buckets or the three groups  
11 of surveys that make up the 25; is that right?

12 **A.** That's correct.

13 MR. KAPLAN: And let's now go to Slide 58.

14 BY MR. KAPLAN:

08:31:56

15 **Q.** How did you go about determining what WesternGeco's  
16 lost profits would be as you assessed them in this case?

17 **A.** Okay. The lost profits are basically the revenue  
18 that you lost, minus the cost that you would have incurred

08:32:15

19 to make those sales or generate that revenue, or in this  
20 case, conduct the surveys. And the difference between

21 those is the lost profits. That's the profits that

22 WesternGeco would have earned had it conducted those  
23 surveys.

08:32:28

24 **Q.** So if we start with the revenue side, the revenue  
25 that you calculated on those 25 surveys was how much?

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*Direct-Sims/By Mr. Kaplan*

1 **A.** \$319 million. I don't know if you noticed; but on  
2 each of those slides where we had the individual surveys,  
3 there was a revenue number. And that came either from the  
4 Fugro records or from the CRM database.

08:32:44

5 **Q.** And then moving to the next slide, the next factor is  
6 how much it cost you to get that revenue; right?

7 **A.** Correct. And again, what we're looking at the  
8 incremental cost, how much would it have cost to conduct  
9 an additional 25 surveys over that four-year time period.

08:33:03

10 So you don't take into account all of the fixed costs that  
11 have already been incurred because they're not going to be  
12 incurred again.

13 **Q.** And if we go to the next slide, you begin to assess  
14 the cost; is that right?

08:33:17

15 **A.** Correct. So the operating cost of performing 25 more  
16 surveys, and I say 2009 because the first survey started,  
17 like, literally the last day of 2008, we wanted to  
18 identify those costs that varied directly with the number  
19 of surveys. So as I said, it doesn't include the

08:33:40

20 president's salary; it doesn't include, you know, the home  
21 office. There's a lot of fixed costs that are already  
22 paid for that you wouldn't have to incur again. So we  
23 only take into account those costs that would be  
24 additional costs that WesternGeco would have incurred had

08:33:58

25 it conducted those 25 surveys.

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1 And based on their actual financial  
2 records, looking at their actual Q-Marine division  
3 financial records, looking at the costs over that time  
4 period, I determined what those costs were, and that was  
5 \$141 million over that time period for those 25 surveys.

08:34:12

6 **Q.** But you also added another figure in case there was a  
7 need for additional ship capacity?

8 **A.** Well, I added another 19.2 million. If you recall,  
9 when we discussed capacity, I indicated that, rather than  
10 defer the delivery of the TASMAN and the COOK, they would  
11 have had them delivered as originally scheduled, and  
12 rather than derig the PRIDER SEARCHER and TOPAZ, they  
13 would have left them with Q equipment, which means they  
14 would have had to buy new Q equipment for the COOK. And  
15 that Q equipment would have cost money, and this  
16 19.2 million is the depreciation on that equipment over  
17 this time period.

08:34:31

08:34:49

18 MR. KAPLAN: Let's go back to Slide 29 for a  
19 moment, please, Dave.

08:35:00

20 BY MR. KAPLAN:

21 **Q.** That's the figure that you talked about yesterday  
22 afternoon, is that right, when you were discussing  
23 capacity?

24 **A.** Correct. The 19.2 million.

08:35:10

25 **Q.** Okay. All right.

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Direct-Sims/By Mr. Kaplan

1 **A.** I haven't included it in my calculation. That's  
2 correct.

3 **Q.** We don't have the final information?

4 **A.** Correct.

08:36:25

5 **Q.** All right. So in summary, if we're looking at the  
6 lost profits surveys, we see that 15 were done by Fugro,  
7 10 were done by other companies; is that right?

8 **A.** That's correct.

08:36:42

9 **Q.** And in apportioning that \$159.1 million, how much of  
10 that is lost profits that is directly attributable to the  
11 surveys done by Fugro?

12 **A.** 65.7 million.

13 **Q.** And how much of it is to the surveys done by the  
14 others using ION's infringing DigiFIN's equipment?

08:37:00

15 **A.** 93.4 million. And the reason that number is bigger  
16 than Fugro is because the Fugro jobs tended to be a little  
17 smaller, shorter duration; whereas the other 10 were  
18 bigger, longer duration surveys. So the revenues from  
19 those surveys were greater than the Fugro ones.

08:37:18

20 **Q.** But all of these surveys were performed with what  
21 you've been asked to assume is infringing technology from  
22 ION?

23 **A.** Correct. They were all -- they were all performed  
24 using the DigiFIN systems.

08:37:27

25 **Q.** All right. Now, you said there was a second

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Direct-Sims/By Mr. Kaplan

1 total quantifiable benefits, the 260 million is  
2 65.9 percent.

09:03:24

3 **Q.** So they got a lot bigger bang from the buck  
4 purchasing these infringing systems, than they did in the  
5 other part of the business?

6 **A.** Correct. They're overall profit margins were lower  
7 than the value that the DigiFINs contributed.

8 **Q.** All right. Let's go to Slide 94 then.

9 **A.** Okay.

09:03:41

10 **Q.** What does this show?

11 **A.** Well, now we're moving on to ION. So what we just  
12 determined was that the benefit, the premium that was  
13 generated for Fugro, was 65.9 percent of those total  
14 quantifiable benefits as a premium.

09:03:59

15 So now we have to figure out how to share  
16 that. Now we're moving on to ION, and we're trying to  
17 figure out with a --

18 **Q.** Sorry.

09:04:09

19 **A.** Now we're moving on to ION and we have to figure out  
20 what the value of the patent and dimension is to ION. So  
21 what we're doing here, since they don't do surveys, is  
22 we're looking at their profits on selling the DigiFIN  
23 systems as compared with other products.

24 **Q.** Do you need to take a drink?

09:04:25

25 **A.** No. That's all right. So we know that from their

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09:04:47 1 records, that the profit margins on their DigiFIN systems  
2 are 54 percent. The profit margins on the rest of their  
3 business, rest of this division are 27.4 percent. So when  
4 they sell DigiFINs, just the DigiFIN systems alone, they  
5 have a premium profit of 26.6 percent.

6 **Q.** Now, you chose 54 percent as their profit margin. Do  
7 you recall Mr. Moffat's deposition where he testified that  
8 their margins there were typically 60 or 70 percent?

09:05:07 9 **A.** Yeah. I'm not sure what he was referring to. It may  
10 have been gross profit. I don't recall. But based on the  
11 actual documents that we had, I calculated them to be 54.

12 **Q.** Okay. And from that you determined what -- what is  
13 premium profit?

09:05:27 14 **A.** Well, if their normal profit margins are 27.4 percent  
15 and they're only at 54 percent on the DigiFINs, that means  
16 they're getting a premium profit on the DigiFIN sales.

17 **Q.** And so, what did you do with that number?

09:05:45 18 **A.** Well, I figured out how much that was in dollars. So  
19 this is focused on the DigiFIN systems that were sold to  
20 customers other than Fugro, because we've already dealt  
21 with Fugro, so the total sales of DigiFIN birds and  
22 lateral controller, which is the DigiFIN system, for those  
23 customers -- those other customers was \$42.3 million.

09:06:06 24 So that means their premium profit on  
25 those sales, 26.6 percent, was \$11.3 million. Their total

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Direct-Sims/By Mr. Kaplan

1 profit was about twice that, but the premium profit on  
2 just the sales of the DigiFIN systems alone, was  
3 \$11.3 million.

09:06:25

4 **Q.** And if we can return to Slide 14, please. Now, in  
5 other words, you're not looking at all the ION sales  
6 because according to Slide 14, the numbers you had,  
7 whether they are about \$63 million worth of sales of the  
8 DigiFIN units, including the lateral controller?

09:06:43

9 **A.** Correct. And actually I note here that this schedule  
10 actually calculates that 54 percent.

11 **Q.** Right.

12 **A.** But...

13 **Q.** A little too small to read on the slide?

14 **A.** It is pretty small.

09:06:50

15 **Q.** All right. Let's return, please, to Slide 95.

16 **A.** Okay.

17 **Q.** What you did here is you only took the sales to the  
18 nonFugro entities?

19 **A.** Correct.

09:06:59

20 **Q.** All right. And that's roughly two-thirds of that  
21 \$63 million?

22 **A.** Correct.

23 **Q.** All right. And on those sales only, you calculated a  
24 premium profit?

09:07:09

25 **A.** Correct. \$11.3 million.

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Direct-Sims/By Mr. Kaplan

1 Q. All right.

2 A. But that's just on the DigiFIN systems alone.

3 Now, if we move to the next slide, there

4 was -- there's information in the record that indicates

09:07:22

5 that, in fact, I think we've heard some testimony that when

6 ION sells its DigiFIN systems, it expects pull through

7 sales. It expects to generate sales on other products.

8 And, of course, when it makes sales on other

9 products, it generates profits on those other products.

09:07:41

10 And based on an analysis that was done by Mr. Gunderson who

11 was ION's damages expert, I determined that the amount of

12 those pull through sales was -- would have been

13 67.8 million based on the sales of the DigiFIN systems that

14 we looked at on the prior page.

09:08:06

15 Q. Now what are convoy?

16 A. Well, that's those pull through sales. That's sales

17 of additional products that ION sold because they sold the

18 DigiFIN systems.

19 Q. For example, yesterday, in one of the depositions

09:08:18

20 that was played, Mr. Cunkleman's deposition, the term

21 "pull through" was used quite a bit, and perhaps

22 "bundling"?

23 A. Yes.

24 Q. Is that what we're talking about here?

09:08:27

25 A. Yes.

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*Direct-Sims/By Mr. Kaplan*

1 Q. What does that mean?

2 A. Well, it means that when you sell one product, when  
3 the people buy that product, they buy something else as  
4 well. And if you hadn't sold the first product they  
5 wouldn't have bought the second product.

09:08:41

6 So this \$67.8 million in revenue was  
7 generated because they sold the infringing DigiFIN systems  
8 and so, the profits from these sales is premium profit  
9 that they wouldn't have earned had they not sold the  
10 DigiFIN systems.

09:08:58

11 So I calculated the profit on those sales  
12 at their normal profit margins of 27.4 percent, and  
13 determined that they would have earned an additional  
14 \$18.6 million in profits. Then I add that to the  
15 11.3 million in premium profits that they earned on the  
16 DigiFIN systems alone. And so, the total premium profits  
17 that were earned by ION, as a result of selling the  
18 DigiFIN systems, was \$29.9 million. So had they not  
19 sold -- well, had they not sold the DigiFIN systems, their  
20 profits would have been lower by the 29.9 million, plus  
21 the other about 11 million in normal profits. So they  
22 would have been lower by about \$40 million, \$41 million.

09:09:14

09:09:33

23 Q. The other sales and profits that they get from  
24 essentially having this flagship DigiFIN, which pulls  
25 through or puts into the bundle the other products?

09:09:54

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Direct-Sims/By Mr. Kaplan

1 Q. They'd walk into the negotiation at the time  
2 understanding that; is that right?

3 A. Correct.

4 Q. Okay. And what did you assess as the value of the  
5 Zajac contribution?

6 A. Well, based on the expectation of how much it  
7 improves for the 4 -- it's really related to 4D surveys --  
8 there was an expectation of 5 to 6 percent uplift in  
9 revenues. ION and Fugro would have better bargaining

10 positions in this case because it's just an improvement  
11 patent; it doesn't enable anything. And so, I concluded  
12 that the value of Zajac would be about 15 percent of the  
13 value of the Bittleston patents, and based on the  
14 Bittleston patent, that would be about 5 percent of the  
15 quantifiable benefit, but only of 4D surveys. So it's  
16 only applied to the benefits from 4D surveys, not all  
17 surveys, just 4D surveys.

18 Q. And if we look at the next slide, these are the final  
19 reasonable roy --

20 THE COURT: Go ahead.

21 BY MR. KAPLAN:

22 Q. -- the final reasonable royalties that you believe  
23 should be assessed against ION and against Fugro?

24 A. Correct. So for ION, the total revenues from the  
25 DigiFIN systems were 42.3 million. And that's only sales

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Direct-Sims/By Mr. Kaplan

1 to the non-Fugro, to customers other than Fugro. And so,  
2 the royalty rate of 35.3 percent applied to those sales of  
3 42.3 million would be \$14.9 million.

09:35:32 4 For Fugro, as it relates to the Bittleston  
5 patents, there were \$260.2 million in the quantifiable  
6 benefits contributed by the patents to those surveys that  
7 used the DigiFINs. The royalty rate was 33 percent of  
8 those benefits. And so, the reasonable royalty would be  
9 85.9 million.

09:35:54 10 And then for the Zajac patent, the  
11 quantifiable benefits, the portion of that 260.2 that  
12 relates to 4D surveys alone, is \$6.2 million. Applying  
13 that 5 percent royalty to the \$6.2 million results in a  
14 royalty of just over \$300,000, about .3 million.

09:36:13 15 **Q.** And that number is assessed only against Fugro?

16 **A.** Correct.

17 **Q.** And so, if we look at the total then, to recap the  
18 lost profits figures and the reasonable royalty figures,  
19 what do we have?

09:36:26 20 **A.** Well, lost profits on those Fugro surveys, you recall  
21 were 65.7 million. The lost profits on the non-Fugro  
22 surveys, those other customers, was 93.4 million. So the  
23 total is 159.1 million.

09:36:49 24 The reasonable royalty for Fugro was  
25 86.2 million. You saw that on the prior slide. And the

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*Cross-Sims/By Mr. Burgert*

1 correct?

2 **A.** Correct.

3 **Q.** And that would include helping find the damages  
4 documents out of these 7 million pages; right?

09:45:22 5 **A.** Well, helping -- I mean -- we, yes, I guess that  
6 would be correct, yes.

7 **Q.** And another thing I think you told Mr. Kaplan is that  
8 you asked the WesternGeco lawyers to get specific  
9 information from ION or Fugro through deposition  
10 questioning?

09:45:40

11 **A.** There was some of that, yes.

12 **Q.** And did the WesternGeco lawyers restrict you in any  
13 way from what you could ask, in terms of information?

14 **A.** Not that I know of. Not that I'm aware of.

09:45:53

15 **Q.** Did they tell you there was anything in terms of the  
16 information you requested that they couldn't get for you?

17 **A.** I can't think of any specific instances, no.

18 **Q.** Did you ask them to depose any of the oil companies  
19 to find out what the oil companies said about their  
20 requirement for steerable streamers?

09:46:16

21 **A.** I don't think I asked them to depose someone. It  
22 wasn't my place to ask them to depose someone. I asked  
23 them, you know, where we could get information about those  
24 revenues.

09:46:31

25 **Q.** Okay. And one of the things you relied on heavily --

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*Cross-Sims/By Mr. Burgert*

1 Q. Now, much of the data in the CRM database comes from  
2 reports that are gathered by WesternGeco people, from  
3 either conversations or publications or things like that;  
4 correct?

09:49:14

5 A. Well, you said much of it. I think the bulk of the  
6 data comes from their contact with people in the --  
7 relevant people in the industry, talking to customers,  
8 seeing what's happening. I wouldn't say on the ground. I  
9 would say on the sea, you know, their contacts and things

09:49:33

10 like that. But I think there is some information that  
11 comes from some of those other sources that you've just  
12 described.

13 Q. Right. And to get the best output, you need the best  
14 input in any calculation; correct?

09:49:45

15 A. Yes. You want to use the best information that's  
16 available, correct.

17 Q. Okay. And in part of this two-plus year study  
18 million-dollar plus work, didn't you consider it part of  
19 your job to try to get the best information?

09:50:02

20 A. Within the constraints that we have in the context of  
21 a litigation, yes.

22 Q. Okay. Well, that's exactly my point. You know or  
23 don't you know, the constraints of litigation?

24 A. I do know that there are constraints, yes.

09:50:19

25 Q. And, in fact, you told your client, WesternGeco,

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*Cross-Sims/By Mr. Burgert*

1 Q. So it's within your realm of knowledge, after 30  
2 years in this business, and doing all these reports, that  
3 it is possible to get testimony from third parties?

4 A. Oh, sure.

09:52:56

5 Q. Right?

6 A. It is possible under certain circumstances, I think,  
7 yes. I don't know what those circumstances are, and I  
8 don't know what the limitations are because that's part of  
9 the legal part of the process. But I do know that it is  
10 possible in some circumstances to get third party  
11 depositions.

09:53:08

12 Q. And in this case, you didn't even investigate with  
13 your client, WesternGeco, whether they could subpoena an  
14 oil company to give a deposition about what they felt was  
15 important in this early?

09:53:20

16 A. No, I didn't -- I didn't investigate in the way you  
17 just said, but I tried to determine whether that  
18 information was available and I was told that it was not.

19 Q. Oh, okay. Well, let's explore that a bit. You asked  
20 if it was available and told that them that it was not?

09:53:38

21 A. Other than the information that was produced as the  
22 part of the litigation.

23 Q. So if, in fact, WesternGeco could have subpoenaed an  
24 oil company, they told you they weren't going to do it,  
25 use what we're giving you?

09:53:51

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Cross-Sims/By Mr. Burgert*

1 the cost, but first they have to meet my main criteria,  
2 which is they have three bedrooms.

3 And in this case, based on what I've done,  
4 is looked at those surveys that have that primary criteria  
10:07:05 5 which is a requirement for lateral steering.

6 Then there's a decision made by the  
7 contractor -- by oil company, as to which contractor  
8 satisfies requirement, but then the decision is made based  
9 on other things.

10:07:20 10 **Q.** And your assumption there is lateral steering is the  
11 primary driver?

12 **A.** My assumption is that they require lateral steering,  
13 and they can't do the survey, or don't want to do the  
14 survey without it. And that's based on the information  
10:07:32 15 that I went through on my direct.

16 **Q.** Did you see any studies where the tender required  
17 lateral steering, that the contract ultimately went to  
18 someone who didn't have lateral steering?

19 **A.** I can't think of any examples.

10:07:57 20 **Q.** Okay.

21 **A.** But it certainly wasn't included in my lost profits  
22 calculations. So none of those surveys went to someone  
23 who didn't use lateral steering.

24 **Q.** No, I understand that. It's just that you've a read  
10:08:12 25 the testimony in the depositions, I take it, that it's

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*Cross-Sims/By Mr. Burgert*

1 very difficult to figure out from an oil company what  
2 drives their decision; right?

3 **A.** Yeah, I think I've heard that, yes.

4 **Q.** And, in fact, you've read testimony, I think,  
10:08:26 5 probably from the deposition of Mr. Walker, where he says,  
6 Even if they tell you the reason they picked you, you  
7 can't trust them because they might not be telling you the  
8 truth?

9 **A.** Well --

10:08:35 10 **Q.** Would you agree with that?

11 **A.** I think the oil companies would like to keep as much  
12 of their decision making process close to the vest as  
13 possible. That's not surprising. But, again, we were  
14 looking at not -- those other factors we were looking at  
10:08:49 15 the requirement for lateral steering and only -- we only  
16 looked at those 25 out of 207, where lateral steering was  
17 required.

18 **Q.** Before DigiFIN came to market in 2007, were there  
19 tenders that required lateral steering?

10:09:10 20 **A.** I -- well, if you mean tenders that went to all  
21 contractors, I'm not sure that I've seen any. If you mean  
22 tenders that might have gone to WesternGeco as a direct  
23 bidder, I think that's probably likely.

24 In fact, I think Mr. Walker may have  
10:09:31 25 testified to that. But it wouldn't surprise me if there

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*Cross-Sims/By Mr. Burgert*

1 Now, obviously, when they do a spread  
2 there's a lot of other things that take place and  
3 including the depth, the DigiBird, which I think is the  
4 depth control and ORCA is a navigation system.

10:12:35

5 So I understand that those are all part of  
6 the overall system.

7 **Q.** Do you know what the PCS is?

10:12:49

8 **A.** I believe that's the positioning control system  
9 and -- I'm not sure if that's part -- that's where lateral  
10 control system -- I'm not sure if it's interchange or if  
11 it's part of the same thing or what.

12 **Q.** Did you ever include that as part of your DigiFIN  
13 system?

10:13:00

14 **A.** If it's the lateral control system, then I would say  
15 yes.

16 **Q.** But you don't know if that's the lateral controller  
17 or not?

18 **A.** I've seen testimony that says it's the same and I  
19 don't know from personal experience whether it is or not.

10:13:10

20 **Q.** Now, the 93 -- or I'm sorry -- the \$65.7 million in  
21 lost profits for these Fugro surveys, is that money ION  
22 should pay?

23 **A.** Well, it's money that someone should pay.

24 **Q.** You don't know?

10:13:29

25 **A.** ION sold the systems, and Fugro used them to compete

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*Cross-Sims/By Mr. Burgert*

1 with WesternGeco. So between the two of them, I believe  
2 that's what should be paid to WesternGeco for those  
3 surveys. It's not -- it's not my purview to say who  
4 should pay, but that's the damages that WesternGeco  
5 suffered.

10:13:48

6 **Q.** Well, how about the nonFugro surveys, those 10 lost  
7 profits for \$93.4 million, should Fugro pay for those?

8 **A.** No. Because Fugro it wasn't involved in those.

9 **Q.** Do you think all that's on ION?

10:14:03

10 **A.** Correct. They're the ones that sold those and  
11 supplied those DigiFIN systems to those contractors, and  
12 so they are the ones that caused the loss of sales and the  
13 loss of profits to WesternGeco.

14 **Q.** Now, you understand, don't you, that surveys done in  
15 the open sea 12 miles offshore U.S. are not infringing  
16 surveys; right? You've been told that?

10:14:24

17 **A.** Well, I'm not an infringement expert. I know that  
18 there's an issue as to where the surveys are conducted as  
19 to whether they infringe certain claims. But my  
20 assumption is that there is infringement by the supply of  
21 those DigiFIN systems, and that's what I've assumed in my  
22 calculations.

10:14:40

23 **Q.** So your assumption is that the supply of the systems  
24 from the United States, regardless of where title passes,  
25 where they go, anything, that's infringement?

10:14:55

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Cross-Sims/By Mr. Burgert*

1 Q. When you calculated the damages based on sales to  
2 third-party surveyors, you relied mainly on the CRM  
3 database and discussions with WesternGeco personnel; is  
4 that right?

10:16:33

5 A. I wouldn't say mainly; but I did rely on that  
6 information, yes.

7 Q. What else did you rely on?

10:16:54

8 A. I relied on information, testimony from people at ION  
9 as to which boats had DigiFIN systems, what surveys and  
10 when they had them.

11 I used the CRM database to identify when  
12 those boats were used in certain surveys.

13 So, yes, I did rely on CRM, but that's not  
14 the only thing I relied on.

10:17:05

15 Q. No, I didn't really ask that question. I asked about  
16 the revenues these nonparty surveyors earned from doing  
17 the surveys using the ION system.

18 A. Right.

19 Q. Tell me your source for the revenue numbers.

10:17:18

20 A. Just the revenue number alone?

21 Q. Right.

22 A. That was from the CRM database.

10:17:36

23 Q. Now, the CRM database is something we've heard about  
24 that was compiled -- or is continuously being compiled by  
25 the folks at WesternGeco.

*Johnny C. Sanchez, RMR, CRR - jcscourtreporter@aol.com*



*Cross-Sims/By Mr. Burgert*

1 And one of the things that you were able  
2 to do when you received all of the document production is  
3 compare the actual Fugro revenue to what the CRM said the  
4 Fugro revenue was; correct?

10:17:55

5 **A.** Correct.

6 **Q.** And at least for one of those surveys, I think that  
7 the CRM was off by over \$80 million, wasn't it?

10:18:13

8 **A.** I don't remember. I know that there were a number of  
9 surveys, obviously, that Fugro provided information for,  
10 and that some of them, the information in the CRM database  
11 was higher, and most of them, I think about a third were  
12 higher and rest of them were lower. And on -- overall, it  
13 turned out to be just about right on.

10:18:34

14 **Q.** And when you say "just about right on," you're  
15 talking what?

16 **A.** I'm talking about \$1.4 billion.

17 **Q.** No. I think we're talking past each other.

10:18:48

18 When you compared the Fugro numbers that  
19 were produced showing their actual revenues and compared  
20 that to the CRM database, which is what WesternGeco uses  
21 to put in wherever it gets its numbers about the  
22 revenues --

23 **A.** Right.

24 **Q.** -- the numbers were different; right?

10:18:58

25 **A.** The numbers were different; but again, if you look at

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*Cross-Sims/By Mr. Burgert*

1 the total -- some were higher; some were lower. But if  
2 you look at the total, it was almost -- it was very close.

3 **Q.** And what is very close? It's over a million dollars;  
4 right?

10:19:13 5 **A.** A million dollars on over a hundred million dollars,  
6 yes. Over a billion dollars.

7 **Q.** Well, you know, a million here, a million there,  
8 we're talking real money; right?

9 **A.** It's less than 1 percent. And it was actually -- the  
10:19:24 10 actual Fugro revenues were higher by over a million --  
11 about a million dollars. So the numbers that we used from  
12 the CRM database, had we used them, would have been lower  
13 than what actually -- what Fugro actually realized.

14 **Q.** My point, though, is the numbers in the CRM database  
10:19:43 15 were in some cases far different from the actual numbers.  
16 They just averaged out to be about a million for Fugro;  
17 right?

18 **A.** Correct.

19 **Q.** And you don't have any information from the other oil  
10:19:55 20 companies that you could compare to what the CRM database  
21 says their revenues were, so you relied on CRM?

22 **A.** Correct. And because the Fugro -- you know, the  
23 information from Fugro -- for the Fugro cases indicated  
24 that, for all of those surveys the difference was very  
10:20:09 25 small. So based on the fact that those other surveys --

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*Cross-Sims/By Mr. Burgert*

1 non-Q vessels?

2 **A.** I don't remember that.

3 **Q.** Now, how many Q-Marine vessels did WesternGeco have  
4 during this damages period that you calculated?

10:32:30 5 **A.** Well, it changed over -- it increased over time; but  
6 I think at the outset, they had about seven, maybe eight.

7 **Q.** How many do they have today?

8 **A.** I believe they have 11.

9 **Q.** So over the period of time that you calculated  
10:32:57 10 damages, their capacity in terms of Q vessels increased --  
11 didn't double, but it went up by what, 40 percent or so?

12 **A.** In round numbers.

13 **Q.** And these new vessels that they added were vessels  
14 that were much larger; they could pull more streamers.

10:33:18 15 Weren't they?

16 **A.** Two of them were; maybe three of them were.

17 **Q.** All right. And the vessels that they decommissioned  
18 were older vessels that could tow far fewer streamers;  
19 right?

10:33:29 20 **A.** Well, and I'm not sure what you mean by "far fewer."  
21 Some were 8 versus 10 or 12.

22 **Q.** Is that what you think the new ones tow?

23 **A.** I think most of them are 10 or 12.

24 **Q.** And you've heard the testimony that more streamers is  
10:33:48 25 better; right?

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*Cross-Sims/By Mr. Burgert*

1 **A.** I think it depends on the survey, but generally  
2 speaking, the more you have, the more you can cover.

3 **Q.** And the retirement of these vessels that you document  
4 on one of your slides, those were the older ones, weren't  
5 they?

10:34:04

6 **A.** Three of them were the older ones, yes.

7 **Q.** That towed fewer streamers, that were less  
8 sufficient?

9 **A.** There were eight-streamer.

10:34:16

10 **Q.** They were less efficient than new vessels; right?

11 **A.** Less efficient in what way?

12 **Q.** In fuel consumption.

13 **A.** I don't know for a fact. I mean, they continued to  
14 use them. So I don't think -- they didn't retire the  
15 vessels. They just took the Q rigging off the vessels.

10:34:31

16 **Q.** Right. And they --

17 **A.** They continued to use the vessels.

18 **Q.** They used them as source vessels; right?

19 **A.** I believe they used them as source vessels, yes.

10:34:41

20 **Q.** And that's because they needed source vessels, I take  
21 it?

22 **A.** Well, they always need source vessels, but they  
23 decided to use those rather than charter vessels based on  
24 the demand for the various types of vessels.

10:35:00

25 **Q.** I'm going to walk through some of the evidence that

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*Cross-Sims/By Mr. Burgert*

1 right?

2 **A.** Yeah. I mean, a lot of them are in the same area.

3 **Q.** In the water?

4 **A.** Well, they're in the water, but a lot of them are in

10:37:00

5 the same area; but yes. Generally speaking they take

6 place all over the world.

7 **Q.** Okay. And in order to mobilize, to do a survey, you

8 have to have a vessel in the area where the oil company

9 wants to survey; right?

10:37:11

10 **A.** You have to have one there when they wanted the

11 survey or roundabout that time. I mean, there's some

12 flexibility sometimes, but you have to get a boat to that

13 area, yes.

14 **Q.** And part of -- and in fact, a significant part of a

10:37:24

15 person or a -- a person -- of a company bidding to do one

16 of these surveys involves vessel availability, where that

17 vessel might be, how long it might take to get to the

18 survey area, that sort of thing; right?

19 **A.** Sure.

10:37:40

20 **Q.** Did you do any analysis looking at where the

21 WesternGeco vessels were at the time these bids came in,

22 or these tenders came in?

23 **A.** We did look at schedules that showed where vessels

24 were, what -- when they had capacity. But in talking to

10:37:59

25 Mr. Walker, he indicated that they would have planned

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*Cross-Sims/By Mr. Burgert*

1 differently had they -- the competition from DigiFIN not  
2 been there and they were planning 4D surveys.

3 In other words, they would have, if  
4 necessary, deployed their boats differently and more  
10:38:20 5 efficiently had they known that the demand was going to be  
6 there and only they could satisfy it.

7 So it's kind of like if -- you know, if I  
8 have a two-car family and my wife has five errands that  
9 she wants to run, well, she could take her car and go and  
10:38:39 10 do all five of them and come back, and it would take her  
11 quite a bit longer than if we used both cars and she did  
12 three and I did two, and I did three and she did two.

13 So -- and they would plan their fleet  
14 differently. Number one, the fleet would be different,  
10:38:52 15 would have been different because it would have had more Q  
16 vessels available; and, number two, they would have  
17 planned it differently, to be more efficient, given the  
18 surveys that were available at the time.

19 **Q.** And you remember the testimony from Mr. Walker that  
10:39:07 20 they only had 5 percent capacity; right? We've talked  
21 about that.

22 **A.** Yeah. I don't remember the 5 percent number, but I  
23 did go through with Mr. Walker -- I did our own analysis  
24 of capacity availability, and then I went through with  
10:39:19 25 Mr. Walker. And he actually determined that they had more

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Cross-Sims/By Mr. Burgert

1 capacity available, almost double than what I came to. So  
2 I felt comfortable with my numbers.

10:40:03

3 **Q.** Do you remember seeing any evidence that WesternGeco  
4 was -- WesternGeco decided not to respond to tenders  
5 because it didn't have vessels available?

10:40:22

6 **A.** I do. And, again, at the time, under the  
7 circumstances in which they were competing, having to  
8 compete with DigiFIN, the competitors who had DigiFIN,  
9 having that out there and having reduced their capacity  
10 because of that, sometimes in the real world, what  
11 actually happened, they didn't have a ship available, so  
12 they didn't bid.

10:40:34

13 Now, again, had the DigiFINs not been  
14 there, that would have been different. They would have  
15 had boats faster; they would have had more boats with Q,  
16 Q-Marine.

10:40:50

17 **Q.** And that's based upon your talks with Mr. Walker, who  
18 says, in retrospect, that's what they would have done?

10:41:07

19 **A.** Well, in retrospect, they -- you know, what we're  
20 talking about is what would have happened had DigiFIN not  
21 come on to the market. And had DigiFIN not come on the  
22 market, the situation back at the time when they were  
23 making these decisions to defer and to decommission and  
24 derig boats, the environment would have been different,  
25 and those decisions wouldn't have been made because they

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Cross-Sims/By Mr. Burgert

1 wouldn't have needed those boats.

2 **Q.** Even knowing they increased their Q boat capacity by  
3 40 percent during the infringement period?

10:41:21

4 **A.** Well, that's -- you're right. And that's because --  
5 even -- even in those circumstances, they recognized that  
6 there was a shift towards lateral steering and Q vessels;  
7 and so, they continued to grow the Q vessels over that  
8 time period.

9 **Q.** Right. Let's look at your Slide 14.

10:41:37

10 Now, this is the one where it says "ION  
11 sales reflect demand."

12 **A.** Yes.

10:41:59

13 MR. BURGERT: Can you zoom in, please, first of  
14 all, on this part right up here, the spreadsheet. Slide  
15 over just a little bit.

16 BY MR. BURGERT:

17 **Q.** This is referring to the DigiFIN units sold, and you  
18 list them across the top. And then the DigiFIN revenue.

10:42:12

19 So that would be what ION got paid for the  
20 DigiFIN; right?

21 **A.** Well, actually, the next line is the discount, so  
22 they actually got paid the net revenue, which is what I  
23 used.

24 **Q.** The net revenue right here?

10:42:21

25 **A.** Correct.

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*Cross-Sims/By Mr. Burgert*

1 not sure again, this is not to scale, but it's flattening  
2 off, it's levelling off, it's not going up.

3 **Q.** In fact, the revenues went down, didn't they?

10:48:48

4 **A.** The revenues went down, but the cumulative revenue is  
5 continuing to go up. That's what this chart shows. It's  
6 cumulative revenue. That's why the number is  
7 63.3 million.

10:49:16

8 **Q.** Let's look at the next slide, Slide 15 that you were  
9 shown. And this talks about the 2007 surveys using  
10 DigiFIN systems generating \$3 billion in revenue, and  
11 you've taken these numbers from the WesternGeco CRM;  
12 right?

13 **A.** No.

14 **Q.** Where did they come from?

10:49:35

15 **A.** Well, some of them came from the CRM and some of them  
16 came from Fugro.

17 **Q.** If they didn't come from Fugro, is it safe to say  
18 they came from the CRM?

19 **A.** Yes. They either came from the CRM or Fugro.

10:49:50

20 **Q.** And likewise here, we can see the revenue from  
21 surveys starts in 2008 with 138 million?

22 **A.** Uh-huh.

10:50:14

23 **Q.** And it goes up, and goes up further, and it goes up  
24 to a billion in 2011, and then during the period you  
25 studied in 2012, it is down to 646 million; correct?

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*Cross-Sims/By Mr. Burgert*

1 have any specific evidence that it's being used. It  
2 wouldn't surprise me if it's being used now.

3 **Q.** You reviewed Dave Gentle's deposition; right?

4 **A.** Yes.

10:52:41

5 **Q.** In fact, you quoted from it several points. Did you  
6 read where Mr. Gentle testified that Nautilus has  
7 15 percent of the market?

8 **A.** If he said it in his deposition then I saw it, yeah.  
9 He's talking about today.

10:52:55

10 **Q.** Well, his deposition was in October of 2011.

11 **A.** Okay.

12 **Q.** He would have been talking about then.

13 **A.** Okay.

10:53:09

14 **Q.** Has Nautilus or the company making Nautilus been sued  
15 for infringement of these patents?

16 **A.** Well, I don't think they've been sued yet, but I  
17 think they've been accused. In other words, WesternGeco  
18 has accused them of infringement.

19 **Q.** Have you seen that letter?

10:53:20

20 **A.** I haven't seen it, no.

21 **Q.** How do you know that's what happened?

22 **A.** Because I've been told. In fact, I may have heard it  
23 here. I don't know.

24 **Q.** You may have heard it here?

10:53:29

25 **A.** I know I've heard it in the past. I may have heard

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*Cross-Sims/By Mr. Burgert*

1 Q. So that is simply on the fin and the lateral  
2 controller?

3 A. Well, that particular chart was just the fins, but  
4 Mr. Gentle testified that the profit margin on the lateral  
5 controller was consistent with the fins.

11:02:11

6 Q. And then you've got the profit margin on the rest,  
7 27.4, we've talked about that number.

8 A. Correct.

9 Q. And then you talked about premium profit on DigiFIN  
10 systems alone as 26.6 percent?

11:02:24

11 A. Correct.

12 Q. This is just a subtraction?

13 A. Correct.

14 Q. Next, you talk about Convoyed products, and I'd like  
15 to talk to you a bit about that, if you could show us 96,  
16 please.

11:02:39

17 Here you talk about sales of Convoyed  
18 products and you come up with a number of \$67.8 million;  
19 right?

20 A. Correct.

11:02:56

21 Q. And where did you get that number?

22 A. I got that number from an analysis that was presented  
23 in a report by Mr. Gunderson, ION's expert, as it relates  
24 to pull through sales. I mean, there were documents in  
25 the evidence that indicated pull through sales and

11:03:13

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*Cross-Sims/By Mr. Burgert*

1 expectations for certain products, Mr. Gunderson's  
2 analysis included more products.

11:03:34

3 **Q.** So this number, the 67.8 million is a number that  
4 Mr. Gunderson, our expert came up with, you relied on it,  
5 and you think it's accurate, or you wouldn't be presenting  
6 it here today; correct?

7 **A.** I calculated it based on the numbers that were in his  
8 report.

9 **Q.** All right.

11:03:42

10 **A.** Yes.

11 **Q.** And do you remember what three items went into his  
12 determination of that number?

13 **A.** DigiRange, DigiShot, and I forget the third.

11:03:59

14 **Q.** But there were three proposed transactions that you  
15 used?

16 **A.** You mean the three sales? The individual sales you  
17 mean, the customers? Is that what you're saying?

18 **Q.** They weren't sales, were they? They were proposals?

19 **A.** Correct.

11:04:08

20 **Q.** And they were proposals that didn't go through?

21 **A.** Correct.

22 **Q.** And Mr. Gunderson used those for completely different  
23 purpose than to show Convoyed sales, didn't he?

11:04:24

24 **A.** No. He was showing, in fact, that's what his report  
25 said, was that when they sold -- when the sales of the

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Cross-Sims/By Mr. Burgert*

1 other products that for every dollar of DigiFIN products  
2 that were sold, it would be \$1.68 of these other products  
3 that were sold.

11:16:35

4 **Q.** And you came up with that number based upon the three  
5 proposals addressed in Mr. Gunderson's report?

6 **A.** Correct.

7 **Q.** And you extrapolated the proposed purchases from  
8 those three deals to the world of DigiFINs that had been  
9 sold?

11:16:52

10 **A.** Correct.

11 **Q.** Right? So you assumed that those proposals would be  
12 typical of what you would consider Convoyed sales because  
13 if they're not typical, you can't apply them across the  
14 board; right?

11:17:06

15 **A.** I considered that they would be representative, in  
16 other words, they would cover the spectrum of what would  
17 be expected by ION.

18 **Q.** So let me make sure I understand.

11:17:24

19 Instead of looking at actual sales that  
20 had taken place and looking at invoices and purchase  
21 orders to see what items were bought along with DigiFIN,  
22 you looked at these three proposals that didn't go through  
23 as they were originally made, and did you average --

24 **A.** Yeah.

11:17:40

25 **Q.** -- the deal to come up with your \$1.68?

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*Cross-Sims/By Mr. Burgert*

1 **A.** I did. And let me be clear on why I didn't do what  
2 you just suggested, which is look at the DigiFIN sales and  
3 look at all the other products. Because what I'm in --  
4 I'm not interested in necessarily the relationship between  
5 all those other products and DigiFIN, that what actually  
6 happened. Because we don't know. Some of those other  
7 products may have been sold independent of the DigiFIN.  
8 And just because they were sold on the same invoice, they  
9 still may have been sold independently.

11:17:55

10 But in Mr. Gunderson's report, he  
11 represented that, for those proposals, this is where they  
12 were selling other products because of the sale of the  
13 DigiFIN. So that's what I used as -- as to come up with  
14 \$1.68 and not the other data, which may have included  
15 sales that shouldn't have been included. I think that  
16 number would be much higher than \$1.68 if I did what you  
17 were suggesting.

11:18:10

11:18:29

18 **Q.** Okay. Well, I'm glad you didn't do it then.

19 But let's focus on the \$1.68. And that  
20 only relates to the three. We've established that; right?

11:18:43

21 **A.** It was calculated based on those three; correct.

22 **Q.** Exactly. And you calculated that, and the \$1.68 is  
23 non-DigiFIN products; correct?

24 **A.** Correct.

11:19:04

25 **Q.** And that's the amount of non-DigiFIN products that

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*Cross-Sims/By Mr. Burgert*

1 might have been 10 percent, 15 percent.

2 **Q.** When did Q-Marine first commercially deploy on solid  
3 streamers?

11:28:08

4 **A.** The actual deployment, I believe, was April of 2010;  
5 but it was deferred because the first deployment was going  
6 to be the TASMAN, which was a new vessel, and that vessel  
7 was delayed or deferred, as we've talked about earlier,  
8 because of the market conditions.

11:28:28

9 So instead of taking delivery in 2009,  
10 late March of 2009, when it was originally scheduled, they  
11 deferred the delivery until April of 2010. And when that  
12 boat came on, that's when they -- it was equipped with  
13 4D -- I'm sorry -- with solid streamers.

11:28:48

14 **Q.** So is it fair to say that, before that 2010 date, the  
15 Q-Marine system did not offer a solid streamer?

16 **A.** In the actual world as it developed, yes, that's  
17 true.

18 **Q.** And you reviewed a number of the tender documents  
19 that required solid streamers before 2010; correct?

11:29:08

20 **A.** There were tender documents. Some say they required;  
21 some say they preferred. I don't remember all the dates,  
22 but there may have been some before 2010.

11:29:31

23 **Q.** And if they were required as part of the bid, then  
24 WesternGeco would be disqualified from those because they  
25 didn't have solid streamers; right?

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Burgert Cross of Raymond Sims*

1 share.

2 He says: DigiFIN has captured about the third of  
3 the market, appears to list 15 percent of the market for  
4 Nautilus, 35 percent for DigiFIN and 50 percent for Q.

5 Do you believe that was an accurate market share  
6 around January of 2010?

7 Yes, I think listing 15 percent for Nautilus and  
8 50 percent for Q --

9 A I'm sorry. I can't read this. It is like a blank piece of  
10 paper.

11 Q Mr. Gentle was saying: It appears to list 15 percent of  
12 the market for Nautilus, 35 percent for DigiFIN, 50 percent for  
13 Q.

14 Do you believe that was an accurate market share  
15 around January of 2010?

16 The answer is: Yes, I think this was 15 percent  
17 for Nautilus, 50 percent for Q and 35 percent for DigiFIN. I  
18 think that this is -- it's about right.

19 Now, do you have any empirical data to dispute  
20 that?

21 A I don't know what he was referring to. There was a  
22 document that was being referred to there, but I don't have any  
23 information to either corroborate that or dispute it. But I do  
24 have other information that indicates that Nautilus was not  
25 commercially viable at that time, so I'm not sure how they



*Burgert Cross of Raymond Sims*

1 could have gotten 15 percent.

2 Q Okay. I want you to engage in a little exercise with me.

3 Do you have a calculator with you?

4 A Do I?

5 Q Yes, sir.

6 A No, I -- well, I mean, I do, but not with me here.

7 Q You didn't bring a calculator with you?

8 A I do not. I can do it with a piece of paper and a pencil.

9 *THE COURT:* I have a not terribly new generation  
10 calculator.

11 *MR. BURGERT:* Well, I've got one.

12 BY MR. BURGERT:

13 Q The calculation I want to go over is this. We looked at  
14 this slide before lunch. It is the one that talks about

15 convoyed products. And for the purposes of this exercise --  
16 and I know you disagree with this strongly -- but I want to

17 assume that we don't have convoyed sales. Okay? And so the  
18 profit from convoyed sales is gone and the premium profit that

19 you calculated is \$11.3 million, which would make the total  
20 premium profit 11.3.

21 So if we take out convoyed sales, which I know  
22 you disagree with, I'm right that this total premium profit  
23 would be 11.3, correct?

24 A Well, based on your math, yes.

25 Q Well, tell me where my math is wrong.

*Thompson Cross of Raymond Sims*

12:39 1 Q Okay. So we have got a -- the revenue here, and I did some  
2 quick math. It is \$30,900,000 of revenue on these three  
3 Statoil surveys, and we're basically -- the jury is to believe  
4 that is an appropriate amount to be included in lost profits  
12:39 5 because of your assumption about Statoil, correct?

6 A Well, it is not -- there is evidence in the record that I  
7 pointed to, but I concluded that for those 4D surveys, they  
8 required lateral steering. If you want to call it an  
9 assumption, I guess you can, but it is based on what I have  
10 heard and what I've seen in the record.

11 Q And you would agree -- in fact, you talked a lot about --  
12 we're not going to go back into it, but you had access to the  
13 CRM database. The jury has heard a lot about it.

14 A I did.

15 Q And that it was actually a huge source of information for  
16 your report, right?

17 A I don't know that I would say it was a huge source, but it  
18 was one of many sources.

19 Q One of many sources.

12:40 20 A It is a huge database, if that is what you mean.

21 Q And it is unwieldy.

22 A It is.

23 Q It was actually introduced, I believe, as Plaintiff's 547.  
24 But we have taken a portion out here, I want to show you.

12:40 25 *MR. THOMPSON:* Can we pull up that slide, Keith?

*Thompson Cross of Raymond Sims*

1 ION 269. It was a WesternGeco document. You will have to  
2 forgive my handwriting. The ION number was 269. This is the  
3 corresponding Fugro number.

4 A I couldn't really see it.

5 *MR. THOMPSON:* Can we bring up ION 269 on the screen,  
6 please?

7 BY MR. THOMPSON:

8 Q Do you see that this is a WesternGeco three-year plan from  
9 2001 to 2004?

10 A I do.

11 Q Do you know if you ever considered this document in your  
12 analysis?

13 A I don't remember whether I did or not.

14 Q If we could go to Bates ending 7113, please. If we could  
15 go down to the second to the last paragraph.

16 A Uh-huh.

17 Q Could we highlight where it starts "WesternGeco is the  
18 dominant player"?

19 You see here in the business plan beginning  
20 between 2001 and 2004, WG internally said that while they are  
21 the dominant player, there is an assumption they cannot hold on  
22 to the current market share.

23 Did you consider in your analysis that internally  
24 within WG there was already an expected inability to hold on to  
25 the market share?

*Thompson Cross of Raymond Sims*

1 2 : 5 3 1 A Well, sure. They didn't expect to hold on to their overall  
2 market share, but they certainly expected to hold on to their  
3 proprietary market share, which was the market for lateral  
4 steering, because they were the only ones that could provide  
1 2 : 5 3 5 that particular product.

6 So overall the market share might decline, but  
7 their market share in the lateral steering market, which is  
8 what that chart that you put up of mine represented, they would  
9 have expected to maintain that 100 percent share.

1 2 : 5 4 10 Q Let's talk about that for a moment.

11 A Okay.

12 Q You were here for Mr. Walker's testimony?

13 A Yes, I was.

14 Q Did you -- and you heard the testimony and the jury has  
1 2 : 5 4 15 seen the document several time -- we won't go back through  
16 it -- about the chart, that WG internally knew there was going  
17 to be a pricing decline relating to Q before 2008?

18 A Are you talking about the one with the three?

19 Q Yes, sir.

1 2 : 5 4 20 A Yeah. I'm not sure that that's what that document showed,  
21 but they recognized that there is a life cycle of products, and  
22 they are trying to continually innovate and develop new  
23 products.

24 Q You would agree with me Mr. Walker is in a better position  
1 2 : 5 4 25 to speak on that document than you are?

*Thompson Cross of Raymond Sims*

1 14:13 Q Did you review the CRM database to see if there were any  
2 comments about whether or not WG bid on the ENI Togo job?

3 A I did look at the CRM database. I don't recall what it  
4 said, at least as I sit here, from memory.

5 14:14 Q So at least today, with the evidence before this jury, you  
6 can't even testify for sure whether WG bid on this job?

7 A No. I believe it did bid on the job.

8 Q But you don't have any evidence that you are going to  
9 present to the jury other than you believe that they did.

10 14:14 A My recollection is that all of the projects that we  
11 included in our lost profits were jobs for which WesternGeco  
12 bid.

13 Q Do you know why that evidence wasn't shown in your  
14 PowerPoint presentation?

15 14:14 A No. I mean, it wasn't part of my presentation. I was  
16 identifying jobs that required lateral steering. And so the  
17 likelihood is that WesternGeco would have won those jobs.

18 *MR. THOMPSON:* Now, if we can go back to the Elmo,  
19 please, Ms. Loewe. Thank you.

20 14:14 BY MR. THOMPSON:

21 Q So, again, I understand your opinion is it is fine. But if  
22 others -- because WG has not presented evidence they even bid.  
23 Do you not feel that this isn't an appropriate lost profits  
24 survey? That would be \$15,475,820.

25 14:15 A I believe that was the revenue from that survey.

*Thompson Cross of Raymond Sims*

14:22 1 correct?

2 A Not necessarily. Obviously ION and Fugro wouldn't have it,  
3 but that doesn't mean to say that WesternGeco would have it  
4 either if they lost.

14:22 5 Q Do you recall -- the last one I want to talk to you on lost  
6 profits about -- do you recall one of the Apache surveys -- it  
7 is actually the most recent one, called the Apache Kenya. It's  
8 a 2012 survey?

9 A I do.

14:22 10 Q And you are also claiming that as a lost profits survey  
11 against Fugro in asking for damages from WG, correct?

12 A Correct.

13 Q Okay. Sir, if WG -- let's back up. I think we already  
14 established this one. Your opinion is, even if WG doesn't bid,  
15 that's okay for your lost profits analysis?

16 A I don't think the fact that they bid or did not bid should  
17 have an impact. However, I believe that I only included  
18 contracts for which they did bid.

19 Q How do you win a bid that you don't even bid on?

14:23 20 A Well, it depends on why you didn't bid. If you didn't bid  
21 because at that particular time your capacity was constrained  
22 because you had adjusted your capacity to take into account the  
23 competition from infringing products, then I think it would be  
24 appropriate, given the fact that you would have bid, given that  
14:23 25 it needed lateral steering. However, I don't believe I've

*Redirect-Sims/By Mr. Kaplan*

1 Q. All right. Let's look at the exhibit that  
2 Mr. Thompson showed you, but only partially. Fugro  
3 Exhibit FD 279. And let's go back to the very beginning  
4 of the e-mail stream, way back at the back. If I can lay  
5 this down flat get it focused appropriately.

08:17:45

6 This is an e-mail from Apache. Do you see  
7 that?

8 A. Yes.

9 Q. Okay. And if we look on the next page up, we can see  
10 than it went to Paul Young, who's the vice-president of  
11 Fugro Geoteam?

08:17:59

12 A. Correct.

13 Q. And on this job, you see what it says about the kind  
14 of acquisition and processing that was going to be done on  
15 this job?

08:18:17

16 A. Results through fresnel zone binning, the process,  
17 yes.

18 Q. And do you remember Mr. Walker's testimony about  
19 fresnel zone binning?

08:18:31

20 A. That it requires fan mode? Yes.

21 Q. And is fan mode something that you don't get without  
22 lateral steering systems?

23 A. It is not something -- it is something you need for  
24 lateral steering to do.

08:18:45

25 Q. They are critical and essential to providing this

*Johnny C. Sanchez, RMR, CRR - jcscourtreporter@aol.com*

*Recross-Sims/By Mr. Thompson*

1 database is based on information that they get from  
2 customers or from their contacts in the industry at that  
3 time.

08:43:16

4 **Q.** So you weren't here for Mr. Scoulios's testimony;  
5 correct?

6 **A.** I was, yes.

7 **Q.** And we'll just have to decide who remembers whether  
8 he used the words "rumor" and "innuendo" that get included  
9 in the CRM; right?

08:43:28

10 **A.** I guess, yes.

11 **Q.** Now, isn't it also true that the exact type of the  
12 information, maybe not from this document, but from this  
13 seismic scuttlebutt, WG document, is the type of  
14 information that gets uploaded by the salespeople into the  
15 CRM database?

08:43:46

16 **A.** I'm not sure if that's true or not.

17 As I said, I think there may be some  
18 pieces of the information from sources like that that  
19 would get in there if they thought they were relevant; but  
20 predominantly, it's based on, you know, information that  
21 they believe is reliable from reliable sources.

08:44:00

22 **Q.** And so, the type of information here that we looked  
23 at regarding the Trader West anchor 3D, not 4D survey  
24 which you have in your report, this is the exact type of  
25 information WG is going rely on to track their competitors

08:44:15

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*



*Recross-Sims/By Mr. Thompson*

1 and put in their CRM database that somehow now you're  
2 discounting it as rumor and innuendo? Is that what I  
3 heard this morning?

08:44:32

4 **A.** I'm not discounting it as rumor and innuendo. I  
5 mean, this is a -- this is what they called this, whatever  
6 this document is. That doesn't mean to say it's rumor.  
7 It means that's the information that they've received in  
8 the marketplace --

9 **Q.** Last --

08:44:40

10 **A.** -- is the cause.

11 **Q.** Last issue. I want to go back very quickly and talk  
12 about fresnel zone binning.

13 **A.** Okay.

14 **Q.** That's between Apache and Fugro; correct?

08:44:51

15 **A.** What do you mean?

16 **Q.** Well, you know, because you've looked at it as part  
17 of your analysis in this case, that there's actually a  
18 patent for fresnel zone binning, and there's a license  
19 agreement that is between Fugro and Apache; correct?

08:45:05

20 **A.** I believe Apache has a license on fresnel zone  
21 binning.

22 **Q.** Does WG have the ability to offer fresnel zone  
23 binning? Do they have a license do it?

08:45:19

24 **A.** I believe they do offer it, but I don't know if -- I  
25 don't think they have a license from Apache. I don't

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

Direct-Moffat/By Mr. Wade

1 surveys, acquiring surveys, providing acquisition  
2 technology, processing seismic data, and then interpreting  
3 that seismic data afterwards.

4 **Q.** Those are the four columns we see across the slide?

10:16:10

5 **A.** They are.

6 **Q.** And below that, we see three green shapes.

7 What do those represent?

8 **A.** Well, these represent the three key business units  
9 within ION. And the first one at top on the left-hand

10:16:25

10 side is a marine imaging systems division, and that's  
11 really what I'm accountable for today. And they build  
12 marine acquisition technology and provide planning and  
13 software services.

14 **Q.** So the technology at issue in this case is developed  
15 within the marine imaging systems division?

10:16:43

16 **A.** That's correct.

17 **Q.** All right. Briefly tell us what the other two  
18 divisions are.

19 **A.** The GX Technology Group you see there in the middle,  
20 they were acquired by ION or I/O in 2004, a very similar  
21 time to when they acquired Concept Systems. They are a  
22 seismic processing company. So they take the seismic data  
23 that's been acquired, either in a land or a marine survey,  
24 and they process it to build the image.

10:16:53

10:17:12

25 **Q.** Does ION own any survey vessels?

Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com

Direct-Moffat/By Mr. Wade

1 **A.** No, they don't.

2 **Q.** ION is a provider of survey equipment?

3 **A.** It's a provider of survey equipment and its  
4 technology and services.

10:17:23 5 **Q.** All right. Let's look at Slide 3, entitled  
6 "Evolution of ION's Marine Imaging Systems."

7 **A.** Okay. This is the group that I'm responsible for,  
8 and this tries to give a sense of the history. And  
9 Input/Output as the company was known then was started

10:17:42 10 more than 40 years ago, back in 1968.

11 In 1968 they were a land technology  
12 company. They decided at some point to change the  
13 strategy and get into the marine seismic technology  
14 business. And to do that, they spent \$120 million  
15 purchasing Western Geophysical's exploration products  
16 group. And that was in 1995.

10:18:03

17 And with the acquisition, they got a lot  
18 of IP. I think almost a hundred patents were acquired.

19 **Q.** And Western Physical Exploration products group, is  
10:18:18 20 that from the Western Geophysical that was later combined  
21 with Geco-Prakla to form WesternGeco?

22 **A.** That's correct. That was their technology group.

23 **Q.** And then you have another evolution of the company in  
24 1998 with DigiCOURSE.

10:18:32

25 What's that?

Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com

Direct-Olivier/By Mr. Torgerson

1 products in the marine seismic specs?

2 **A.** Yes, sir.

3 **Q.** Tell us briefly about that.

4 **A.** After the launch of our product we called the 5011  
10:22:15 5 DiJBird in the '90s, we were honored by the Seismic  
6 Geophysical Society, award called the Distinguished  
7 Achievement Award in 1994, for our contribution to the  
8 industry.

9 And it was a very proud moment for

10:22:29 10 everyone in the firm, and it was greatly related to the  
11 work that we've done in our optical compass work and our  
12 towed depth platform.

13 **Q.** We've heard something about the DigiBIRD and we've  
14 even seen it. Did you have a role in developing that  
10:22:45 15 product?

16 **A.** Yes, sir.

17 **Q.** What role?

18 **A.** Well, I was hired in 1988, and joined the company.  
19 And at that time, the product offerings for depth keeping  
10:22:57 20 were very primitive. There were a few products on the  
21 market, but no one had really established a commercial  
22 viable solution.

23 So my management asked me to develop a  
24 project, make a proposal for a replacement depth keeping  
10:23:13 25 for the industry, and to integrate a compass solution as

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Direct-Olivier/By Mr. Torgerson

1 well, to steer the cable.

2 So as a very young engineer, a quantity of  
3 one, I was a first mechanical engineer hired in this  
4 little company. I was a young man. Quite an intimidating  
10:23:30 5 project, but quite exciting.

6 I put together a proposal on how to solve  
7 the problem, I brought it to the owner of the company and  
8 he was grateful and willing to proceed. And I spent the  
9 next 18 months designing and developing and testing the  
10:23:44 10 product known as DigiBIRD today.

11 **Q.** You mentioned that there were some other older  
12 product offerings. Is this one similar to that?

13 **A.** Yes, sir. That's what I am referring to. That is --  
14 was typical of the industry in the early '80s, mid '80s.

10:23:59 15 **Q.** What is this that we're looking at?

16 **A.** That is a competitor's product. It's called an  
17 RCL 2. It's a depth device. It was made by Centron in  
18 Houston, and that was kind of state-of-the-art when I  
19 entered the business.

10:24:12 20 **Q.** And what were some of the immediate criticisms you  
21 had of a device like this?

22 **A.** Well, first of all, there is a compass in it. It is  
23 made out of metal, so it doesn't work very well. Too much  
24 metal near the compass doesn't work.

10:24:27 25 Secondly, it's made out of steel that is

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Direct-Ledet/By Mr. Torgerson

1 techniques that were put in place, to your recollection,  
2 during the 1990s, to avoid disbanding gel meant?

3 **A.** You know, some of the approaches you might consider  
4 them to be rather primitive, cables, ropes, chains, not  
5 only at the front of the cable, but perhaps down the  
6 length of the cable to keep a certain separation. And  
7 while that technique may have worked in certain

8 applications by not allowing the streamers to separate  
9 beyond a certain distance, as you would expect, it did  
10 nothing from preventing -- you know, to prevent those  
11 cables from getting closer and potentially entangling.

12 **Q.** Sort of like where you tow a car and you have a rope  
13 between the two vehicles you might have a maximum value,  
14 but it doesn't stop the back car from hitting the front  
15 car?

16 **A.** Correct.

17 **Q.** All right. What were some of the specific devices  
18 that you recall being discussed at the time?

19 **A.** We had -- at one point we talked to a company in the  
20 UK, that had developed some technology to have a steerable  
21 tail buoy. And so, you know, this was something that  
22 would be something that would be on the end of the  
23 streamer cable. And it would, you know, at a minimum,  
24 help steer the ends of the cable.

25 **Q.** And were there considerations within DigiCOURSE at

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Direct-Ledet/By Mr. Torgerson

1 the time about other applications for such a steerable  
2 buoy?

11:06:10

3 **A.** Yeah, it would be potentially useful at the front of  
4 the streamers as well. Either on the power veins to help  
5 spread out and change dynamically the positions, and maybe  
6 even at the front of each streamer as well.

7 **Q.** Let's turn to DigiCOURSE's specific work on these  
8 issues. When do you first recall this becoming a project  
9 within DigiCOURSE?

11:06:29

10 **A.** In the -- in terms of an official project, around the  
11 '92, '93 timeframe.

12 **Q.** And specifically, what was the solution that you were  
13 considering?

11:06:44

14 **A.** We were looking at what we had referred to as a wrap  
15 device. So we were bringing out a next generation suite  
16 of positioning products that included compasses, acoustic  
17 positioning devices, as well as a combination depth and  
18 lateral controller that would actually install around the  
19 circumference of the streamer cable.

11:07:05

20 **Q.** And what were you calling this project in this  
21 timeframe?

22 **A.** NGP, next generation positioning, next generation  
23 streamer positioning.

11:07:19

24 **Q.** Now, in addition to your project management role, did  
25 you play a role in some of the early design input or

Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com

*Torgerson Direct of Kenneth Williamson*

15:44 1 So that was one of the -- that is one of the  
2 arguments they used, and I guess it was probably a serious  
3 concern they had with respect to actually having data recorded  
4 on their block that wasn't -- that they didn't have control of.

15:44 5 Q So, Mr. Williamson, in your experience, did this hard-line  
6 refusal to release that data cause a backlash in the industry  
7 during the time that Q-Marine was having difficulty getting  
8 traction anyway?

9 A Yes. Absolutely. Certainly.

15:45 10 Q Did you discuss that with Robin Walker?

11 A Absolutely.

12 Q Did you have an agreement with him? Were you of like  
13 minds?

14 A No. No.

15:45 15 Q What was his position?

16 A I think there was some precedent -- I don't know about  
17 precedent, but some examples of some downhole tools where there  
18 were internal -- there were some downhole examples where some  
19 of the raw information was retained, some engineering-type  
20 information.

21 So it wasn't -- so there were some examples from  
22 the downhole world in Schlumberger that that was the case. In  
23 fact, that actually led to a discussion on the saying, well,  
24 maybe a better way to approach this was, rather than say this  
25 is raw data that you are never going to get, maybe there's a



Torgerson Direct of Nils Lunde

08:19

1 Q Okay.

2 A I knew there were conversations around it but...

3 Q Let's say Polarcus here. Were you aware that ION sells  
4 equipment to WesternGeco also?

08:20

5 A Yes, very much so.

6 Q So if ION is an equipment manufacturer that sells stuff in  
7 the market to a variety of different contractors, that wouldn't  
8 make ION's relationship with Fugro any different than ION's  
9 relationship with WesternGeco, would it?

08:20

10 A No.

11 *MR. TORGERSON:* All right. I would mark that as  
12 Williamson Demonstrative 3.

13 No further questions.

14 *THE COURT:* Ms. Tsou, anything?

08:20

15 *MS. TSOU:* No questions, Your Honor.

16 *THE COURT:* Okay. You may step down. Thank you, sir.

17 May the witness be excused?

18 *MR. TORGERSON:* The witness may be excused, yes.

19 *MR. BURGERT:* The next witness is Mr. Nils Lunde by  
20 video deposition.

08:20

21 **NILS LUNDE, HAVING BEEN DULY SWORN, TESTIFIED BY VIDEOTAPED**

22 **DEPOSITION AS FOLLOWS:**

23 **DIRECT EXAMINATION**

24 *NORWEGIAN JUDGE:* Then we will proceed. It will be so  
25 that I will take your personal data into the court book, and

08:21

*Burgert Direct of Bob Peebler*

15:11 1 third-party navigation system on seismic vessels?

2 A Yes. It is on the majority of vessels. Even -- yeah, it  
3 would be on the majority of vessels. Even some of the  
4 competitors who have an equipment side of their business to  
15:11 5 sell also have our software.

6 An exception to that would be WesternGeco, who  
7 has rolled their own. That's what I call it. In that case,  
8 they have their own software, but they also use our DigiBIRDS,  
9 which they figured out how to make it work some way. So I  
10 think that is a good example of where the software is designed  
11 for people to use it, but our equipment is also designed for  
12 people to integrate into other people's software.

13 Q That's a good little detour to take right now. WesternGeco  
14 is a big customer of ION's; is that right?

15:11 15 A Yeah. They have been a good customer for a long time.

16 Q If you think that one of your vendors has ripped you off  
17 for over \$100 million, do you keep buying from that vendor?

18 A I wouldn't. I wouldn't.

19 Q I wouldn't either.

15:12 20 Is WesternGeco still buying equipment from you?

21 A Yes.

22 Q On the open source technology that we were discussing is --  
23 your concept organization, the one that does the software in  
24 Edinburgh, do they provide other navigation systems with the  
15:12 25 method to tie in to our DigiFIN if they need to?

13:33

1

P R O C E E D I N G S

2

(Jury not present)

3

*THE COURT:* Good morning. Welcome back.

4

*MR. LOCASCIO:* We are pleased to inform the Court that

07:30

5

over the weekend, WesternGeco and Fugro have reached a

6

settlement, and we filed a stipulated dismissal with the Court.

7

*THE COURT:* Very well. Thank you.

8

*MR. PIERCE:* Mr. Winspear is still under subpoena by

9

ION. So you may be seeing the two of us here now and then as

07:31

10

they decide how they're going to --

11

*THE COURT:* Okay. I offer congratulations and thanks.

12

I do think it was the right thing to do.

13

*MR. BURGERT:* Your Honor, ION would request a copy of

14

the settlement agreement so that we can see how that fits into

07:31

15

the charge and the damages questions that will be submitted to

16

the jury.

17

*MR. LOCASCIO:* My response to that would be it is a

18

confidential settlement agreement, and we don't believe ION

19

needs a copy. And to the extent Mr. Burgert has a question

07:31

20

about perhaps a couple of the things, I might be able to

21

address that right here, which is with respect to the 271(b)

22

and (c) claims against ION, given that the 271(a) case against

23

Fugro has been dismissed, the (b) and (c) claims against ION

24

will be dismissed as well. They don't continue on.

07:31

25

With respect to the damages as it was presented

07:31 1 already during the case, there were damages that related to  
2 Fugro sales. There were damages that related to non-Fugro  
3 sales. WesternGeco's case as it continues will only be with  
4 respect to the non-Fugro sales, Your Honor.

07:32 5 So I don't know if that addresses  
6 Mr. Burgert's --

7 *THE COURT:* Are we concerned at all with the  
8 possibility of joint and several liability and, therefore, a  
9 need to know?

07:32 10 *MR. LOCASCIO:* No, we're not, given that the only  
11 claims that were made against ION are claims unrelated to sales  
12 to Fugro.

13 *MR. BURGERT:* Your Honor, I think we are still  
14 entitled to see the basis of it, see the agreements they made,  
07:32 15 see whether there is any non-cooperation agreement, whether  
16 there are any obligations on the part of Fugro to not provide  
17 documents that have been requested should some come up.

18 If nothing more, I think the Court needs to  
19 review it in camera to see if it has any effect on the way that  
07:32 20 the case proceeds.

21 *THE COURT:* I will take it under advisement. Normally  
22 I don't disclose settlements made by one party to all parties.

23 What are we going to tell the jury?

24 *MR. BURGERT:* That was my next point, Your Honor. I  
07:33 25 would ask that the jury simply be informed that Fugro is no

*Arnold Direct of Atle Jacobsen*

09:44

1 preferred?

2 A No.

3 Q Okay. So while you were working at CGG between 2008 and  
4 2009, were you aware of the types of surveys CGG was doing?

09:45

5 A Yes.

6 Q And did CGG, at that time, have lateral steering capability  
7 on its streamers?

8 A Yes.

09:45

9 Q And when did CGG acquire lateral steering, to your  
10 knowledge?

11 A To my knowledge, summer of 2009.

12 Q And what were the devices that CGG used? Do you know?

13 A It's called Nautilus, from developer Sercel.

09:45

14 Q And did CGG do surveys in the summer of '09 with Nautilus  
15 devices as their lateral steering capability?

16 A To the best of my recall, yes.

17 Q And before CGG acquired the Nautilus devices, did it bid  
18 for three-dimensional survey work against WesternGeco and using  
19 the Q-Marine?

09:46

20 A It bid against Q-Marine, yes.

21 Q And did it win against Q-Marine?

22 A Yes.

23 Q And how do you know that?

09:46

24 A Well, again, you can only refer to publicly known tenders  
25 where there is a selection in the world where things are known.

*Kane Direct of Atle Jacobsen*

09:46 1 Alternatively, it's -- can be documented through talking to the  
2 various clients.

3 I would say that companies like PGS, CGG and --  
4 companies like PGS, CGG and WesternGeco are bidding on  
09:47 5 90 percent of all available tenders. And basically, they win  
6 roughly one-third each. That's the only way they're going to  
7 keep their boats working.

8 Q And how did you become involved in Dolphin?

9 A I founded the business.

09:47 10 Q And I may have asked you this.

11 Does Dolphin have lateral steering capabilities?

12 A Yes.

13 Q And whose devices does Dolphin use?

14 A Sercel Nautilus.

15 BY MR. KANE:

16 Q Who did you speak with from Fugro before this deposition?

17 A I got a call from Hans Meyer in Fugro asking me to -- to  
18 witness.

19 Q Did he -- did Mr. Meyer discuss any of the details of this  
09:48 20 case with you?

21 A No.

22 Q What is his position?

23 A Hans Meyer has -- is overseeing the geophysical division in  
24 Fugro, including Fugro-Geoteam, which I'm -- and various  
09:48 25 companies which are probably sued.

*Kane Direct of Atle Jacobsen*

09:48

1 Q Did you communicate with any of ION or Fugro's attorneys  
2 before this deposition?

3 A Only -- only -- they have been calling me and I've been  
4 saying no.

09:48

5 Q And when you say that ION or Fugro's attorneys have been  
6 calling you and you've been saying no, does that mean that  
7 they've been calling you to be a witness in this case and  
8 you've been saying no?

9 A Yes.

09:49

10 Q Do you recall how many times an ION or Fugro attorney has  
11 called you to be a witness in this case?

12 A Three. Three times, I think.

13 Q Are you available for trial in July or August of this year  
14 in Houston, Texas?

09:49

15 A Not voluntarily, no.

16 Q So you will not willingly testify in July or August of this  
17 year; is that correct?

18 A No. I hope this is the last I have to do.

09:49

19 Q Is your current company, Dolphin, a competitor of  
20 WesternGeco?

21 A Yes.

22 Q So prior to receiving the calls from ION and Fugro's  
23 counsel, did you have any awareness of this case?

24 A Yes.

09:50

25 Q What was the first commercially offered lateral steering

*Kane Direct of Atle Jacobsen*

09:50

1 system that you know of?

2 A Q-Marine.

3 Q Mr. Arnold was asking you if CGGV ever had a lateral  
4 steering device.

09:50

5 And I believe you testified yes, they did, they  
6 were using Nautilus?

7 A Yes.

8 Q Do you recall when CGGV began using the Nautilus?

9 A Yes. I believe that was in the summer of 2009.

09:50

10 Q When did you leave CGGV?

11 A The summer of 2009.

12 Q Do you know if CGGV ever used the Nautilus on a job when  
13 you were there?

14 A Yes, they did.

09:50

15 Q Do you recall any details of the use of the Nautilus during  
16 that job or jobs?

17 A I do recall, yes.

18 Q But do you recall what job it was?

19 A Yes.

09:51

20 Q What job was it?

21 A I can't tell you.

22 Q It's confidential?

23 A I consider it industry -- industry confidential.

09:51

24 Q And you said that you believe that while you were at Wave  
25 Seis or Multiwave that you won -- there were two jobs that you



*Kane Direct of Atle Jacobsen*

09:53 1 Q Have you seen that before?

2 A No. This is a trend which have been -- it's a trend that's  
3 been coming more -- becoming more and more the normal the last  
4 two years.

09:53 5 Q Do you currently use the Nautilus device at Dolphin?

6 A Yes.

7 Q For the boats that have the Nautilus device at Dolphin, do  
8 you know how many streamers they have?

9 A Yes.

09:53 10 Q How many streamers do those boats have?

11 A Up to 12.

12 Q I want to talk about your relationship with ION briefly.

13 Have you ever received any assurances from ION  
14 that the DigiFIN does not infringe WesternGeco's patents?

09:54 15 A No.

16 Q Have you ever spoken to ION --

17 A Not in writing.

18 Q Pardon?

19 A Not in writing, no.

09:54 20 Q Would you expect ION to indemnify their customers over  
21 infringement of the DigiFIN?

22 A Yes.

23 Q Have you ever received a product assurance pledge with  
24 respect to ION's products in relation to this case?

09:54 25 A No. No.

Direct-Gunderson/By Mr. Wade

1 Q. Do you have any opinions on the foundation that he  
2 relied upon for those opinions?

3 A. I do. I do.

12:47:55

4 Q. And you've heard -- you've been in court every day;  
5 correct?

6 A. Not every day. I missed -- I missed a day or two,  
7 and I've missed some different times; but I've been here  
8 much of the time.

9 Q. And you've heard about the CRM database?

12:48:03

10 A. I have.

11 Q. All right. Do you have any opinions about the CRM  
12 database as they relate to the damages in this case?

12:48:15

13 A. Well, as it relates to the damages, I feel like it's  
14 not an appropriate thing to rely upon, and I'm going to  
15 kind of explain why. But it is a very -- it's kind of a  
16 speculative-type document in my opinion.

17 Q. All right. Let's go through some of the reasons why  
18 you have issues with the heart of Mr. Sims' analysis.

12:48:34

19 And this is Gunderson 6, "WesternGeco CRM  
20 database is speculative and not reliable."

21 And what have you collected for us on  
22 Gunderson 6?

23 A. It's a variety of trial testimony, so it's testimony  
24 that the jury has heard that talks about the CRM database.

12:48:47

25 And before I get into it, I guess I probably ought to try

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Direct-Gunderson/By Mr. Wade

1 to characterize my understanding of the CRM database.

2 **Q.** Please do.

3 **A.** It's a -- as I understand it, it's a sales tool.

4 It's something that the salespeople use in order to track

12:49:03

5 bids, in order to understand competitors and what the

6 competitors are doing with those bids, and it's pretty

7 much populated by salespeople from around the world,

8 actually, in terms of their understanding of the bids and

9 the bidding process, and they put just -- just little

12:49:21

10 pieces of information in that database. And it could be

11 information about WesternGeco itself, which I would think

12 would be a little bit more reliable because they're

13 talking about themselves, and it's also third-party

14 information. So you might hear some scuttlebutt about

12:49:36

15 something that's going on in the industry, and they might

16 put that in the database. And that's the part that I have

17 kind of a problem with, I think, in terms of relying on

18 numbers for an actual -- a request for damages.

19 **Q.** And on Gunderson 6, you've pulled some summaries of

12:49:55

20 testimony by Mr. Scoulios, who I don't believe is in the

21 courtroom, but he was WesternGeco's corporate

22 representative for most of this case.

23 What did you learn about the CRM database

24 listening to his testimony?

12:50:07

25 **A.** Well, it's consistent with deposition testimony that

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Direct-Gunderson/By Mr. Wade

1 the best they can to try to input information, but  
2 sometimes the information is just not knowable, especially  
3 on something as competitive and often secret as, you know,  
4 who gets the bid. So sometimes it might be reliable;  
5 sometimes it might not she reliable. And I think that  
6 just raises a question about whether it's appropriate for  
7 this type of analysis.

12:51:37

8 MR. WADE: Let's look at Gunderson 7.

9 BY MR. WADE:

12:51:48

10 **Q.** We've got three more clips from Robin Walker's  
11 testimony, all dealing with oil companies, and what's  
12 reflected here about these surveys.

13 How did inform your view of CRM?

12:52:05

14 **A.** It's consistent with what I've been trying to explain  
15 to the jury again, that WesternGeco admits the oil  
16 companies often do not say why the surveys are lost to  
17 competition. So -- and this is kind of an important  
18 point. We've been talking about, you know, the importance  
19 of lateral steering, and clearly it is one important  
20 element of providing a survey; but I didn't see anything  
21 in the database, in my review of the database -- and it's  
22 a very large database in Italy -- that said they lost any  
23 specific sale because of the DigiFIN. I didn't see that.  
24 But they did talk about losing sales because of price and  
25 other things, and we'll talk about some of those things I

12:52:20

12:52:42

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Direct-Gunderson/By Mr. Wade

1 It's a large database, and it's not surprising. There's  
2 lots of different people entering information in, and they  
3 have different viewpoints of the world and what's been  
4 going on.

12:55:11 5 **Q.** You have in your last bullet, "Not statistically  
6 validated."

7 Why is that important in the context of  
8 the analysis that you did and Mr. Sims did?

9 **A.** Well, there's no way to sample, there's no way to  
10 look at what the actual -- how it stacks up to actual  
11 numbers. There's no way of really knowing, again, whether  
12 it's accurate or not, whether it's statistically accurate,  
13 whether the numbers are appropriate. And so, I feel like  
14 it's just a big -- I mean, from the very start, it's just  
15 a big problem.

12:55:39 16 **Q.** Based on your review of the CRM database and the  
17 testimony about the database, is this the type of evidence  
18 that someone in your field would reasonably rely upon as a  
19 basis for a damage analysis?

12:55:52 20 **A.** Certainly not with that many question marks. I mean  
21 it's just not -- it's not something that I would rely on.  
22 I wouldn't feel comfortable relying on it. It's --  
23 it's -- without being able to prove what those numbers  
24 are, I just -- I wouldn't feel comfortable doing that.

12:56:06 25 **Q.** If the CRM database is deemed unreliable, how does

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Direct-Gunderson/By Mr. Wade

1 Q. And how they perform lateral steering in their own  
2 way?

01:05:45

3 A. Yes. Now, interestingly enough, I think they work  
4 just a little bit differently than the devices that ION  
5 sells in that they provide both the lateral and the  
6 vertical steering in one device. So they've got these  
7 three wings, and they provide one device. So they work a  
8 little bit differently, but they're still providing the  
9 same general, you know, function of providing this

01:06:01

10 steering mechanism.

11 Q. Okay. And was WesternGeco aware of these  
12 alternatives for lateral steering?

13 MR. WADE: Let's go to Gunderson 17.

14 THE WITNESS: Yes.

01:06:12

15 BY MR. WADE:

16 Q. All right. And we have some quotes from a deposition  
17 of Mr. Scoulios, the WG corporate representative.

18 How did these quotes from his deposition  
19 inform your opinion?

01:06:25

20 A. Well, it shows that they -- they were certainly aware  
21 of them, and this was taken in May of 2010. And just  
22 to -- I'll try to be slow.

23 Q. Please.

01:06:38

24 A. "QUESTION: Have you ever seen a device by  
25 Konigsberg?

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1 "ANSWER: I saw it at the SEG, but no -- I  
2 did not study it in detail. That would be the third one I  
3 was trying to roughly remember that may have existed, but  
4 I cannot remember the capabilities of that particular  
5 device.

01:06:52

6 "QUESTION: Uh-huh. Is the Sercel device  
7 that you're thinking about called the Nautilus?

8 "ANSWER: I believe it is.

9 "QUESTION: Do you know how many wings it  
10 has?

01:07:03

11 "ANSWER: I believe it has three.

12 "QUESTION: And do you know whether the  
13 Nautilus can steer both laterally and in depth.

14 "ANSWER: I believe it is advertised to."

01:07:14

15 Q. All right. And then we've heard a lot of testimony  
16 about Nautilus and eBIRD throughout the trial. And I want  
17 to kind of direct your attention to one of the exhibits we  
18 looked at the other day. It is PTX 244.

19 MR. WADE: And we can go to the slide.

01:07:33

20 Gunderson 18.

21 BY MR. WADE:

22 Q. And we looked at this document with Mr. Gentle the  
23 other day.

24 MR. WADE: And can you blow up the front page

01:07:56

25 of that, Mr. Carlock?

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Direct-Gunderson/By Mr. Wade

1 BY MR. WADE:

2 Q. All right. And this is the DigiFIN Market Analysis  
3 2010 Sales Plan and Strategy from ION dated January 15,  
4 2010?

01:08:15

5 A. Yes.

6 Q. And were you here for Mr. Gentle's testimony about  
7 that document?

8 A. I was.

9 Q. All right. And let's look at -- I think it's Page 3.

01:08:27

10 All right. And you recall that, according to ION's market  
11 intelligence at the time, they assessed that as of January  
12 15, 2010, that the Nautilus system had achieved a  
13 15 percent market share?

14 A. Yes.

01:08:41

15 Q. Okay.

16 A. And, again, I want to be clear so the jury can  
17 understand, when they say a 15 percent market share, I  
18 think from ION's standpoint they're talking about  
19 equipment. They're not talking necessarily about surveys,  
20 but they are certainly interrelated.

01:08:55

21 Q. All right. I notice that Kongsberg's eBIRD is not on  
22 this list as of January 2010?

23 A. It's not.

24 Q. Where was Kongsberg's eBIRD in the process at this  
25 point?

01:09:07

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Direct-Gunderson/By Mr. Wade

1 an acoustic system that integrated with our chosen  
2 streamer technology, but it also provides a step  
3 forwards" -- "step towards fulfilling our strategy of  
4 being able to offer integrated lateral streamer steering."

01:13:27

5 How did that factor into your analysis?

6 **A.** Well, to me, it's saying, "Hey, they're close, and  
7 they're about ready to offer this steering to the  
8 marketplace." This was in 2008.

01:13:39

9 MR. WADE: Okay. Let's go back to

10 Gunderson 20.

11 BY MR. WADE:

12 **Q.** And so, we have that press release represented was  
13 October '08?

14 **A.** Yes.

01:13:47

15 **Q.** All right. What's the next date critical piece of  
16 information, April 9th -- April 2009, Nautilus is now in  
17 commercial release, and you cited PTX 101.

18 MR. WADE: Can you pull that up, please?

19 BY MR. WADE:

01:14:06

20 **Q.** What is PTX 101.

21 **A.** Well, it's a magazine. It says E&P on it, and it's a  
22 document that shows, you know, they're in commercial  
23 release.

24 **Q.** And date is right here.

01:14:20

25 MR. WADE: Can we pull that up, Mr. Carlock?

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Direct-Gunderson/By Mr. Wade

1 Back out. Can we have the first paragraph blown up,  
2 please?

3 BY MR. WADE:

01:14:42

4 Q. All right. Right in the first paragraph, what do you  
5 find in the third sentence?

6 A. "Nautilus, Sercel's newest positioning tool for all  
7 aspects of streamer control, is now in commercial  
8 release."

01:15:09

9 Q. Okay. All right. And then the next piece of that  
10 informs your opinion on when these were available. It's  
11 November 9 -- November 2009, Sercel sale of Nautilus, GOA  
12 Voyager. And let's turn to Demonstrative 64. And this is  
13 the same GOA Voyager that was referenced in the 2008 press  
14 release?

01:15:32

15 A. Yes.

16 Q. And, Mr. Carlock, if we could have first section  
17 here, blown up. Where is the source of this press  
18 release, Mr. Gunderson?

19 A. It's from Sercel, from CGG Veritas.

01:15:49

20 Q. What's the relationship between CGG Veritas and  
21 Sercel?

22 A. CGG Veritas is the parent company to Sercel. So CGG  
23 provides surveys and they also have this equipment company  
24 that is somewhat akin to ION that makes equipment.

01:16:02

25 Q. All right. And we see it's from November 10, 2009?

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Direct-Gunderson/By Mr. Wade

1 **A.** Yes.

2 **Q.** And it's announcing it's audited or it's non audited  
3 third quarter, result down here. It mentions long-term  
4 marine contract were ordered by PeMex. Have we heard  
01:16:29 5 about a PeMex job before in this case?

6 **A.** Yes.

7 **Q.** And what do we know about that job?

8 **A.** That was a job that was done by Nautilus, which is  
9 this alternative steering system that I've been talking  
01:16:38 10 about -- that we were talking about.

11 **Q.** Let's look at Page 2 of this press release. Right  
12 here there's a section called Sercel. And it says,  
13 "Revenue is down, and record third quarter last year with  
14 an increased contribution from marine with sales of two C  
01:17:04 15 rate OBC System's."

16 THE COURT: Slowly.

17 BY MR. WADE:

18 **Q.** "One Nautilus acoustic and streamer control.  
19 Internal sales represent 21 percent of revenue." How do  
01:17:18 20 you relate this press release from CGGV in April '09 to  
21 the earlier press release about the GOA in October of '08?

22 **A.** Well, the October '08, they talk about this Voyager  
23 that is, you know, being equipped with Nautilus.

24 And though it doesn't talk about what ship  
01:17:35 25 it is, I mean, there appears to me there could be a

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1 relationship there.

2 **Q.** That the Voyager had the Nautilus system on it as  
3 early as November 2009?

4 **A.** Potentially.

01:17:46

5 **Q.** Okay. But we do know the Nautilus -- has sold one  
6 Nautilus streamer control as of this date?

7 **A.** Right.

8 **Q.** Okay. Let's go to the next event. So you put a bar  
9 on the chronology. Why do you put that there?

01:18:10

10 **A.** Well, even though technically we could have put that  
11 bar in April of '09, but here is as public document. And  
12 the public documents says, hey it's commercial.

13 And so, I put a bar, saying the Nautilus  
14 is now available. It's commercial. It's available in the  
15 marketplace. It's ready to do lateral steering jobs.

01:18:27

16 **Q.** All right. Let's look at the next event in your  
17 chronology. I believe we have -- let's go to the next  
18 one. We've already looked at PTX 244. That's the ION  
19 marketing analysis that we discussed with Mr. Gentle?

01:18:48

20 **A.** That's correct.

21 **Q.** Which shows as of January 2010, the Nautilus had a  
22 15 percent market share?

23 **A.** So ION's perspective at that point, that was the pie  
24 chart we saw a few charts back, that they had a 15 percent  
25 market share at the time.

01:19:03

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Direct-Gunderson/By Mr. Wade

1 Q. Okay. And then you also have down here another  
2 January event CGGG, CGGV, Alize job, PeMex. Let's go to  
3 Gunderson Demonstrative 65. And where is this press  
4 release from?

01:19:26

5 A. CGG Veritas.

6 Q. And the date?

7 A. January of 2010.

01:19:41

8 Q. Okay. And let's look at the first -- Mr. Carlock, if  
9 we could blow up the first three paragraphs. The first  
10 sentence reads, "CGG Veritas, announced today the  
11 successful deployment of its Nautilus acoustic positioning  
12 and streamer steering system on the Alize, one of the  
13 Italian vessels. It has dramatically increased  
14 productions levels on the first project of the Mega 3D  
15 seismic program currently being acquired for PeMex in the  
16 Gulf of Mexico."

01:20:01

17 What does this tell you about the Nautilus  
18 system in the market?

01:20:10

19 A. It's clearly -- they say it's commercially available  
20 and now it's doing work.

21 Q. Okay. All right. Let's look forward and see if we  
22 can find out about the Kongsberg system. Let's look at  
23 the next event of chronology, Mr. Carlock.

01:20:34

24 October 2010, PGS employment of eBIRD.  
25 Let's go to Gunderson Demonstrative 72. And if we could

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Direct-Gunderson/By Mr. Wade

1 Mr. Carlock, Gunderson 19. All right. And so, we see a  
2 is BP job was done with the ram form sterling, the  
3 Exxon-Mobile job was done with the ram form van guard,  
4 Statoil job performed with the ran form van guard, second  
5 Statoil job performed with the ram form van guard and then  
6 the last job PGS Total with the ram form sterling; right?

01:22:34

7 **A.** Yes.

8 **Q.** Okay. All right. Let's go back to 28 again, please,  
9 Mr. Carlock. What was PGS's relationship with Kongsberg  
10 on the roll out of eBIRD?

01:22:59

11 **A.** I think they were -- I think partnering is a strong  
12 word, but they were the first company that was going to  
13 roll out the eBIRD.

14 **Q.** Okay. And so was eBIRD available as of October 2010?

01:23:13

15 **A.** Yes, according to that press release it is.

16 **Q.** All right. And you've shown the bar here on the  
17 chronology. Let's skip forward to the next event of  
18 chronology, Mr. Carlock.

19 You have in March 2011, Dolphin selects  
20 Nautilus. And we have a press release Gunderson

01:23:26

21 Demonstrative 71. If you'd go to that. Right here. This  
22 is from Sercel?

23 **A.** Yes.

24 **Q.** March 2011. How is this March 2011 press release  
25 from Sercel formed your view of these products being

01:23:49

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Direct-Gunderson/By Mr. Wade

1 available in the market?

2 **A.** Well, before we were talking internal sales, remember  
3 CGG Veritas is the parent company of Sercel and it's  
4 selling internally. This is the first external sale that  
5 I'm aware of for the Nautilus system and it was, in fact,  
6 sold to Dolphin Geo.

7 **Q.** Look at some of the details. The title is Dolphin  
8 GeoPhysical selects Sercel Nautilus and Sentinel, "Sercel  
9 has been awarded a contract by Dolphin Geophysical for the  
10 purchase of Nautilus and Sentinel systems to equip its  
11 first high capacity 3D seismic vessel, Polar Duke." And  
12 it has, "A three in one Nautilus device offers acoustic  
13 positioning, depth control, and automatic steering in a  
14 single unit."

15 **A.** So that shows the vertical and lateral control its  
16 both in the same device as I talked about before.

17 **Q.** All right. And then finally on the top part of the  
18 draft, let's go back to the chronology, Mr. Carlock. Next  
19 event. "October 2011, Nautilus deployed on six to eight  
20 CGGV vessels and one Dolphin vessel as of this date. And  
21 did that come from the testimony of Mr. Gentle?

22 **A.** Yes. So I guess the point is, as with a lot of  
23 things, it takes awhile to roll these things out, but  
24 during the time, from the time they were first in the  
25 marketplace until, you know, late 2011, they're rolling

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Direct-Gunderson/By Mr. Wade

1 these out on different ships.

2 And so, clearly available, clearly  
3 available during the time period and clearly available to  
4 potentially to do the same surveys that are being claimed  
01:25:37 5 as lost by WesternGeco.

6 Q. Okay. Let's look at how the 10 jobs on Gunderson 19  
7 fall in the chronology you've created. Let's put the  
8 first job up. Right there, the earliest job in the 10  
9 that WesternGeco's claims were lost is in October of 2009  
01:25:59 10 job that Conoco Phillips awarded to CGGV?

11 A. Yes.

12 Q. Does it fall between the period you believe an  
13 alternative lateral steering system was available?

14 A. Just barely. It's at least debatable.

01:26:15 15 Q. Now one of the issues in this case is WesternGeco's  
16 allegation that these jobs were lost because the surveys  
17 were performed with DigiFIN?

18 A. Correct.

19 Q. Do you have any opinions on whether or not the CGGV  
01:26:29 20 vessel was using DigiFIN or Nautilus?

21 A. Well, I don't know that I know anything for certain,  
22 but the one thing we did know is from October 2008,  
23 there's a press release that says that there was Nautilus  
24 put on the very vessel that performed that survey.

01:26:46 25 Q. The GOA?

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Direct-Gunderson/By Mr. Wade

1 in the Gulf of Mexico; right?

2 **A.** That's right.

3 **Q.** All right. And then we have the Petronas job in  
4 October 2010. At this time, how many systems are  
5 available in the marketplace to provide lateral steering  
6 as an alternative to the Q system?

01:28:11

7 **A.** Well, clearly the Nautilus was there, and eBIRD  
8 again, was just on the cusp of being available at that  
9 time.

01:28:25

10 **Q.** All right. Let's look at the remaining jobs. Go  
11 ahead and get them all out, Mr. Carlock. Okay. The  
12 remaining seven jobs that are on WesternGeco's list all  
13 took place in 2011; correct?

14 **A.** Yes.

01:28:40

15 **Q.** And these all took place well after Nautilus was  
16 available?

17 **A.** Yes.

18 **Q.** And after eBIRD was available?

19 **A.** Yes.

01:28:48

20 **Q.** Okay. Given your view of the publicly available  
21 documents, the press releases that we've looked at, and  
22 the evidence in this case, is there any doubt that there  
23 were alternative lateral steering systems available to the  
24 oil companies that awarded these jobs?

01:29:09

25 **A.** I believe there were, and just to put it in context

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Direct-Gunderson/By Mr. Wade

1 Q. All right. And the first note you picked up is a  
2 quote that we find in PTX right here. PTX?

3 A. Yes.

4 Q. PTX 544, that's part of the CRM database?

01:32:10

5 A. Yes.

6 Q. And we have the pinpoint cite to WG00949754, Row 58?

7 A. Yes.

8 Q. All right. And the quote is, "Client intended to  
9 award us, but we had no vessel availability." And the

01:32:28

10 customer here is Petronas; right?

11 A. Yes.

12 Q. And is Petronas one of the jobs on the 10?

13 A. Yes.

14 Q. WesternGeco is claiming it lost?

01:32:37

15 A. Yes.

16 Q. All right. How does this comment affect your  
17 analysis?

18 A. Well, it seems -- at the very least to me it seems a  
19 little bit disingenuous of Mr. Sims to say all right,

01:32:49

20 we -- WesternGeco would have built the capacity, they  
21 would have built the capacity, had the DigiFIN not been in  
22 the market, when in actuality, they were turning away  
23 work, because they didn't have vessel availability. And  
24 they, you know, didn't build the capacity to make that

01:33:08

25 sale. And I've got several other examples that follow.

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Direct-Gunderson/By Mr. Wade

1 Q. Okay. If we look at -- we have a quote for Statoil.  
2 I believe Statoil represents three of the 10 jobs that are  
3 on the list that they claim are lost; right?

4 A. Correct.

01:33:23

5 Q. And from PTX 545, pinpoint page WG00949757, at row 23  
6 what's the quote?

7 A. It says, WG, meaning WesternGeco obviously, "Not  
8 issued invitation to tender." I think in the document it  
9 actually says ITT, but that's shorthand for invitation to  
10 tender. "WG not issued invitation to tender, due to  
11 WesternGeco stating no availability."

01:33:48

12 So, again, as an example of -- in the real  
13 world, we're not talking about this but for imaginary  
14 world where we have to go back, but in the real world they  
15 had the chance to -- they weren't even -- didn't have a  
16 chance. They weren't issued an invitation to tender  
17 because they had apparently said at this time we don't  
18 have a vessel to do that.

01:34:07

19 Q. In all three of the Statoil jobs, that are reflected  
20 on Gunderson 19, the 10 at issue, they are in the Norway  
21 region; right?

01:34:20

22 A. Yes.

23 Q. All right. And you have a third quote here, for  
24 Reliance. There are no jobs for Reliance on the list of  
25 10, are there?

01:34:34

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Direct-Gunderson/By Mr. Wade

1 **A.** No.

2 **Q.** But you have a quote, "LLA given to WesternGeco, but  
3 due to no availability turned down and then awarded to  
4 CGGV using Nautilus." Why did you include this in your  
5 slide?

01:34:49

6 **A.** It I think it again shows that -- shows a couple of  
7 things. There's no availability, so it shows a capacity  
8 issue and it also shows that it was absolutely awarded to  
9 CGGV using one of these other devices that we've been  
10 talking about.

01:35:03

11 **Q.** So WesternGeco didn't have vessels available to do  
12 some of the jobs reflected on Gunderson 22. Do you see  
13 any evidence that they were trying to meet that demand  
14 with increased vessel activity?

01:35:17

15 **A.** I didn't. And that's -- again, that's the part that  
16 I think is a little bit inconsistent in that Mr. Sims says  
17 oh, they would have just added capacity and he kind of  
18 glosses over this. But he doesn't really think about  
19 okay -- as I said before, we have the chance here because  
20 of the -- because of the limited number of purchase  
21 decisions here.

01:35:35

22 We're only talking about 10. We had the  
23 chance to do a little bit more investigation about each of  
24 them. And I think he just ignored it, or I don't know  
25 what he did. But he assumed they're just going to just

01:35:48

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Direct-Gunderson/By Mr. Wade

1 somehow build them.

2 **Q.** Okay. Let's look at some of the testimony from  
3 WesternGeco folks about this. And we have a slide from  
4 Gunderson 23. "WesternGeco did not have a Q-Marine vessel  
01:36:06 5 available." And you've put on Gunderson 23, a quote from  
6 Julie Marshall Branston, whom I believe we saw testimony  
7 from earlier, from her deposition. What is Ms. Branston  
8 explaining to us in her deposition testimony that you  
9 clipped here?

01:36:23 10 **A.** She's specifically talking about the Conoco-Phillips  
11 job. And you probably don't remember my timeline, but  
12 that was the first job on the timeline. That was that  
13 October 2009 job. And she's talking about this job and  
14 maybe -- do you want to read it -- do you want me to read  
01:36:37 15 it?

16 **Q.** I'll go ahead and read it. "Can you think of, during  
17 your entire tenure at WesternGeco, a particular service  
18 tender or opportunity where lateral steering was required  
19 that you didn't have a Q boat available?"

01:36:48 20 "ANSWER: Yes. Yes, I think so.

21 "QUESTION: Give me that instance.

22 "ANSWER: I remember in Asia we were  
23 bidding on a -- a survey in -- well, I remember we bid on  
24 a survey for Conoco-Phillips in Australia, called the  
01:37:03 25 Poseidon survey. In that survey the tender document

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1 specifically asked for lateral steering, and I can't -- I  
2 can't remember, but -- I know it specifically asked for  
3 lateral steering, but I can't remember now whether we bid  
4 it with a conventional or Q. I think we bid it with  
5 conventional."

01:37:18

6 How is this factored into your analysis  
7 about WesternGeco's Q-Marine vessel production?

8 **A.** Well, it's very consistent. So this particular one  
9 didn't have this comment in the -- in the CRM database  
10 that we're talking about. But it's specific testimony  
11 talking about availability of Q to do the survey.

01:37:33

12 **Q.** Did you see any analysis from Mr. Sims that addresses  
13 the Conoco job?

14 **A.** I did not.

01:37:56

15 **Q.** All right. And I also have an issue about fleet  
16 utilization. And let's look at some testimony from Robin  
17 Walker that you've selected, Gunderson 24. "Q-Marine  
18 fleet was fully utilized." What do you mean by that?

19 **A.** Well, his testimony was that it was -- they were kind  
20 of going all out with the Q vessels that they had. And  
21 so, it's worth reading now.

01:38:15

22 Now, there is a little bit of availability  
23 potentially. But I think it's close enough to say that  
24 they were, for the most part.

25 **Q.** Let's look what he said. This is in September

01:38:29

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1 of 2011, at his deposition. "What is the utilization of  
2 WesternGeco's Q equipped boats year to date, 2011?"

3 "ANSWER: Year to date, I think it's  
4 answered 88 percent, year to date.

01:38:45

5 "QUESTION: How was it in 2010.

6 "ANSWER: I think in 2010, it was around  
7 90 percent.

8 "QUESTION: 2007?

01:38:55

9 "ANSWER: 2007, it was -- the most you can  
10 achieve is -- is around 92, 93 percent. And we were  
11 working flat out, so probably it was that."

12 Have you looked into why 92 or 93 percent is  
13 working flat out as Mr. Walker describes?

01:39:14

14 **A.** Well, I think they have to dock the boat to fix it,  
15 they also have to move from job to job, so there is some  
16 natural lack of usage during that time period.

17 **Q.** Have you heard the terms mobilization and  
18 demobilization?

19 **A.** Yes.

01:39:27

20 **Q.** What is that?

21 **A.** Mobilization is getting your equipment out to the  
22 job, and demobilization is bringing your equipment back.

01:39:41

23 **Q.** These vessels aren't working every day during the  
24 water, they're sometimes between jobs that they have to  
25 account for?

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1 **A.** Correct.

2 **Q.** All right. And so, according to Mr. Walker, 92,  
3 93 percent was working flat out?

4 **A.** Yes.

01:39:50

5 **Q.** Okay. Go back to the slide real quick, Mr. Carlock.  
6 Did you see any analysis from Mr. Sims about Mr. Walker's  
7 testimony that his fleet was working at or right at  
8 capacity during the time in question?

01:40:14

9 **A.** Well, the way he addressed it, he simply said we  
10 would have simply added more capacity. So, you know, it's  
11 basically a simplifying assumption, but it is a little bit  
12 inconsistent, again with the fact that they were turning  
13 away jobs in the real world. And so, he's saying, well,  
14 if you believe his logic, the logic would be, well even  
15 though we were turning away jobs in the real world, if  
16 DigiFIN were not out there, then we would have really  
17 built the ships, instead of building them when you're  
18 losing jobs anyway, essentially.

01:40:34

19 **Q.** Let's look at another piece of testimony from  
20 Mr. Walker, Gunderson 25, please.

01:40:48

21 All right. Here, question, this is from  
22 Mr. Walker September 2011 deposition.

23 "QUESTION: What was the impact of the  
24 recession in the fourth quarter of 2008 on the capacity of  
25 WesternGeco's Q equipped -- Q equipped vessels?

01:41:03

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1 **A.** I believe so, as I recall.

2 MR. WADE: Let's look at Slide 26.

3 BY MR. WADE:

4 **Q.** And this is a world map with major areas of offshore  
5 activity.

02:07:56

6 What do you intend to use this for with  
7 the jury?

8 **A.** Well, one of the things that we have to keep in mind  
9 when we're talking about vessel availability is just how

02:08:05

10 big the world is. It takes a long time to get from one  
11 place to another when you're in a vessel. And just  
12 because a vessel might be available, let's say, in the  
13 North Sea doesn't necessarily mean that it's going to be  
14 available in Asia Pacific, for example. And so, that's  
15 something that's not been accounted for. It's just kind  
16 of a general, you know, we're going to build and it's  
17 going to be available. But there's really several  
18 different regions where these surveys they're claiming  
19 that are lost were done, and it's not been accounted for.

02:08:24

20 **Q.** So the fleet might be disbursed in different regions  
21 of the world?

02:08:41

22 **A.** Right. It's, you know, like the Navy has the Pacific  
23 fleet and Atlantic fleet because it's pretty tough to get,  
24 you know, vessels from one ocean to another. It takes a  
25 long time. It's expensive. There are lots of issues. So

02:08:56

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1 you have to have different -- you have to have  
2 availability in all the various regions.

3 **Q.** And you've identified on Gunderson 26 some of the  
4 major regions of offshore activity?

02:09:10

5 **A.** Yes.

6 **Q.** Okay. So for instance, a job in the Arctic, a vessel  
7 there, while it might have some availability, isn't likely  
8 to be available immediately for a job off the coast of  
9 Africa?

02:09:24

10 **A.** Right, or the North Sea.

11 **Q.** Okay. All right. Let's look at some of the  
12 testimony from WesternGeco's folks about moving Q-Marine  
13 vessels from one region to another.

02:09:38

14 On Gunderson 27, we see some deposition  
15 testimony from Julie Marshall Branston, from February of  
16 this year. She's the WesternGeco sales account manager.

17 She testified: "Did you bid it  
18 conventional, to best of your recollection, because no  
19 Q-equipped vessel was available?"

02:10:04

20 "ANSWER: I think the Q vessel that we had  
21 in the region could only tow eight streamers, and this was  
22 a huge project that required more -- more streamers, 10 or  
23 12 streamers.

02:10:15

24 "QUESTION: And were they not available to  
25 you because they were busy on other lateral steering

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1 required projects?

2 "ANSWER: They were not available to us  
3 because they were not available to us and the reasons for  
4 that are not necessarily always made clear.

02:10:27

5 "QUESTION: Okay. And one of those  
6 reasons why a boat or vessel equipped with Q might not be  
7 available is because it's in a different reason" --  
8 I think it's a typo "region and they don't want to shift a  
9 resource from one to another; correct?

02:10:44

10 "ANSWER: It's -- when they're deciding  
11 which vessel to bid, they try not for move vessels from  
12 one region to another."

02:11:04

13 How did Mr. Sims address the issue of moving  
14 vessels from one region to another as part of his vessel  
15 capacity analysis?

02:11:18

16 **A.** He didn't address it, so he never said which specific  
17 vessel would have been used on which specific job. He  
18 just made this general statement, Hey, they would have had  
19 vessel availability. And I think this is a fairly big  
20 issue.

02:11:32

21 One other thing I might point out is the  
22 first answer there: "This was a huge project that  
23 required more streamers, 10 or 12 streamers." And that's  
24 another issue. He assumed some of these older vessels  
25 that were eight-streamer vessels could have done the --

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1 some of these projects, which were also big projects and  
2 may have required more streamers.

3 So, again, a little bit of an  
4 inconsistency, I would say, and reason to believe that,  
02:11:45 5 yeah, they may not have been able to actually make those  
6 sales that they're claiming that they would have made.

7 **Q.** So if we go back to Gunderson 19, this is the slide  
8 that shows all the jobs, there's been no analysis by  
9 Mr. Sims to link a WesternGeco vessel specifically to  
02:12:04 10 being available for any of these particular jobs?

11 **A.** That's correct.

12 **Q.** And there's been no analysis by Mr. Sims as to how  
13 vessels may have been moved or were not available to be  
14 moved from one region to another to make these jobs  
02:12:17 15 happen?

16 **A.** Right. So there's multiple regions, you know, four,  
17 five -- I think I've seen some testimony of four or five  
18 regions potentially, and they don't want to move them  
19 between regions, and they have to have vessel availability  
02:12:30 20 in each of those regions.

21 So, again, I think it's a -- just another  
22 thing that says, Well, you know, the requisite analysis  
23 was not done, and it's -- you know, it's a big issue and  
24 it hasn't been addressed.

02:12:42 25 **Q.** All right. Let's look at additional testimony from

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Direct-Gunderson/By Mr. Wade

1 Ms. Julie Marshall Branston.

2 MR. WADE: Going to Gunderson 28.

3 BY MR. WADE:

4 Q. And this occurred a little later on in her  
5 deposition.

02:12:56

6 And the question presented is "So, there  
7 might have been a Q equipped vessel with the appropriate  
8 streamer count to bid on the Poseidon project, but there  
9 just might have been another circumstances at play that  
10 you just don't know about?

02:13:10

11 "ANSWER: There could -- yeah, there could  
12 be other reasons why those boats weren't available to us.  
13 That's not the only instance. I can't say whether that is  
14 the only instance. I haven't said that's the only  
15 instance. I've said that's an instance that I have been  
16 involved with --

02:13:24

17 "QUESTION: Can you think of any other?

18 "ANSWER: There may be other instances.

19 "QUESTION: That's fair, but you can't  
20 think of any others that you know about or heard of.

02:13:35

21 "ANSWER: There may be others, but I don't  
22 know the details of all these jobs."

23 What is the Poseidon job again? We've  
24 talked about that several times.

02:13:46

25 A. Yeah. I think that's the ConocoPhillips job. It's

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Direct-Gunderson/By Mr. Wade

1 that October 2009 job.

2 **Q.** And this is the earliest job on the list that  
3 WesternGeco claims were lost?

4 **A.** Right.

02:13:55 5 **Q.** All right. Did Mr. Sims address at all vessel  
6 availability with respect to this Poseidon job in October  
7 of '09?

8 **A.** He didn't. He just assumed they would have somehow  
9 been able to outfit the ships and do the job.

02:14:11 10 **Q.** Given your assessment of the testimony from  
11 WesternGeco in this case and other evidence reviewed, did  
12 WesternGeco have Q-Marine vessel capacity to meet the  
13 demand they claimed?

14 **A.** Well, it's fairly clear they didn't have that -- that  
02:14:28 15 capacity. Mr. Walker testified they did not have the  
16 capacity.

17 **Q.** Because they're refusing work or not getting work?

18 **A.** They're refusing work, they didn't have the capacity.  
19 They had not added to that capacity when they were  
02:14:39 20 refusing work in the real world and he is just somehow  
21 assumed that they were going to add these vessels and be  
22 able to do those jobs. And I just -- I just think it's a  
23 stretch and probably not supported by the evidence, is the  
24 way I would say it.

02:14:55 25 **Q.** All right. Let's look at Panduit factor 4, profit.

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1 Mr. Gunderson, what are we focussing on when we look at  
2 Panduit factor 4?

3 **A.** Well, at the end of the day, the plaintiff has to  
4 show they would have made a certain amount of profit and  
5 they had to show that to a reasonable certainty. And, you  
6 know, there's lots of different ways of using this. You  
7 know, I've used it this time to -- it's a little bit of a  
8 catchall in a way, for this but for analysis, just

9 because -- just to reconfirm with the jury, the Panduit  
10 analysis looking at these factors is just a way of trying  
11 to determine but for the infringement would they have made  
12 the sale. That's really the question. And there's -- and  
13 you have to look at all the reasons. Panduit gives us  
14 some reasons, but it's not necessarily all inclusive and  
15 you have to look at the case fact and say and put your  
16 thinking cap on and say, does that make sense they would  
17 have made a certain sale or are there circumstances that  
18 indicate they may not have made that sale. So we'll go  
19 through a few other things here as well.

20 **Q.** Let's talk about some things. What is bid history?

21 **A.** So the bid history is?

22 **Q.** Let's you go through a list. What is bid history?  
23 Go ahead.

24 **A.** So this is the 10 jobs that are claiming are lost.

25 So on Gunderson 30, these are the 10 jobs. And so, I've

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1 made some comments about the bid history for each one of  
2 those jobs.

3 So the question I had was well, they're  
4 claiming that they lost these jobs, did they even get to  
02:16:29 5 the table? Did they bid on particular projects? And this  
6 is kind of going to help, you know, show my conclusions on  
7 that.

8 **Q.** So the first job you had, the October '09 job for  
9 Conoco Phillips in Australia, you have tender documents  
02:16:45 10 available for one job. What are tender documents?

11 **A.** The bid.

12 **Q.** Okay. So for one of the 10 you actually had bid  
13 documents?

14 **A.** Yeah. In discovery they were able to provide --  
02:16:56 15 remember all that big database I was able to find -- a bid  
16 history for one of those jobs.

17 **Q.** Okay. And then for three of the jobs Total, Angola,  
18 June 2011, Total, Nigeria October 2011, and BP Australia  
19 November 2011, you reflect that bid reference numbers for  
02:17:19 20 these three jobs. Where did you see bid reference  
21 numbers?

22 **A.** So going back to the CRM database, this database the  
23 salespeople put together, they actually have a column that  
24 says bid reference and I was able to see that they  
02:17:33 25 indicated that there was a reference number, which to me

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1 indicates that maybe at some point they may have had a  
2 bid, I don't know exactly what it means. I was hoping  
3 once they had that to be able to find the actual bids, but  
4 I wasn't able to find those bids.

02:17:46

5 **Q.** So other than a reference number in the CRM database,  
6 is there any other documentation regarding WesternGeco's  
7 connection to these jobs?

8 **A.** No.

02:18:04

9 **Q.** Did Mr. Sims address the lack of documentation for  
10 these three jobs in his analysis?

11 **A.** No. I might note he was very specific in his  
12 redirect. He did say they bid on all the jobs. I wrote  
13 it down verbatim. I wrote it down Verbatim. He said they  
14 bid on all the jobs and I'm just saying I didn't see it.

02:18:23

15 I didn't see the documentation that supports that  
16 assertion.

02:18:43

17 **Q.** All right. And then the last six jobs, Exxon,  
18 Angola, January 2010, Petronas, Malaysia, October 2010, BP  
19 Angola BP, March 2011, and the three Statoil jobs that all  
20 took place in Norway in June, July and August 2011, you  
21 say there are no documents for bid reference numbers for  
22 these six. What does that mean?

02:19:02

23 **A.** Well, what that means is I didn't find the bids, so  
24 the actual bid documents in the discovery, you know, of  
25 those millions of documents I looked at. And additionally

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1 I went to the CRM database, which is their kind of  
2 tracking of kind of what's going on. And I looked in to  
3 see if they had populated that with a bid reference number  
4 to indicate that they had bid sometime and it was just  
5 what they call a null, which it didn't have anything in  
6 it.

02:19:17

7 **Q.** I believe the CRM database has a little bit more  
8 detail about the Petronas job, right there, in  
9 October 2010. If we could and also the Statoil jobs is in  
10 2011. If we could look back, Mr. Carlock, for Gunderson  
11 22. And this is your summary of information from CRM?

02:19:37

12 **A.** Yes.

13 **Q.** Okay. And the Petronas job was in Malaysia?

14 **A.** Yes.

02:19:58

15 **Q.** And that's reflected on Gunderson 19?

16 **A.** Yes.

17 **Q.** And there's no bid reference for that job?

18 **A.** Well, there's no bid reference. Now, the implication  
19 here, in fairness, the implication says client intended to  
20 award us, but we had no vessel availability. The  
21 implication is there may have been a bid. All I'm saying  
22 is, I didn't see in the documents, I didn't see in the CRM  
23 database, but I saw some other kind of -- kind of an  
24 inference, I don't know. I just didn't see it. It wasn't  
25 in the call, it wasn't in the documents. But they didn't

02:20:10

02:20:25

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1 have availability for that particular job.

2 **Q.** That's all we know from CRM about that job as far as  
3 vessel availability?

4 **A.** That's all I saw.

02:20:36

5 **Q.** All right. And then we look down here to the  
6 Statoil, and these were the jobs that were done in the  
7 summer of 2011, no bid reference, no tender documents,  
8 what's the reference in the CRM?

02:20:52

9 **A.** Well, there's no bid reference and this one pretty  
10 clearly indicates they didn't bid because it says, WG not  
11 issued invitation to tender. So they didn't even receive  
12 the invitation to tender. It wasn't issued to them  
13 because we didn't have a job.

14 **Q.** Okay.

02:21:06

15 **A.** Or we don't have a ship. I misspoke.

16 **Q.** In your view, has Mr. Sims adequately addressed  
17 WesternGeco's bid history for the jobs they claim were  
18 lost?

02:21:19

19 **A.** I don't think so. I mean, he seems to indicate that  
20 they bid on every job, but I haven't seen any support for  
21 that. And maybe it was through conversations. I don't  
22 know, but I haven't seen it. I haven't seen it from  
23 documents.

02:21:32

24 **Q.** And the CRM data we have might indicate to the  
25 contrary?

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1 several assumptions. First of all, he gets this data from  
2 a questionable source in my opinion, the CRM database. It  
3 has an indication of that's what the job went out for, and  
4 he says, well, I'm not going to look at what WesternGeco  
5 actually bid that job at.

02:28:24

6 I'm just going to assume that they would  
7 have made the sale at the price that this CRM database  
8 indicates the -- WG thought they sold the project for --  
9 if that makes on sense.

02:28:37

10 **Q.** Okay. And let's skip forward. I think we have some  
11 testimony that WesternGeco admitted it lost jobs due to  
12 pricing. This is some testimony from Mr. Scoulios,  
13 WesternGeco's corporate representative. And I'm not going  
14 to read the whole thing but he writes, answers in the  
15 second Q and A, the Statoil work in the Arctic , what you  
16 have heard about why WesternGeco lost that job.

02:29:00

17 "ANSWER: I heard we lost that job on  
18 pricing.

19 "QUESTION: Any other reasons?

02:29:13

20 "ANSWER: No."

21 What does this inform you about the pricing  
22 issues at WesternGeco?

23 **A.** They have some pricing issues. I mean, they  
24 clearly -- again, not that there's anything wrong with  
25 that. You can price your products at whatever price you

02:29:25

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1 want to, but there are consequences to higher prices and  
2 one consequence is you're not going to get hired every  
3 time for all jobs. There are certain people that don't  
4 want to pay a high price, even if it has a gee whiz  
02:29:41 5 technology or whatever else. They want to take -- they  
6 want to pay less.

7 **Q.** So we have Arctic jobs up here for Statoil, Conoco  
8 Phillips job in Canada that was formally job lost based on  
9 pricing. Then we come down here to the bottom of his  
02:29:59 10 testimony. Okay. For the Gulf of Mexico job for BP, have  
11 you heard about why CGG got that instead of WesternGeco?

12 "ANSWER: We're told we were -- we lost  
13 that one based on price?

14 "QUESTION: Who told you that?

02:30:12 15 "ANSWER: We would have been told by  
16 multiple people."

17 So how was pricing a factor into WesternGeco  
18 getting survey jobs?

19 **A.** Pricing was a big factor.

02:30:21 20 **Q.** Okay. Let's look at one more example on pricing if  
21 we can go to Gunderson 35. We talk about WesternGeco  
22 admitted price is number one for Conoco Phillips. Again,  
23 the Conoco Phillips job on the 10 is the earliest job  
24 they're seeking lost profits?

02:30:40 25 **A.** That's the one that occurred in October of 2009.

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1 Q. And Robin Walker at his deposition in September 2011  
2 was asked.

3 "QUESTION: You feel like WesternGeco is  
4 pretty good at market saturation with Q-Marine?

02:30:57 5 "ANSWER: Yeah, we -- Conoco Phillips is  
6 one that's a little bit -- they're quite hesitant. It  
7 would be good to get a project from them.

8 "QUESTION: Why are they hesitant, to your  
9 knowledge?

02:31:09 10 "ANSWER: They -- it sounds very rude to  
11 say, but they're not as sophisticated as other customers,  
12 but they are.

13 "QUESTION: Not as sophisticated?

14 "ANSWER: They are -- they are -- there  
02:31:22 15 are 9 parameters. Starting from number one, which is  
16 price, goes down to 9, which is price and the one that's in  
17 between the price.

18 "QUESTION: Price, price, price, price  
19 price?

02:31:34 20 "ANSWER: Yeah. Value buyers, I think, is  
21 the polite expression."

22 Conoco Phillips is a pretty big company,  
23 aren't they?

24 A. Yes.

02:31:44 25 Q. And how have you included the comments from

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1 Mr. Walker in your opinions?

02:32:03

2 **A.** Well, I think it's a very good example of there are  
3 folks out there that don't want to pay -- they don't want  
4 to pay a premium for what they're doing. And it just  
5 shows this particular oil company that's a big deal, the  
6 pricing is a big deal.

7 In fact, I've actually -- this is the one  
8 that did have some bid documentation in it.

02:32:15

9 **Q.** And what the bid documents for this Conoco Phillips  
10 job teach us?

11 **A.** Well, I looked at the bid documents and I tried to  
12 estimate and this is something, by the way, Mr. Sims never  
13 did, and he would have had the benefit to talk to people  
14 at WesternGeco.

02:32:28

15 But I estimated using the base day rate  
16 that they had in the documents for a Q vessel, this bid  
17 document indicates there was a Q vessel. And they had a  
18 base day rate. And I multiplied the base day rate times  
19 the number of days on the project, and I also added in  
20 some mobilization, demobilization costs. And it turns out  
21 that that was a -- they bid it, according to that  
22 document, at \$38 million.

02:32:45

23 **Q.** How did that compare to the award costs reflected in  
24 CRM?

02:32:59

25 **A.** The CRM said that that job was at \$24.5 million job.

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1 So they bid it roughly at 58 percent more than what their  
2 CRM database says the job went out at. Again, that's  
3 somewhat of a suspect number, but that's the math.

02:33:19

4 **Q.** All right. Did Mr. Sims do anything to address the  
5 pricing issues we've discussed?

6 **A.** He did not.

7 **Q.** All right. And how did that affect smart behavior?

8 **A.** He did not.

02:33:30

9 **Q.** Let's look at another factor considered under Panduit  
10 factor 4. Talk about some of the streamer technology.

11 We've heard a lot about liquid streamers and solid  
12 streamers. And you have a slide, Gunderson 36, "oil  
13 companies did not like liquid filled streamers." Why not?

02:33:50

14 **A.** Well, it was filled with kerosene and kerosene is a  
15 petroleum product that is flammable. So it has some  
16 safety concerns. It's toxic so it has some health  
17 concerns. And it's a petroleum product so there's some  
18 environmental concerns. So there's a concept called HSE,  
19 and that's health, safety, environmental, and it's a tough  
20 product to use when you have HSE concerns.

02:34:12

21 **Q.** All right. We've got some testimony from Dalton  
22 Boutte, who is the former president of WesternGeco, and  
23 what did he say about the streamers?

24 **A.** He said they were filled with kerosene.

02:34:28

25 **Q.** Right here. "So when you say liquid filled,

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1 everybody knows that kind, that it meant kerosene filled?

2 "ANSWER: Yes, sir.

3 "QUESTION: For the most part, and those  
4 were the largely HSE concerns?

02:34:43

5 "ANSWER: That from the customers, yes."

6 Have you ever used kerosene before?

7 **A.** When I go camping I do.

02:35:03

8 **Q.** Good. All right. Let's look a little bit more at  
9 the streamer issue, if we can go to Gunderson 37. And  
10 we're back to Mr. Walker again, September in 2011. He's  
11 the vice-president of sales and marketing. And he was  
12 asked, prior to Q-Marine solid and that's their solid  
13 streamer technology?

14 **A.** Yes?

02:35:17

15 **Q.** Was it the case that the WesternGeco was  
16 manufacturing and utilizing fluid filled streamers?

17 "ANSWER: Yes.

18 "QUESTION: Was the fluid typically  
19 kerosene?

02:35:28

20 "ANSWER: Yes.

21 "QUESTION: Explain to us, if you would,  
22 the rationale for moving towards solid streamers from a  
23 fluid-filled streamer.

24 "ANSWER: Expressed customer preference."

02:35:41

25 Did Mr. Sims do anything to address the

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1 kerosene filled streamers as discussed by Mr. Boutte and  
2 Mr. Walker?

3 **A.** He did not. And again, here's the point, for certain  
4 customers that may be as much of a driving force as  
02:36:02 5 lateral steering if they have HSE concerns, if they have  
6 health, safety and environmental concerns. And at some  
7 point and I think we're going to see a slide here in a  
8 minute, at some point customers started showing that as  
9 either required or a preference just like they did with  
02:36:17 10 the lateral control, and that was not accounted for.

11 **Q.** All right. Let's look at Gunderson 38. Look at some  
12 of those examples you just mentioned.

13 And this is a collage of comments from  
14 Exhibit DX 469, PTX 733, DX 461, DX 462 and FD 239.

02:36:45 15 The first one, which is from DX 461, and you  
16 have comment from Shell in 2008, "preference will be given  
17 to solid streamer." Shell isn't one of the oil companies  
18 listed on WesternGeco's list, but why have you included  
19 this?

02:37:02 20 **A.** It just shows the industry trend, especially for some  
21 of the bigger well-known. My sense is the bigger  
22 well-known companies did not want to have -- you know,  
23 these HSE problems. And that's one of the ones that they  
24 preferred to have these solid streamers.

02:37:18 25 **Q.** All right. We know Exxon is on the list of the 10?

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1 **A.** Correct.

2 **Q.** And we know 9, they've expressed a preference for  
3 solid streamers?

4 **A.** Yes.

02:37:29

5 **Q.** And BP is on the list. They have two jobs on the  
6 list?

7 **A.** Yes.

8 **Q.** And I believe this is from DX 461, solid cables would  
9 be preferred?

02:37:37

10 **A.** Yes.

11 **Q.** All right. And the -- finally the one from Petronas  
12 from DX 462 only accept full solid streamer system. And  
13 that's 2010.

02:37:57

14 At some point, did WesternGeco address its  
15 liquid filled streamers?

16 **A.** Yes, I think Mr. Walker referred to that. I don't  
17 know if you caught it, but in his deposition testimony he  
18 talked about it. There was a -- there was a move toward  
19 what's called Q solid. I think they went, their first Q  
20 solid vessel was put out in, I want to say April of 2010.

02:38:12

21 And they started rolling that out to various vessels, kind  
22 of right on top of this time period we're talking about in  
23 terms of when they're claiming that they lost a sale.

24 But I would presume that those vessels

02:38:30

25 were being used on certain jobs and that doesn't alleviate

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1 the capacity issue in the fact that they can't roll --  
2 because of the size of the world, and where they have  
3 different ships and different places, it certainly doesn't  
4 mean that they necessarily would have solid streamers  
5 available for every job.

02:38:47

6                   Again, it's another issue that I think is  
7 not addressed that would potentially sway, you know, some  
8 of these 10 different surveys that say, you know, is it  
9 likely they made those?

02:39:02

10                   Well, it's another reason why maybe not.  
11 There might be reasons why they wouldn't have made those  
12 because I have looked at those surveys and those surveys  
13 were done with solid streamer vessels.

02:39:18

14 **Q.** After April of 2010, when you mentioned that they  
15 started to address the streamer problem, how long did it  
16 take them to roll that out to the fleet?

02:39:33

17 **A.** I'm not exactly sure whether it's even completely  
18 rolled out now. I think it might be close to being  
19 finished, it might have been finished fairly recently, but  
20 it was through 2010 and through 2011, when they were  
21 reequipping these with the solid streamers. And we have  
22 to remember the streamer, that's the most expensive part  
23 of the system. The streamers are very expensive, and so  
24 it's not something that they take lightly, and it's not  
25 something that you can just do overnight. You have to

02:39:49

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1 order them, you have to get the equipment, and you have  
2 to, you know, put them on their boat. So it doesn't  
3 happen -- you can't just snap your fingers and have all  
4 solid streamers.

02:40:01

5 **Q.** Mr. Carlock, if we could go back to Gunderson 20.  
6 Show the whole array, please. This is our timeline with  
7 all our jobs, and we've got two jobs prior to April  
8 of 2010; right?

9 **A.** Yes.

02:41:03

10 **Q.** Prior to April 2010, WesternGeco was using liquid  
11 filled streamers, kerosene streamers?

12 **A.** In all our Q vessels as I understand it, yes.

13 **Q.** All right. And then they start to roll out solid  
14 streamer in April 2010?

02:41:18

15 **A.** Yes.

16 **Q.** And is there any evidence to show us what solid  
17 streamer vessels were available for the remaining jobs for  
18 the remaining time period?

02:41:31

19 **A.** I don't recall if there is. I haven't seen -- I seem  
20 to recall in the back of my mind that they did roll those  
21 out over a time period, and by the end of 2011, I wouldn't  
22 be surprised if most of their boats had it, but it took  
23 awhile to get the solid streamers rolled out is my  
24 recollection.

02:41:44

25 **Q.** Okay. In your view, has Mr. Sims addressed the issue

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1 of liquid filled streamers and how that might impact  
2 WesternGeco's ability to get these jobs?

02:42:03

3 **A.** I don't believe so. I think that's another reason  
4 why, you know, they may not have been able to get the job  
5 they're claiming they would have gotten, especially with  
6 companies like Exxon that have a clear preference for  
7 solid streamers.

02:42:19

8 **Q.** Okay. Let's go back to Gunderson 39. And let's talk  
9 about another topic that's a factor under this Panduit  
10 factor 4, and that's master services agreements.

02:42:38

11 You have a slide, Gunderson 39, no master  
12 service agreements for ENI and Statoil. And again, we're  
13 back to Mr. Walker again. And he was asked the question  
14 in his September 2011 deposition, "As you sit here today  
15 looking backwards, has a customer ever said, we're not  
16 hiring you for anything in the marine seismic space,  
17 excluding the seabed?

02:42:55

18 "ANSWER: Yes. There's a discussion with  
19 ENI and Statoil, both of whom have said were off -- we  
20 refuse to sign their MSA, and, therefore, they have  
21 postulated we were off their bid list."

02:43:11

22 Tell us, what is an MSA?  
23 **A.** Well, it really sets out the relationship between the  
24 oil companies and the survey providers, and you need to  
25 have an MSA signed in order to be able to get work from

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1 them?

2 **Q.** Did Mr. Sims address in many of his analysis the  
3 presence or absence of master services agreements with  
4 some of the oil customers that are on his list of 10 jobs?

02:43:32 5 **A.** He did not.

6 **Q.** And in fact, we've seen Statoil, Statoil is  
7 responsible for three of the jobs on their list; right?

8 **A.** Yes.

9 **Q.** Is it your understanding that a seismic provider  
02:43:47 10 like WesternGeco would need to have a MSA in place to bid?

11 **A.** Yes.

12 **Q.** Okay. Let's look at another topic we're going to  
13 explore under Panduit factor 4 and that is raw sensor  
14 data. And I think we've had some testimony from Ken

02:44:09 15 Williamson, he was -- he's at ION. He was formerly with  
16 WesternGeco; right?

17 **A.** Yes, he was with WesternGeco through, I want to say,  
18 early 2006.

19 **Q.** Okay. What is raw sensor data?

02:44:23 20 **A.** Well, as I understand it, one of the special things  
21 with Q is they have this single sensor that gives a lot --  
22 you know, more data than normal, and according to  
23 WesternGeco, better data. And there was a desire from the  
24 oil companies to actually be able to look at that raw data  
02:44:45 25 themselves instead of having to pay WesternGeco to look at

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1 it. And so, there was a lot of push and pull regarding  
2 that raw sensor data between the oil companies and  
3 WesternGeco.

02:45:02

4 **Q.** All right. Here he's asked: "So, Mr. Williamson, in  
5 your experience, did this hard-line refusal to release  
6 that data cause a backlash in the industry during the time  
7 that Q-Marine was having difficulty getting traction  
8 anyway.

02:45:15

9 "ANSWER: Yes. Absolutely. Certainly.  
10 "QUESTION: Did you discuss that with  
11 Robin Walker?

12 "ANSWER: Absolutely."

02:45:30

13 Let's look at some additional testimony  
14 from Mr. Williamson on this. Tell us why you chose this  
15 particular passage.

16 **A.** It would be helpful to read this first.

02:45:41

17 So, "QUESTION: Was there any other reason  
18 that you understood there would be any difficulty in the  
19 launch of Q-Marine in the industry when it was first --  
20 when it first was launched?

21 "ANSWER: The data ownership aspect was  
22 one -- one that was particularly difficult for the clients  
23 to understand."

02:45:53

24 And I think -- here's the be point: I  
25 think these oil companies are saying, Look, we're paying

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1 you millions of dollars WesternGeco, to do these surveys.  
2 If you do those surveys, we want to see the data. We're  
3 paying you to do it. It's -- in their mind they're  
4 saying, It's our data. And I think WesternGeco is pushing  
02:46:08 5 back saying, Wait a minute. It's not your data. We'll do  
6 the analysis. We'll look at the data for you, but we're  
7 not going to release it. And that was kind of the push  
8 and pull that was going on as I understand it.

9 And so, just to finish it, it says, "So  
02:46:21 10 the main reasons that you identified for why Q-Marine was,  
11 as you say, a tough sell initially were price and the  
12 retention of single sensor data.

13 "ANSWER: Yes.

14 "QUESTION: Since then the price has been  
02:46:35 15 lowered; right?

16 "ANSWER: Yes.

17 "QUESTION: But since then, WesternGeco's  
18 continued to retain its single sensor data, as far as you  
19 know?"

02:46:44 20 And so, one last thing to point out, he  
21 was clearly with WesternGeco in the early time period, in  
22 this 2002, 2005 time period, but that's -- that raw sensor  
23 issue continued through much of the damage period, as I  
24 understand it. That was a sensitive topic for many of the  
02:47:03 25 oil companies.

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1 Q. All right. Let's look at one of the oil companies in  
2 particular, ExxonMobil.

3 MR. WADE: Let's go to Slide 42.

4 BY MR. WADE:

02:47:11

5 Q. And ExxonMobil wanted raw sensor, and we're back  
6 again to Robin Walker's, WesternGeco's vice-president of  
7 sales and marketing. Here we go.

02:47:31

8 And he's asked: "Did they ever -- did a  
9 customer of WesternGeco ever say this lateral steering  
10 capacity is not an aspect that we're going to pay a  
11 premium for?

02:47:44

12 "ANSWER: There were one or two customers  
13 who said they wouldn't use the technology under any  
14 consideration, but it was generally more related to  
15 this -- the single sensor component and issues of bundling  
16 acquisition and processing think into the price that  
17 generated the most energy.

02:48:02

18 "QUESTION: So there were one or two  
19 customers. Who were these one or two customers that you  
20 were referring?

21 "ANSWER: So let me put a timeframe on  
22 this.

23 "QUESTION: Yes.

02:48:09

24 "ANSWER: So this is in the period 2001 to  
25 2003?

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1 "QUESTION: Okay.

2 "ANSWER: The two principal customers who  
3 said they would never use it were Chevron and ExxonMobil.

02:48:18

4 "QUESTION: To your knowledge, why did  
5 Chevron say it would never use Q-Marine technology.

6 "ANSWER: Because we wouldn't give them  
7 the raw sensor measurements to play with."

02:48:35

8 And just to follow this on out, let's go to  
9 Gunderson 43. It's a little later in the deposition of  
10 Mr. Walker where he reviews this again.

11 "QUESTION: We know that -- is it the  
12 case -- is it the case, Mr. Walker, that for a period,  
13 there were some companies, I believe you said, that  
14 wouldn't adopt the Q-Marine technology because WesternGeco  
15 refused to release the raw data.

02:48:48

16 "ANSWER: The raw sensor measurements?

17 "QUESTION: Yes.

18 "ANSWER: There was a period when some  
19 customers said they wouldn't adopt it, yes.

02:48:58

20 "QUESTION: And we believe we talked about  
21 Chevron.

22 "ANSWER: Yes.

23 "QUESTION: And ExxonMobil.

24 "ANSWER: Yes.

02:49:06

25 "QUESTION: Any others?

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1 "ANSWER: It was a question that came up  
2 that typically had to be addressed on a case-by-case basis.  
3 For some people, it was a nonissue and they didn't care,  
4 and other people, it was a big issue and it resulted in a  
5 discussion."

02:49:20

6 BY MR. WADE:

7 Q. And so, at least earlier we saw that this discussion  
8 was referencing a 2001, 2003 time period, the preference  
9 for Exxon and Chevron; right?

02:49:33

10 A. Right.

11 Q. Do you know if this preference has changed?

12 A. As I understand it, it has not. As I understand it,  
13 it had continued tension regarding that. I'm sure that  
14 they sometimes work things out, but it is clearly  
15 something that probably sticks in the craw of some of  
16 these big oil companies.

02:49:47

17 At the end of the day, when you're talking  
18 about somebody like ExxonMobil. ExxonMobil, they like to  
19 do a lot of things themselves because they have a lot of  
20 capable engineers and other folks who do that stuff.

02:50:00

21 So, again, it's just one other -- one  
22 other issue that might explain potentially why they might  
23 have lost sales that are now being claimed is lost because  
24 of the presence of the DigiFIN.

02:50:14

25 Q. Let's look at one more, the oil companies on

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Direct-Gunderson/By Mr. Wade

1 WesternGeco's list 10, Total.

2 MR. WADE: Let's go to 44.

3 BY MR. WADE:

4 Q. Total wanted sensor data also?

02:50:25

5 A. Yes.

6 Q. And further down, Mr. Robin Walker's deposition from  
7 September 2011.

02:50:40

8 "QUESTION: With the exception of Chevron  
9 and ExxonMobil, who was the raw sensor data a big issue  
10 for.

02:50:54

11 "ANSWER. Yeah. So it was a -- it was a  
12 big issue with Total. It was a big issue with Kerr McGee  
13 who was the first customer. And it was quite a big issue  
14 with Unocal before they became part of Chevron. It was an  
15 issue with Shell."

16 And total represents two of the jobs on  
17 the list; right?

18 A. Yes.

02:51:01

19 Q. Has Mr. Sims done anything in his analysis or  
20 testimony to address WesternGeco's practice of not sharing  
21 the raw sensor data with the oil company?

22 A. Not that I'm aware of.

02:51:25

23 Q. All right. Mr. Gunderson, let's kind of look at a  
24 summary of what you've talked about with regard to these  
25 Panduit factors.

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Direct-Gunderson/By Mr. Wade

1 On the left, we have the non -- the 10  
2 non-Fugro surveys; right?

3 **A.** Yes.

4 **Q.** These are the 10. And you've got oil company  
02:51:35 5 provider, the survey company, the region of the world and  
6 the date.

7 And were there acceptable lateral steering  
8 alternatives available to each of these jobs?

9 **A.** I think we discussed that when we went over the  
02:51:54 10 timeline, and I believe that there were acceptable lateral  
11 controller devices that were available, and so, under  
12 Panduit that would say that they -- they shouldn't get  
13 lost profits.

14 And -- and frankly, just as importantly  
02:52:13 15 for the jury is, from a but-for standpoint, it would say,  
16 if you put yourself back there, you take the DigiFIN out  
17 of the market, can you say, Okay, would it all or  
18 necessarily gone for WesternGeco? I think the answer is,  
19 Well, you have somebody -- another competitor in the  
02:52:27 20 marketplace that could have provided lateral controller as  
21 well.

22 **Q.** All right. And we also talked Q-Marine vessel  
23 availability.

24 Was there Q-Marine vessel availability  
02:52:37 25 proven for all these jobs?

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Direct-Gunderson/By Mr. Wade

1 **A.** I don't believe so. I have -- I think we showed  
2 Robin Walker's testimony that they were pretty much  
3 working all out during the time period, and I think this  
4 is a big issue that I would have with Mr. Sims' analysis  
5 in that the assumption that they would have simply built  
6 these vessels, I think, is just -- it's is just a flawed  
7 assumption, in my opinion.

02:52:57

8 **Q.** All right. And we talked about solid streamers and  
9 that WesternGeco had solid streamers beginning in  
10 April 2010, but before that, they were kerosene-filled.

02:53:13

11 Has there been any showing that they had  
12 an available Q-Marine vessel with a solid filled streamer  
13 for all of these jobs?

14 **A.** For all the jobs, no. Clearly, they were -- I  
15 mentioned before they were in process of putting solid  
16 streamers in the mix, but they have not shown that it  
17 would have been able to fulfill the job with a solid  
18 streamer vessel, and they certainly haven't -- one of  
19 things they had not done is shown which vessels would have  
20 done which job, which I think might have been a key part  
21 of the analysis.

02:53:28

02:53:43

22 **Q.** All right. And we've talked about pricing and how  
23 pricing affects buying behavior. We saw the high price  
24 quotes.

02:53:55

25 Has Mr. Sims addressed that Q-Marine's

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1 high price was not a factor in them supplying these jobs  
2 or getting these jobs?

3 **A.** He did not. This is one thing I want to be very  
4 clear at: I think it would have been nice to be able to  
02:54:11 5 do that type of pricing analysis and look specifically at  
6 those jobs, and say which job -- you know, how much did  
7 you bid on the job and how much do you claim would have  
8 been lost, and try to see -- see what that number is. And  
9 I just haven't seen that. I was only able to do it, you  
02:54:26 10 know -- my back-of-the-envelope calculation, I was able to  
11 do it on one -- on one that I was able to find a bid for,  
12 but he certainly should have been able to meet with  
13 WesternGeco and try to figure that issue out in terms of  
14 pricing.

02:54:35 15 **Q.** So there are 7 oil companies that represent the 10  
16 jobs; right?

17 **A.** Yes.

18 **Q.** So if you wanted to know their pricing preferences,  
19 you'd have to go talk to just some --

02:54:44 20 **MR. KAPLAN:** Your Honor, may we approach?

21 **(The following was held out of the presence of the jury)**

22 **MR. KAPLAN:** You have already instructed them  
23 that evidence is not in the case from oil companies is not  
24 something that matters. Now, he's opened the door, so I  
02:55:06 25 get to go back to it too, because he's sitting there and

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Direct-Gunderson/By Mr. Wade

1 saying, Well, Mr. Sims didn't go get this information from  
2 the oil companies. We've got documents, but I thought we  
3 dealt with this.

4 THE COURT: Your response?

02:55:16 5 MR. WADE: I'll withdraw the question.

6 THE COURT: All right.

7 **(The following was held before the jury)**

8 MR. WADE: Okay.

9 BY MR. WADE:

02:55:28 10 Q. All right. Mr. Gunderson, price is a factor in  
11 buying behavior?

12 A. Yes.

13 Q. Okay. Has that been addressed by Mr. Sims?

14 A. I don't believe so.

02:55:41 15 Q. All right. And we've talked about the bid history.

16 And has the bid history for these 10 jobs  
17 been addressed?

18 A. I don't believe it's been adequately addressed. I  
19 think he may feel like he addressed it; but again, from

02:55:56 20 the documents I've seen, he's certainly not shown any  
21 documents to indicate that they actually bid.

22 Q. And for six of the jobs, there's no evidence of a bid  
23 whatsoever; right?

24 A. From their own database, yes.

02:56:08 25 Q. All right. And we talked about some other factors

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Direct-Gunderson/By Mr. Wade

1 and we know that for ExxonMobil, at some point in time, at  
2 least, not having access to raw sensor data was a  
3 deal-killer?

4 **A.** Right.

02:56:22

5 **Q.** And we saw for Statoil, at least for some point in  
6 time, WesternGeco did not have a master services  
7 agreement; correct?

8 **A.** Yes.

02:56:35

9 **Q.** All right. And then for Total, we saw the testimony  
10 of Mr. Walker that, for Total, at some point in time, not  
11 having access to the raw sensor data was a deal killer?

12 **A.** I don't know if I'd say deal killer, but it was  
13 certainly an issue that they were sensitive about and they  
14 wanted access to that raw data is the way I would say it.

02:56:55

15 **Q.** Given all these analysis and all these factors that  
16 we on Slide 45, in the but-for world, could WesternGeco  
17 have made these sales but for the alleged infringement of  
18 ION?

02:57:09

19 **A.** Well, it's my opinion, because of this analysis, I  
20 don't think they could have. I mean, it just seems to me  
21 like there's -- there are a lot of explanations that were  
22 not addressed. And when you're asking for this kind of  
23 money, you -- and when you have the ability to actually  
24 look at each individual contract in a little bit more

02:57:26

25 detailed manner, I think that that should be done and

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Direct-Gunderson/By Mr. Wade

1 could have been done and was not done.

2 **Q.** All right. And let's look at how all this analysis  
3 ties back to the four Panduit factors we looked at, at the  
4 top for the lost profits analysis.

02:57:40

5 MR. WADE: Go to Slide 45.

6 BY MR. WADE:

7 **Q.** Was there a demand for the patented product?

8 **A.** I think there was.

02:57:50

9 **Q.** And did WesternGeco prove there are no available and  
10 acceptable noninfringing lateral steering alternatives?

11 **A.** I don't believe they did, no.

12 **Q.** And did WesternGeco prove it had Q-Marine vessel  
13 capacity to meet demand?

14 **A.** I don't think they did, no.

02:58:05

15 **Q.** And did WesternGeco prove the profit it would have  
16 made to a reasonable certainty?

17 **A.** I don't believe so, no.

18 **Q.** And if one of these factors fails, what does that  
19 mean?

02:58:16

20 **A.** Well, if one of the factors fails, then they should  
21 not get it. So any one of these factors, they should not  
22 receive lost profits. But I would, again, just tell  
23 the -- you know, talk to the jury a little bit about the  
24 fact that, at the end of the day, this is all surrounding

02:58:33

25 this but-for causation, and but for the infringement

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Direct-Gunderson/By Mr. Wade

1 compared to what's normal.

2 And I'm going to go through that. I think  
3 it will be a little -- I think it will be a little clearer  
4 as we go through how I did this. But the concept, again,  
03:03:57 5 is looking at the profits from a patented device and  
6 looking at -- comparing it with normal profits, taking  
7 that differential and saying, That's the excess profit,  
8 that's the profit that a patent allows the patentholder to  
9 make in excess of what's normal.

03:04:11 10 **Q.** Okay. And let's look at kind of your baseline, and  
11 that's DigiBIRD establishes normal profit.

12 And how did you go about determining to  
13 use the DigiBIRD as a base in your analytical approach?

14 **A.** I know you've heard a lot of Digi everythings here.  
03:04:31 15 That's the nomenclature that ION uses. But the DigiBIRD  
16 is the device that's been sold for 25, almost 30 years now  
17 by ION. And that device provides the vertical control.  
18 So it goes on a streamer. It's been sold for years. It  
19 used to have patents. Now the patents have expired on it,  
03:04:49 20 but it's a device that is widely used in the industry, and  
21 again, it provides a vertical control of the streamer.

22 **Q.** Okay. And how have you used the DigiBIRD information  
23 in arriving in -- or how do you utilize that information  
24 in your analytical approach?

03:05:05 25 **A.** Well, so I looked at the DigiBIRD, and when -- so

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Direct-Gunderson/By Mr. Wade

1 when an ION system is being used, they have a DigiBIRD,  
2 they have a DigiFIN and they have a DigiBIRD, and they  
3 kind of alternate as they go down the streamer. And it  
4 turns out that the primary use for the DigiFIN is the  
03:05:27 5 lateral controller. So they have the vertical control  
6 provided by the DigiBIRD, and then they have the lateral  
7 control primarily provided by the DigiFIN.

8 And so, my thought was, Well, you know, I  
9 have a very good reference for my normal profit. And that  
03:05:43 10 reference is the DigiBIRD. So I wanted to compare the  
11 profit on a DigiBIRD to the profit on a DigiFIN and look  
12 at the differential -- differential in profit.

13 **Q.** And is that what you've done on Gunderson 54?

14 **A.** Yes.

03:05:56 15 **Q.** All right. And kind of walk us through the analysis  
16 that you did here.

17 **A.** So the first line is the DigiFIN. It sells for an  
18 average price of roughly \$15,200. And so, if you take out  
19 the cost associated with the DigiFIN, that means they'd  
03:06:17 20 make a gross profit of 10.8 million or 10.8 thousand --  
21 10,800.

22 The next line is the DigiBIRD. The  
23 DigiBIRD sells for 9,476, which is significantly less than  
24 the DigiFIN. That's kind of where the magic happens  
03:06:40 25 ultimately because ION realized that, for a very similar

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1 \$9.1 million in sales of DigiFIN and he has DigiRANGE,  
2 DigiSHOT, DigiSTREAMER -- I'm pointing with my finger, I  
3 apologize -- DigiSTREAMER and something called other  
4 positioning, and he comes up with this 15 million-dollar  
03:36:13 5 number, and he simply divides the 9.1 million into the 15  
6 million and he says that's \$1.68.

7 In other words, there's going to be a  
8 dollar -- he's assuming there's going to be \$1.68 in sales  
9 of other stuff that's the DigiRANGE, DigiSHOT,  
03:36:32 10 DigiSTREAMER, and this other positioning is actually the  
11 DigiBIRD primarily. There's going to be \$1.68 sales of  
12 this other stuff when they make \$1.00 of sales of the  
13 DigiFIN. And I very strongly disagree with it. And we're  
14 going to go through it in discussion with that.

03:36:50 15 **Q.** He references the A through E expert report of Lance  
16 Gunderson of February 21, 2012. In your February 21,  
17 2012, report, were you attempting to establish convoyed  
18 sales?

19 **A.** I was not.

03:37:05 20 **Q.** What type of damage analysis were you trying to  
21 establish in that earlier report?

22 **A.** It was based on a lost profits calculation I did for  
23 a different element of this case that is no longer at  
24 issue.

03:37:20 25 **Q.** Okay. Did that analysis focus on a linkage between

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Direct-Gunderson/By Mr. Wade

1 DigiFIN and any of these other products that we see on  
2 Sims second supplemental Exhibit 15.1?

3 **A.** It did not.

03:37:42

4 **Q.** All right. But he's used you as a sole source of  
5 this answers; correct?

6 **A.** Yes.

7 **Q.** Has he used your analysis and information correctly?

8 **A.** He has not.

03:37:51

9 **Q.** Can you show us how he's misused your analysis and  
10 information?

11 **A.** I can and first of all, I've got to apologize to the  
12 jury. It's going to be some detail. It's -- we're going  
13 to be looking at a lot of numbers and things, but I'm  
14 going to try to bring it to a level of how I believe he  
15 misused it. This is critical to understand because I  
16 think it's a an egregious misuse of what I've done in my  
17 opinion.

03:38:04

18 **Q.** All right. For us to understand what you were doing  
19 with your analysis and to explain how Mr. Sims misused it,  
20 where do we need to turn to first?

03:38:18

21 **A.** We need to go to that report that he's referencing.

22 **Q.** All right. And this is your February 21, 2012,  
23 report?

24 **A.** Schedule 4A.

03:38:34

25 **Q.** Schedule 4A. All right. I'm going to put it in the

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Wade Direct Continued of Lance E. Gunderson

07:41

1 me -- your rate of \$2,000 per unit times the total number of  
2 units sold, what's the royalty?

3 A That's the \$7.9 million number that you saw yesterday.

07:41

4 Q And now when we broke yesterday, we were talking about how  
5 Mr. Sims had used a multiplier of 1.68 in his calculation of  
6 conveyed sales, right?

7 A Right.

8 Q Okay. And we were looking at -- and this is a slide from  
9 Mr. Sims' report?

07:41

10 A Correct.

11 Q And this is his second supplemental Exhibit 15.1?

12 A Yes.

13 Q And this is where he has calculated how he arrived at the  
14 1.68 multiplier?

07:42

15 A Correct. It's simply that 9 million-dollar number for  
16 DigiFIN divided into those -- the total of those other units.  
17 That's what give the \$1.68.

18 Q So --

07:42

19 A So what that implies is there's a \$1.68 in sales of other  
20 stuff, including the DigiRANGE, DigiSHOT, DigiSTREAMER, and  
21 something called Other Positioning, which is effectively  
22 DigiBIRD.

07:42

23 Q So you take the 9 million and the 15 million and kind of  
24 flip it to get the numerator over the denominator, and that's  
25 the ratio?



Wade Direct Continued of Lance E. Gunderson

07:42 1 A That's right.

2 Q Okay. And his source for this is your report, right?

3 A Yes.

07:42 4 Q Okay. So if we're going to unpackage how Mr. Sims arrived  
5 at his 1.68 number, where do we need to go first?

6 A I would go to my report, my Schedule 4A, which is  
7 referenced here.

8 Q Okay. Let me show you. This is your 4A?

07:43 9 A It's not focused real well. Can you focus it a little bit  
10 better?

11 *THE COURT:* Can you give him a hard copy? I know it's  
12 hard -- I know the jury can't see.

13 *MR. WADE:* We will blow it up, Your Honor.

07:43 14 *THE WITNESS:* Yeah, blow it up, I think. That's  
15 better. That's better.

16 BY MR. WADE:

17 Q So we have 4A. This is from your report.

18 A Yes. This is my Schedule 4A.

19 Q Okay. How can we use this to unpackage the 1.68 number?

07:43 20 A Well, the first thing I would do is just trace the numbers.  
21 So you can see the numbers that he has on his schedule flow  
22 from this schedule. So...

23 Q So if we look -- let's do this.

07:43 24 So if we look at ION's base sales of DigiFIN,  
25 9.1 million, we find that on your schedule right there?

Wade Direct Continued of Lance E. Gunderson

07:43

1 A Right.

2 Q If we look at the DigiRANGE number, 3.5 million --  
3 3.5 million?

4 A Correct.

07:44

5 Q And DigiSHOT comes from your report?

6 A Same thing. So they tie exactly.

7 Q DigiSTREAMER. And then we have Other Positioning Devices,  
8 right?

9 A Right.

07:44

10 Q Okay.

11 A That's the way it was labeled in the documents when I put  
12 this together, but that's really the DigiBIRD, which is -- we  
13 talked about earlier.

07:44

14 Q Okay. And what was your source for these values that are  
15 on your Slide 4A?

16 A Well, these are the summary of lost profits that I was  
17 using in this other matter. So they're not actual sales.  
18 There were some proposals available to me, and it used those  
19 proposals to get to these numbers.

07:44

20 Q Okay. And you have some slides that explain what the  
21 proposals were?

22 A Right. So if you'll bear with me, there's one other set of  
23 slides that will help you understand exactly what happened  
24 here. So there's three schedules.

07:45

25 There were three proposals to three different

*Kaplan Cross of Lance E. Gunderson*

08:44 1 Q Does it address them by dismissing them?

2 A I think I talked about convoyed sales a little bit and  
3 something about I don't believe that they were significant or  
4 something to that effect.

08:44 5 Q If we take a break during my cross-examination, I would  
6 like you to find that because I don't think it's in there. I  
7 could be wrong.

8 But let's talk about the reasonable royalty  
9 discussion that you did purport to consider. There is what is  
08:45 10 called the Georgia-Pacific factors, and you've testified about  
11 them at length, have you not?

12 A I have testified about a lot of stuff. I don't know about  
13 at length.

14 Q You are knowledgeable about those factors, are you not?

08:45 15 A I am.

16 Q You have done this many times?

17 A I have.

18 Q And is it fair to say that one factor to consider is  
19 whether WesternGeco and ION are competitors?

08:45 20 A Yes.

21 Q And would you say that for purposes of this royalty  
22 negotiation, at least, they would be considered pretty much  
23 like competitors?

08:45 24 A Technically they are not competitors, but I think  
25 WesternGeco would certainly not have a desire to license, I

*Kaplan Cross of Lance E. Gunderson*

08:45 1 would say, but technically they are not competitors.

2 WesternGeco does not sell their Q-Fin. They don't compete  
3 directly for the device we are talking about.

4 So from that standpoint, I would say they are not  
08:46 5 competitors. And I would say that in many ways it is customer  
6 and supplier because ION actually sells product to WesternGeco.  
7 So it's a more complicated relationship than that.

8 Q It is fair to say that for the purposes at least of this  
9 negotiation, their relationship would be more similar to  
08:46 10 competitors than, say, an eventer and a promoter or a vendor  
11 and a customer?

12 A I would say -- I would clearly say WesternGeco would have  
13 no desire to license their technology. So they are technically  
14 not competitors.

08:46 15 Q Mr. Gunderson, do you remember my question?

16 A I'm answering it. I would say they are really not  
17 competitors.

18 Q Can you please turn to page 82 of your March 16 report on  
19 which you were opining on reasonable royalty?

08:46 20 A What line? We have got a lot of pieces of paper here.

21 Q On page 82, look at the last paragraph, please, of your  
22 March 16, 2012 report.

23 A Page 82?

24 Q Yes, sir.

08:47 25 A In my report? Oh, I thought you said my deposition.

*Kaplan Cross of Lance E. Gunderson*

09:58

1 Q I thought -- don't you recall him saying \$14.9 million in  
2 royalty as to ION?

3 A It wasn't on the surveys. It was on the -- he -- he did  
4 the calculation on the -- the DigiFIN system. That's the --

09:59

5 Q Okay.

6 A -- that's why I agree -- I disagree with your -- your  
7 characterization of this saying that the surveys are what he  
8 calculated it on.

9 Q He had two components of damages. How about that?

09:59

10 A Oh, I agree with that.

11 Q All right. 14.9 million on DigiFINs that went into certain  
12 surveys for which no lost profits are claimed.

13 Are we at least agreed on that?

09:59

14 A I -- well, we are not completely agreed on that, because  
15 there's a double-counting issue here because we did a  
16 calculation of royalties, and they went into surveys for which  
17 he adds lost profits, as well. So we're not in agreement on  
18 that either.

09:59

19 Q Okay. Well, how about we simply -- and I will go ahead and  
20 label this one, WesternGeco Gunderson Demo Exhibit Number 2.  
21 And I will label the earlier one WesternGeco Gunderson Demo 1.  
22 Demo 1 and Demo 2. Okay?

10:00

23 All right. And so you think they are  
24 double-counting. But you at least agree that he said there are  
25 two numbers for ION: 14.9 million and some royalty and an

*Kaplan Cross of Lance E. Gunderson*

10:00 1 additional amount in lost profits.

2 A 93.3.

3 Q Okay. 93.4?

4 A Or 4.

10:00 5 Q Okay. Those two numbers. He had two different numbers,  
6 right?

7 A He did.

8 Q And your number of 7.9 million is supposed to cover the  
9 entire universe of damages that ION should pay?

10:00 10 A It covers the 3,955 DigiFINs that were sold.

11 Q Okay. All right. That's all I was trying to get to, sir.  
12 That's all.

13 Your 7.9 million is compared to his combined  
14 number; is that right? 14.9 million plus an additional amount  
15 he thinks should be attributable on certain surveys?

10:00 16 A I agree that that's what he testified to.

17 Q And you, of course, disagree with that analysis?

18 A I do.

19 Q Okay. All right. Now, let's turn just for a moment to the  
10:01 20 convoyed sales issue.

21 We have already established, have we not, that  
22 you did not list or take account or believe that any convoyed  
23 sales should play into the royalty figure that you originally  
24 testified to, 7.9 million; is that right?

10:01 25 A I did not do a calculation there.

*Kaplan Cross of Lance E. Gunderson*

11:00

1 A Okay. Well --

2 Q So you're anticipating my question again. At that time you  
3 thought there was seven out of the 25 that you had a question  
4 about?

11:00

5 A Seven what?

6 Q Surveys that WesternGeco had not demonstrated to your  
7 satisfaction it would have the capacity or the availability to  
8 perform.

9 A Right.

11:00

10 Q Out of the 25?

11 A If you want to take me to my deposition, we can look at it.

12 Q Okay. Well, I'm really just asking you if you recall that.

13 A I don't recall the various -- the specifics of that line of  
14 questioning.

11:01

15 Q Let's move to the next point.

16 How many of the 10 surveys -- now that we've gone  
17 from 25 to 10, how many of the 10 surveys are you saying that  
18 WesternGeco has not demonstrated to your satisfaction that it  
19 had the capacity to perform?

11:01

20 A What I would say is there hasn't been any specifics given  
21 on which of those surveys they would have been able to do,  
22 where the vessels would be located, whether they could move one  
23 vessel to another. None of that has been done.

11:01

24 So in my opinion, it hasn't been shown for any of  
25 them. It is just a simple assumption that was made, hey, in

*Redirect-Gunderson/By Mr. Wade*

1 documents, and then three others.

2 **Q.** Okay. Earlier in your testimony with Mr. Kaplan, you  
3 referenced that there was a double counting in Mr. Sims'  
4 damage analysis and he didn't let you explain it. He said  
01:25:47 5 you could do it with me.

6 Would you please explain the double  
7 counting in Mr. Sims' damage analysis?

8 **A.** Yeah. It's a kind of an esoteric issue, so I  
9 apologize for it, but what you have are DigiFINs for which  
01:26:02 10 they're asking a royalty of, there's 2,547. I don't know  
11 if you recall that number from my direct testimony, but  
12 those same DigiFINs are being used on the vessels that  
13 he's also claiming lost profits from.

14 So in essence, they're getting a recovery  
01:26:19 15 in royalty from certain DigiFINs and then they have some  
16 of the those DigiFINs out in the field with PGS, CGG  
17 Veritas and Polarcus, and they're also asking for -- those  
18 10 surveys are done with those same DigiFINs for which  
19 they're asking a royalty.

01:26:33 20 **Q.** Has Mr. Sims attempted to do any allocation of  
21 damages regarding this double recovery?

22 **A.** No.

23 **Q.** Okay. Earlier in your testimony, you reviewed the  
24 article that you wrote with Mr. Kaplan?

01:26:49 25 **A.** I did.

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*Redirect-Gunderson/By Mr. Wade*

1 **A.** I don't know. He was flashing documents up there and  
2 never showed the dates, but --

3 **Q.** Certainly a lot --

4 **A.** -- I don't believe so, but.

01:37:21

5 **Q.** Certainly a lot of critiques he offered were before  
6 you claim the systems were available?

7 **A.** Yes.

8 **Q.** Any doubt in your mind these systems were available  
9 on the dates you indicate on Gunderson 20?

01:37:32

10 **A.** They were available and the key here is not to get  
11 hung up on whether the device itself is available. In my  
12 opinion it's really in this but for world I've described  
13 to you on my direct testimony, would somebody else have  
14 been able to bid on the job. And what I can say for  
15 certain is that's not been accounted for by Mr. Sims.

01:37:50

16 **Q.** In the test for acceptable alternatives is it  
17 required that it be accepted by all? Is it required that  
18 the device be accepted by everyone in the market?

19 **A.** No. The test is whether it's an acceptable  
20 alternative and whether it's viewed acceptable by the  
21 customers.

01:38:10

22 THE COURT: How much more do you anticipate?  
23 The jury is going to need a break soon.

24 MR. WADE: 15, 20 minutes. Take a break.

01:38:28

25 THE COURT: Take a break. All right.

*Johnny C. Sanchez, RMR, CRR - jcsreporter@aol.com*

*Redirect-Gunderson/By Mr. Wade*

1 **A.** They didn't -- not on the Q vessels.

2 **Q.** Okay. And there was some question about whether or  
3 not Exxon required solid streamer or not. Do you recall  
4 that?

01:56:01

5 **A.** Yes.

6 **Q.** Have you reviewed the deposition testimony of Robin  
7 Walker as part of your work in this case?

8 **A.** Yes.

9 **Q.** This is Mr. Walker's September 13, 2011, deposition.

01:56:19

10 **A.** Okay.

11 **Q.** Look at Page 46. What does Mr. Walker say?

12 **A.** "Exxon-Mobile have stated they see it as being  
13 useful. We haven't seen it appear as a mandatory  
14 requirement in any tenders for them. They're a company  
15 for whom solid streamer is mandatory, if that's their main  
16 drive."

01:56:38

17 **Q.** Okay, sir. Any doubt in your mind that Exxon  
18 required solid streamers?

19 **A.** No, they did.

01:56:55

20 **Q.** Do you recall some discussion with Mr. Kaplan about  
21 the cost to develop the DigiFIN technology?

22 **A.** Yes.

23 **Q.** And you looked at the business plan?

24 **A.** Yes.

01:57:06

25 **Q.** Okay. Have you seen any documentation of this case

*Johnny C. Sanchez, RMR, CRR - jcscourtreporter@aol.com*

# **EXHIBIT 3**

--- F.3d ---, 2012 WL 3573845 (C.A.Fed. (Conn.))  
(Cite as: 2012 WL 3573845 (C.A.Fed. (Conn.)))

**FIND Request:** --- F.3d ---

Only the Westlaw citation is currently available.

United States Court of Appeals,  
Federal Circuit.  
WHITSERVE, LLC, Plaintiff/Counterclaim De-  
fendant–Cross Appellant,  
and  
Wesley W. Whitmyer, Jr., Third Party Defend-  
ant–Cross Appellant,  
v.  
COMPUTER PACKAGES, INC., Defendant/  
Counterclaim Plaintiff–Appellant.

Nos. 2011–1206, 2011–1261.  
Aug. 7, 2012.

**Background:** Patentee brought action alleging infringement of patents directed to automating delivery of professional services and to technology for backing up client data. Alleged infringer asserted affirmative defenses and counterclaim seeking declaratory judgment of non-infringement, invalidity and unenforceability, and also asserted counterclaim against patentee's principal, alleging that he was patentee's alter ego and true owner of asserted patents, and that he personally engaged in inequitable conduct during prosecution of patents. Jury found that patents had been willfully infringed and that patentee was entitled to \$8,378,145 in damages. The United States District Court for the District of Connecticut, [Alfred V. Covello, J.](#), denied patentee's post-trial request for permanent injunction on the merits, enhanced damages, and attorney's fees, and denied alleged infringer's motions for judgment as a matter of law (JMOL) or a new trial. Parties appealed.

**Holdings:** The Court of Appeals, [O'Malley](#), Circuit Judge, held that:


(1) verdict that accused software infringed patents for automating delivery of professional services was supported by substantial evidence;

- (2) patent claim that allowed clients to access a central computer and copy their data records to their own computer from across the Internet was invalid as anticipated;
- (3) verdict that other claims were not invalid was supported by substantial evidence;
- (4) damages award was not supported by substantial evidence;
- (5) district court abused its discretion in failing to provide full explanation as to why prejudgment interest on damages was not necessary to adequately compensate patentee;
- (6) district court abused its discretion in denying patentee's motion for enhanced damages on ground that jury's damages award provided “complete compensation” for willful infringement; and
- (7) district court abused its discretion in failing to explain why award of attorney's fees was unwarranted.

Affirmed in part, vacated in part, and remanded.

[Mayer](#), Circuit Judge, filed dissenting opinion.

West Headnotes

[1] Patents 291  312(6)

291 Patents

291XII Infringement

291XII(B) Actions

291k312 Evidence

291k312(3) Weight and Sufficiency

291k312(6) k. Particular Matters,

Sufficiency as To. [Most Cited Cases](#)

Jury verdict that accused software infringed patents for automating delivery of professional services was supported by substantial evidence that type of manual human intervention required by accused software was consistent with asserted claims that required software to “automatically” query database, including testimony of patentee's expert that accused software's querying process could not

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 (Cite as: 2012 WL 3573845 (C.A.Fed. (Conn.)))

start before due dates were manually entered by user and that accused software's querying process itself happened automatically.

**[2] Courts 106**  **96(7)**

106 Courts

106II Establishment, Organization, and Procedure


106II(G) Rules of Decision

106k88 Previous Decisions as Controlling or as Precedents

106k96 Decisions of United States Courts as Authority in Other United States Courts

106k96(7) k. Particular Questions or Subject Matter. **Most Cited Cases**

Court of Appeals for the Federal Circuit reviews denial of post-trial motions in a patent infringement action under regional circuit law.

**[3] Patents 291**  **324.5**

291 Patents


291XII Infringement

291XII(B) Actions

291k324 Appeal

291k324.5 k. Scope and Extent of Review in General. **Most Cited Cases**

Denial of a motion for judgment as a matter of law (JMOL) in a patent infringement action is reviewed by the Court of Appeals de novo.

**[4] Patents 291**  **323.3**

291 Patents

291XII Infringement


291XII(B) Actions

291k323 Final Judgment or Decree

291k323.3 k. Relief from Judgment or Decree. **Most Cited Cases**

District court may set aside the jury's verdict on a motion for judgment as a matter of law (JMOL) in a patent infringement action only where there is such a complete absence of evidence supporting the verdict that the jury's findings could only have been the result of sheer surmise and con-

jecture, or there is such an overwhelming amount of evidence in favor of the movant that reasonable and fair minded men could not arrive at a verdict against him. **Fed.Rules Civ.Proc.Rule 50, 28 U.S.C.A.**

**[5] Patents 291**  **323.3**

291 Patents


291XII Infringement

291XII(B) Actions

291k323 Final Judgment or Decree

291k323.3 k. Relief from Judgment or Decree. **Most Cited Cases**

On a motion for judgment as a matter of law (JMOL) in a patent infringement action, the court considers the evidence in the light most favorable to the non-moving party and gives that party the benefit of all reasonable inferences that the jury might have drawn in the non-movant's favor. **Fed.Rules Civ.Proc.Rule 50, 28 U.S.C.A.**

**[6] Patents 291**  **324.1**

291 Patents


291XII Infringement

291XII(B) Actions

291k324 Appeal

291k324.1 k. In General. **Most Cited Cases**

Alleged infringer waived challenge on appeal in infringement action to district court's claim construction for patents for automating the delivery of professional services, although alleged infringer alluded in its opening brief to possibility that district court's claim construction was contrary to patent specification and prosecution history, where alleged infringer did not raise the issue in the "Statement of the Issues," cited no legal support for its claim construction arguments, and did not even recite the standard of review for claim construction.

**[7] Patents 291**  **324.1**

291 Patents

291XII Infringement

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 (Cite as: 2012 WL 3573845 (C.A.Fed. (Conn.)))

291XII(B) Actions

291k324 Appeal

291k324.1 k. In General. **Most Cited**

**Cases**

Alleged infringer waived non-infringement argument, on appeal in action alleging infringement of patents for automating the delivery of professional services, where non-infringement argument was raised only in a footnote.

**[8] Patents 291 ↪66(1.14)**

291 Patents

291II Patentability

291II(D) Anticipation

291k63 Prior Patents

291k66 Operation and Effect

291k66(1.14) k. Electricity, Elec-

tronics, and Radio. **Most Cited Cases**

Claim, in patent for technology for backing up client data, which allowed clients to access a central computer and copy their data records to their own computer from across the Internet, was invalid as anticipated by prior art reference that described a computer downloading files specific to the user from a central computer. 35 U.S.C.A. § 102.

**[9] Patents 291 ↪72(1)**

291 Patents

291II Patentability

291II(D) Anticipation

291k72 Identity of Invention

291k72(1) k. In General. **Most Cited**

**Cases**

Patent claim is invalid as anticipated if each and every limitation is found either expressly or inherently in a single prior art reference; the elements in the reference must be arranged or combined in the same way as in the claim, but the reference need not satisfy an ipsissimis verbis test. 35 U.S.C.A. § 102.

**[10] Patents 291 ↪65**

291 Patents

291II Patentability

291II(D) Anticipation

291k63 Prior Patents

291k65 k. Sufficiency of Description.

**Most Cited Cases**

In order for patent to be invalid as anticipated, the anticipating prior art reference must enable one of ordinary skill in the art to make the invention without undue experimentation. 35 U.S.C.A. § 102.

**[11] Patents 291 ↪112.1**

291 Patents

291IV Applications and Proceedings Thereon

291k112 Conclusiveness and Effect of Decisions of Patent Office

291k112.1 k. In General. **Most Cited**

**Cases**

**Patents 291 ↪112.5**

291 Patents

291IV Applications and Proceedings Thereon

291k112 Conclusiveness and Effect of Decisions of Patent Office

291k112.5 k. Sufficiency of Evidence to Offset Effect of Decision in General. **Most Cited Cases**

Patents are presumed to be valid, and invalidity must be proven by clear and convincing evidence. 35 U.S.C.A. § 102.

**[12] Patents 291 ↪324.55(4)**

291 Patents

291XII Infringement

291XII(B) Actions

291k324 Appeal

291k324.55 Questions of Fact, Verdicts, and Findings

291k324.55(3) Issues of Validity

291k324.55(4) k. Novelty, Invention, Anticipation, and Obviousness. **Most Cited Cases**

Anticipation of a patent claim is a question of fact reviewed for substantial evidence when tried to

--- F.3d ---, 2012 WL 3573845 (C.A.Fed. (Conn.))  
(Cite as: 2012 WL 3573845 (C.A.Fed. (Conn.)))

a jury. 35 U.S.C.A. § 102.

**[13] Patents 291 ↪323.3**

291 Patents

291XII Infringement

291XII(B) Actions

291k323 Final Judgment or Decree

291k323.3 k. Relief from Judgment or

Decree. [Most Cited Cases](#)

On a appeal of the district court's denial of a motion for a judgment as a matter of law (JMOL) that the asserted patents in an infringement action are invalid as anticipated, when the jury finds that the patents are not invalid, the Court of Appeals reviews the evidence to see if there is such an overwhelming amount of evidence in favor of the alleged infringer that reasonable and fair minded men could not arrive at a verdict against it. 35 U.S.C.A. § 102.

**[14] Federal Courts 170B ↪699**

170B Federal Courts

170BVIII Courts of Appeals

170BVIII(G) Record

170Bk698 Defects and Objections

170Bk699 k. Amendment or Correction.

[Most Cited Cases](#)

Arguments of counsel cannot take the place of evidence lacking in the record.

**[15] Patents 291 ↪62(1)**

291 Patents

291II Patentability

291III(D) Anticipation

291k57 Evidence of Prior Knowledge or

Use

291k62 Weight and Sufficiency

291k62(1) k. In General. [Most](#)

[Cited Cases](#)

Jury verdict, that claims in patent for technology for backing up client data were not invalid as anticipated by prior art, was supported by substantial evidence that prior art, unlike asserted claims,

did not allow central computer to retrieve data previously sent to the user and did not require Internet-based data. 35 U.S.C.A. § 102.

**[16] Patents 291 ↪62(2)**

291 Patents

291II Patentability

291III(D) Anticipation

291k57 Evidence of Prior Knowledge or

Use

291k62 Weight and Sufficiency

291k62(2) k. Oral Testimony and

Recollection of Witnesses. [Most Cited Cases](#)

Typically, testimony concerning anticipation of patent claim must be testimony from one skilled in the art and must identify each claim element, state the witnesses' interpretation of the claim element, and explain in detail how each claim element is disclosed in the prior art reference. 35 U.S.C.A. §§ 102, 282.

**[17] Patents 291 ↪323.3**

291 Patents

291XII Infringement

291XII(B) Actions

291k323 Final Judgment or Decree

291k323.3 k. Relief from Judgment or

Decree. [Most Cited Cases](#)

Because general and conclusory testimony is not enough to be even substantial evidence in support of a verdict, it is certainly not enough to overturn a jury's finding that a patent is not invalid.

**[18] Patents 291 ↪323.3**

291 Patents

291XII Infringement

291XII(B) Actions

291k323 Final Judgment or Decree

291k323.3 k. Relief from Judgment or

Decree. [Most Cited Cases](#)

Generalized and conclusory testimony of patentee's expert, that asserted claims were "invalid because of prior art" and that all claim elements

--- F.3d ---, 2012 WL 3573845 (C.A.Fed. (Conn.))  
 (Cite as: 2012 WL 3573845 (C.A.Fed. (Conn.)))

were disclosed in prior art reference, and expert's cursory statement that data conversion and encryption were "well known" at the time of patenting, did not constitute the overwhelming evidence required to overturn jury verdict that claims were not invalid as anticipated or obvious, in action alleging infringement of patent for technology for backing up client data. 35 U.S.C.A. § 102.

### [19] Patents 291 ↪16(2)

291 Patents

291II Patentability

291II(A) Invention; Obviousness

291k16 Invention and Obviousness in

General

291k16(2) k. Prior Art in General.

Most Cited Cases

### Patents 291 ↪16(3)

291 Patents

291II Patentability

291II(A) Invention; Obviousness

291k16 Invention and Obviousness in

General

291k16(3) k. View of Person Skilled in

Art. Most Cited Cases

### Patents 291 ↪36.1(1)

291 Patents

291II Patentability

291II(A) Invention; Obviousness

291k36 Weight and Sufficiency

291k36.1 Secondary Factors Affecting

Invention or Obviousness

291k36.1(1) k. In General. Most

Cited Cases

Determination that patent is invalid as obvious is based on underlying factual inquiries including: (1) the scope and content of the prior art; (2) the level of ordinary skill in the art; (3) the differences between the claimed invention and the prior art; and (4) objective evidence of nonobviousness. 35 U.S.C.A. § 102.

### [20] Patents 291 ↪323.3

291 Patents

291XII Infringement

291XII(B) Actions

291k323 Final Judgment or Decree

291k323.3 k. Relief from Judgment or

Decree. Most Cited Cases

Jury verdict awarding \$8,378,145 in damages, for infringement of patents for automating delivery of professional services and backing up client data, was not supported by substantial evidence, and thus district court abused its discretion in denying motion for new trial on damages; although royalty base of \$41 per infringing transaction was reasonable, expert's calculation of royalty rate of 19% of revenue was speculative, as expert did not explain how much the factors he considered affected the rate and he inexplicably shifted his analysis from percentage of profit to percentage of revenue, and there was no evidence of other compensable damages that jury could have added to a lower reasonable royalty rate to arrive at award. 35 U.S.C.A. § 284.

### [21] Courts 106 ↪96(7)

106 Courts

106II Establishment, Organization, and Procedure

106II(G) Rules of Decision

106k88 Previous Decisions as Controlling or as Precedents

106k96 Decisions of United States Courts as Authority in Other United States Courts

106k96(7) k. Particular Questions or Subject Matter. Most Cited Cases

When reviewing damages in patent cases, Court of Appeals for the Federal Circuit apply regional circuit law to procedural issues and Federal Circuit law to substantive and procedural issues pertaining to patent law.

### [22] Federal Civil Procedure 170A ↪2339

170A Federal Civil Procedure



--- F.3d ---, 2012 WL 3573845 (C.A.Fed. (Conn.))  
 (Cite as: 2012 WL 3573845 (C.A.Fed. (Conn.)))

170AXVI New Trial

170AXVI(B) Grounds

170Ak2338 Verdict or Findings Contrary to Law or Evidence

170Ak2339 k. Weight of Evidence.

#### Most Cited Cases

District court may grant a motion for a new trial even when there is evidence to support the jury's verdict, so long as the court determines that, in its independent judgment, the jury has reached a seriously erroneous result or its verdict is a miscarriage of justice. [Fed.Rules Civ.Proc.Rule 59, 28 U.S.C.A.](#)

#### [23] Federal Courts 170B ⚡825.1

170B Federal Courts

170BVIII Courts of Appeals

170BVIII(K) Scope, Standards, and Extent

170BVIII(K)4 Discretion of Lower Court

170Bk825 New Trial or Rehearing

170Bk825.1 k. In General. [Most](#)

#### Cited Cases

Denial of a motion for a new trial is reviewed for abuse of discretion. [Fed.Rules Civ.Proc.Rule 59, 28 U.S.C.A.](#)

#### [24] Federal Civil Procedure 170A ⚡2311

170A Federal Civil Procedure

170AXVI New Trial

170AXVI(A) In General

170Ak2311 k. In General. [Most Cited](#)

#### Cases

#### Federal Courts 170B ⚡825.1

170B Federal Courts

170BVIII Courts of Appeals

170BVIII(K) Scope, Standards, and Extent

170BVIII(K)4 Discretion of Lower Court

170Bk825 New Trial or Rehearing

170Bk825.1 k. In General. [Most](#)

#### Cited Cases

Standard for ordering a new trial is somewhat less stern than that for entering judgment as a matter of law (JMOL), but Court of Appeals' review of

a district court's disposition of motion for a new trial is more deferential. [Fed.Rules Civ.Proc.Rule 59, 28 U.S.C.A.](#)

#### [25] Federal Courts 170B ⚡812

170B Federal Courts

170BVIII Courts of Appeals

170BVIII(K) Scope, Standards, and Extent

170BVIII(K)4 Discretion of Lower Court

170Bk812 k. Abuse of Discretion.

#### Most Cited Cases

District court abuses its discretion when its decision is based on clearly erroneous findings of fact, is based on erroneous interpretations of the law, or is clearly unreasonable, arbitrary, or fanciful. [Fed.Rules Civ.Proc.Rule 59, 28 U.S.C.A.](#)

#### [26] Federal Civil Procedure 170A ⚡2343

170A Federal Civil Procedure

170AXVI New Trial

170AXVI(B) Grounds

170Ak2343 k. Amount of Recovery in

General. [Most Cited Cases](#)

On a motion for a new trial on the issue of damages, the trial court must scrutinize the evidence to ensure that the jury's damages award is supported by substantial evidence. [Fed.Rules Civ.Proc.Rule 59, 28 U.S.C.A.](#)

#### [27] Patents 291 ⚡312(1.7)

291 Patents

291XII Infringement

291XII(B) Actions

291k312 Evidence

291k312(1) Presumptions and Burden

of Proof

291k312(1.7) k. Profits and Dam-

ages. [Most Cited Cases](#)

Patentee in an infringement action bears the burden of proving damages. [35 U.S.C.A. § 284.](#)


#### [28] Patents 291 ⚡318(1)

291 Patents

--- F.3d ---, 2012 WL 3573845 (C.A.Fed. (Conn.))  
 (Cite as: 2012 WL 3573845 (C.A.Fed. (Conn.)))

291XII Infringement  
 291XII(B) Actions  
 291k318 Profits  
 291k318(1) k. In General. **Most Cited**


Cases

**Patents 291**  **319(1)**

291 Patents  
 291XII Infringement  
 291XII(B) Actions  
 291k319 Damages  
 291k319(1) k. In General. **Most Cited**

Cases


Two alternative categories of infringement compensation are the patentee's lost profits and the reasonable royalty he would have received through arms-length bargaining. 35 U.S.C.A. § 284.

**[29] Patents 291**  **319(1)**

291 Patents  
 291XII Infringement  
 291XII(B) Actions  
 291k319 Damages  
 291k319(1) k. In General. **Most Cited**

Cases


If lost profits are not at issue in a patent infringement action, the reasonable royalty the patentee would have received from the alleged infringer through arms-length bargaining is the floor for damages. 35 U.S.C.A. § 284.

**[30] Patents 291**  **312(10)**

291 Patents  
 291XII Infringement  
 291XII(B) Actions  
 291k312 Evidence  
 291k312(3) Weight and Sufficiency  
 291k312(10) k. Profits and Damages. **Most Cited Cases**


Jury finding that royalty base of \$41 per infringing transaction was reasonable, in determining damages award for infringement of patents for automating delivery of professional services and

backing up client data, was supported by substantial evidence, including expert testimony that infringer's \$41 average transaction fee was the same for infringing and non-infringing transactions because overall average fee remained the same as proportion of infringing transactions increased. 35 U.S.C.A. § 284.

**[31] Courts 106**  **96(7)**


106 Courts  
 106II Establishment, Organization, and Procedure  
 106II(G) Rules of Decision  
 106k88 Previous Decisions as Controlling or as Precedents  
 106k96 Decisions of United States Courts as Authority in Other United States Courts  
 106k96(7) k. Particular Questions or Subject Matter. **Most Cited Cases**

Court of Appeals reviews the district court's admission of evidence in a patent infringement action under the standard of the law of the pertinent circuit.

**[32] Patents 291**  **319(1)**

291 Patents  
 291XII Infringement  
 291XII(B) Actions  
 291k319 Damages  
 291k319(1) k. In General. **Most Cited Cases**

Proposed licenses may have some value for determining a reasonable royalty as damages for patent infringement in certain situations; their evidentiary value is limited, however, by the fact that patentees could artificially inflate the royalty rate by making outrageous offers. 35 U.S.C.A. § 284.

**[33] Patents 291**  **312(10)**

291 Patents  
 291XII Infringement  
 291XII(B) Actions  
 291k312 Evidence

--- F.3d ---, 2012 WL 3573845 (C.A.Fed. (Conn.))  
(Cite as: 2012 WL 3573845 (C.A.Fed. (Conn.)))

291k312(3) Weight and Sufficiency  
291k312(10) k. Profits and Dam-  
ages. [Most Cited Cases](#)

Lump sum payments negotiated between a pat-  
entee and an infringer's competitors should not sup-  
port running royalty rates as a basis for infringe-  
ment damages without testimony explaining how  
they apply to the facts of the case. 35 U.S.C.A. §  
284.

### [34] Patents 291 312(10)

291 Patents

291XII Infringement

291XII(B) Actions

291k312 Evidence

291k312(3) Weight and Sufficiency

291k312(10) k. Profits and Dam-

ages. [Most Cited Cases](#)

While witnesses are not required to use any or  
all of the *Georgia-Pacific* factors when testifying  
about royalty damages in patent cases, if they  
choose to use them, reciting each factor and making  
a conclusory remark about its impact on the dam-  
ages calculation before moving on does no more  
than tell the jury what factors a damages analysis  
could take into consideration; expert witnesses  
should concentrate on fully analyzing the applic-  
able factors, not cursorily reciting all fifteen, and,  
while mathematical precision is not required, some  
explanation of both why and generally to what ex-  
tent the particular factor impacts the royalty calcu-  
lation is needed. 35 U.S.C.A. § 284.

### [35] Federal Courts 170B 696

170B Federal Courts

170BVIII Courts of Appeals

170BVIII(G) Record

170Bk696 k. Statement of Evidence or  
Proceedings. [Most Cited Cases](#)

When parties rely on demonstratives to present  
evidence or mathematical calculations to the jury, it  
is their burden to assure that the record captures the  
substance of the data so presented.

### [36] Patents 291 312(1.7)

291 Patents

291XII Infringement

291XII(B) Actions

291k312 Evidence

291k312(1) Presumptions and Burden  
of Proof

291k312(1.7) k. Profits and Dam-  
ages. [Most Cited Cases](#)

### Patents 291 319(1)

291 Patents

291XII Infringement

291XII(B) Actions

291k319 Damages

291k319(1) k. In General. [Most Cited  
Cases](#)

Jury in a patent infringement action is entitled  
to award compensatory damages in addition to a  
reasonable royalty because a reasonable royalty is  
merely the floor below which damages shall not  
fall, but patentees bear the burden of proving such  
damages. 35 U.S.C.A. § 284.

### [37] Patents 291 319(3)

291 Patents

291XII Infringement

291XII(B) Actions

291k319 Damages

291k319(3) k. Right to Increase Dam-  
ages Awarded. [Most Cited Cases](#)

Juries, when determining damages in a patent  
infringement action, may not award litigation costs  
or punish infringers. 35 U.S.C.A. § 284.

### [38] Patents 291 316

291 Patents

291XII Infringement

291XII(B) Actions

291k316 k. Scope and Extent of Relief in  
General. [Most Cited Cases](#)

### Patents 291 317

--- F.3d ---, 2012 WL 3573845 (C.A.Fed. (Conn.))  
 (Cite as: 2012 WL 3573845 (C.A.Fed. (Conn.)))

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

#### 291k317 k. Permanent Injunction. [Most Cited Cases](#)

District court, in determining whether to grant patentee relief for ongoing infringement of patents for automating delivery of professional services and backing up client data, was required to address the propriety of patentee's request for either a permanent injunction or an ongoing royalty, and to explain any decision it made with respect thereto.

#### [39] Patents 291 316

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

#### 291k316 k. Scope and Extent of Relief in General. [Most Cited Cases](#)

There are several types of relief for ongoing patent infringement that a court can consider: (1) it can grant an injunction; (2) it can order the parties to attempt to negotiate terms for future use of the invention; (3) it can grant an ongoing royalty; or (4) it can exercise its discretion to conclude that no forward-looking relief is appropriate in the circumstances.

#### [40] Patents 291 324.54

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

#### 291k324 Appeal

#### 291k324.54 k. Presumptions and Discretion of Lower Court. [Most Cited Cases](#)

District court's decision regarding relief for ongoing patent infringement is reviewed for abuse of discretion.

#### [41] Patents 291 316

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

#### 291k316 k. Scope and Extent of Relief in General. [Most Cited Cases](#)

While a trial court in a patent infringement action is not required to grant a compulsory license as relief for ongoing infringement even when an injunction is denied, the court must adequately explain why it chooses to deny this alternative relief when it does so.

#### [42] Interest 219 39(2.20)

## 219 Interest

### 219III Time and Computation

#### 219k39 Time from Which Interest Runs in General

#### 219k39(2.5) Prejudgment Interest in General

#### 219k39(2.20) k. Particular Cases and Issues. [Most Cited Cases](#)

District court abused its discretion in failing to provide full explanation as to why prejudgment interest on damages was not necessary to adequately compensate patentee for infringement of patents for automating delivery of professional services and backing up client data, where district court had specifically instructed jury it could not award any interest. [35 U.S.C.A. § 284](#).

#### [43] Patents 291 324.54

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

#### 291k324 Appeal

#### 291k324.54 k. Presumptions and Discretion of Lower Court. [Most Cited Cases](#)

Court of Appeals reviews a district court's denial of prejudgment interest on patent infringement damages for an abuse of discretion. [35 U.S.C.A. § 284](#).

#### [44] Interest 219 39(2.20)

## 219 Interest

### 219III Time and Computation

#### 219k39 Time from Which Interest Runs in

--- F.3d ---, 2012 WL 3573845 (C.A.Fed. (Conn.))  
 (Cite as: 2012 WL 3573845 (C.A.Fed. (Conn.)))

## General

[219k39\(2.5\)](#) Prejudgment Interest in General

[219k39\(2.20\)](#) k. Particular Cases and Issues. [Most Cited Cases](#)

Prejudgment interest on patent infringement damages should be awarded absent some justification for withholding such an award. [35 U.S.C.A. § 284](#).

### [45] Interest [219](#) [39\(2.20\)](#)

#### 219 Interest

##### [219III](#) Time and Computation

[219k39](#) Time from Which Interest Runs in General

[219k39\(2.5\)](#) Prejudgment Interest in General

[219k39\(2.20\)](#) k. Particular Cases and Issues. [Most Cited Cases](#)

An award of prejudgment interest on patent infringement damages carries out Congress's overriding purpose of affording patent owners complete compensation since a patentee's damages also include the forgone use of the money between the time of infringement and the date of judgment. [35 U.S.C.A. § 284](#).

### [46] Federal Civil Procedure [170A](#) [2242](#)

#### 170A Federal Civil Procedure

##### [170AXV](#) Trial

##### [170AXV\(J\)](#) Special Verdict

[170Ak2242](#) k. Construction and Operation. [Most Cited Cases](#)

District courts are given broad discretion to interpret verdict forms.

### [47] Patents [291](#) [319\(3\)](#)

#### 291 Patents

##### [291XII](#) Infringement

##### [291XII\(B\)](#) Actions

##### [291k319](#) Damages

[291k319\(3\)](#) k. Right to Increase Damages Awarded. [Most Cited Cases](#)

District court abused its discretion in denying patentee's motion for enhanced damages on ground that jury's damages award provided "complete compensation" for willful infringement, in action for infringement of patents for automating delivery of professional services and backing up client data; verdict did not, and could not, include enhanced damages, and district court provided no independent justification for denying enhanced damages. [35 U.S.C.A. § 284](#).

### [48] Patents [291](#) [324.54](#)

#### 291 Patents

##### [291XII](#) Infringement

##### [291XII\(B\)](#) Actions

##### [291k324](#) Appeal

[291k324.54](#) k. Presumptions and Discretion of Lower Court. [Most Cited Cases](#)

District court's decision on whether to enhance damages for patent infringement is reviewed for abuse of discretion, that is, whether the decision was based on clearly erroneous findings of fact, an incorrect conclusion of law, or a clear error of judgment. [35 U.S.C.A. § 284](#).

### [49] Patents [291](#) [319\(3\)](#)

#### 291 Patents

##### [291XII](#) Infringement

##### [291XII\(B\)](#) Actions

##### [291k319](#) Damages

[291k319\(3\)](#) k. Right to Increase Damages Awarded. [Most Cited Cases](#)

Decision whether to grant enhanced damages for patent infringement requires a two-step process: (1) the fact-finder must determine whether an infringer is guilty of conduct, such as willful infringement, upon which increased damages may be based; and (2) if so, the court then determines, exercising its sound discretion, whether, and to what extent, to increase the damages award given the totality of the circumstances. [35 U.S.C.A. § 284](#).

### [50] Patents [291](#) [319\(3\)](#)

--- F.3d ---, 2012 WL 3573845 (C.A.Fed. (Conn.))  
 (Cite as: 2012 WL 3573845 (C.A.Fed. (Conn.)))

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

##### 291k319 Damages

291k319(3) k. Right to Increase Damages Awarded. [Most Cited Cases](#)

## Patents 291 325.11(3)

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

##### 291k325 Costs

##### 291k325.11 Disbursements in General

##### 291k325.11(2) Attorney Fees

##### 291k325.11(3) k. Award to

Plaintiff. [Most Cited Cases](#)

Upon a finding of willful patent infringement, a trial court should provide reasons for not increasing a damages award or for not finding a case exceptional for the purpose of awarding attorney fees. 35 U.S.C.A. § 284.

## [51] Patents 291 319(3)

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

##### 291k319 Damages

291k319(3) k. Right to Increase Damages Awarded. [Most Cited Cases](#)

Enhanced damages for patent infringement are punitive, not compensatory, and can be awarded only in the trial court's discretion. 35 U.S.C.A. § 284.

## [52] Patents 291 325.11(3)

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

##### 291k325 Costs

##### 291k325.11 Disbursements in General

##### 291k325.11(2) Attorney Fees

##### 291k325.11(3) k. Award to

Plaintiff. [Most Cited Cases](#)

District court abused its discretion in failing to explain why award of attorney fees was unwarranted, where competitor willfully infringed patents for automating delivery of professional services and backing up client data. 35 U.S.C.A. § 285.

## [53] Patents 291 325.11(3)

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

##### 291k325 Costs

##### 291k325.11 Disbursements in General

##### 291k325.11(2) Attorney Fees

##### 291k325.11(3) k. Award to

Plaintiff. [Most Cited Cases](#)

Although an attorney fees award is not mandatory when willful patent infringement has been found, trial court should explain its decision not to award attorney fees. 35 U.S.C.A. § 285.

## [54] Patents 291 319(3)

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

##### 291k319 Damages

291k319(3) k. Right to Increase Damages Awarded. [Most Cited Cases](#)

District court abused its discretion in failing to award, or explain its reason for denying, damages for the period between jury's verdict and judgment in action for infringement of patents for automating delivery of professional services and backing up client data. 35 U.S.C.A. § 284.

## [55] Patents 291 319(3)

## 291 Patents

### 291XII Infringement

#### 291XII(B) Actions

##### 291k319 Damages

291k319(3) k. Right to Increase Damages Awarded. [Most Cited Cases](#)

District courts have discretion to award damages for periods of patent infringement not con-



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sidered by the jury. 35 U.S.C.A. § 284.

**[56] Patents 291 ↪ 325.11(3)**

291 Patents

291XII Infringement

291XII(B) Actions

291k325 Costs

291k325.11 Disbursements in General

291k325.11(2) Attorney Fees

291k325.11(3) k. Award to

Plaintiff. **Most Cited Cases**

District court acted within its discretion in denying request by patentee's principal for sanctions and exceptional-case attorney fees against infringer; infringer's litigation against principal, although questionable, was not vexatious. **Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.; 35 U.S.C.A. § 285.**

**[57] Federal Courts 170B ↪ 813**

170B Federal Courts

170BVIII Courts of Appeals

170BVIII(K) Scope, Standards, and Extent

170BVIII(K)4 Discretion of Lower Court

170Bk813 k. Allowance of Remedy

and Matters of Procedure in General. **Most Cited Cases**

A district court's sanctions determination is reviewed for an abuse of discretion. **Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.**

**Patents 291 ↪ 328(2)**

291 Patents

291XIII Decisions on the Validity, Construction, and Infringement of Particular Patents

291k328 Patents Enumerated

291k328(2) k. Original Utility. **Most**

**Cited Cases**

**Patents 291 ↪ 328(2)**

291 Patents

291XIII Decisions on the Validity, Construction, and Infringement of Particular Patents

291k328 Patents Enumerated

291k328(2) k. Original Utility. **Most Cited Cases**

**Patents 291 ↪ 328(2)**

291 Patents

291XIII Decisions on the Validity, Construction, and Infringement of Particular Patents

291k328 Patents Enumerated

291k328(2) k. Original Utility. **Most**

**Cited Cases**

5,895,468, 6,049,801, 6,182,078. Infringed.

5,903,881. Cited as Prior Art.

6,981,007. Invalid in Part.

Appeals from the United States District Court for the District of Connecticut, in case no. 06-CV-1935, **Alfred V. Covello**, Judge. **Gene S. Winter**, St. Onge Steward Johnston & Reens, LLC, of Stamford, CT, argued for plaintiff/counterclaim defendant-cross appellant and Third party defendant-cross appellant. With him on the brief were **Erin R. Woelker**, **Michael J. Kosma**, and **Stephen Ball**.

**John A. Krause**, Fitzpatrick, Cella, Harper & Scinto of New York, New York argued for defendant/counterclaim plaintiff-appellant. With him on the brief were **Douglas Sharrott**, **Marc J. Pensabene** and **Robert J. Czarnecki, Jr.** Of counsel was **Robert H. Fischer**.

Before **PROST**, **MAYER** and **O'MALLEY**, Circuit Judges.

Dissenting opinion filed by Circuit Judge **MAYER**. **O'Malley**, Circuit Judge.

\*1 This patent case, presenting myriad issues, includes an appeal from a jury's finding of willful infringement of four patents, a cross-appeal of the trial court's denial of various post-trial motions, and a separate cross-appeal of a denial of sanctions and attorneys' fees. On the appeal, we affirm the jury's finding of infringement, affirm the jury's finding of

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no anticipation of most, but not all, claims, and we vacate the jury's damages award and remand for a new trial on damages. On the cross-appeal, we remand for a proper determination of the post-trial motions at issue. As to the separate cross-appeal, we affirm the denial of fees and sanctions.

### BACKGROUND

This case is between WhitServe, LLC (“WhitServe”), a company owned by Wesley Whitmyer, Jr., and Computer Packages, Inc. (“CPi”). Mr. Whitmyer is WhitServe's sole principal and employee, and is both an inventor and a practicing patent attorney. CPi is in the business of helping other businesses pay their patent maintenance fees on time. WhitServe sued CPi, alleging that CPi's systems infringe four of its patents, all of which list Whitmyer as their inventor and have been assigned to WhitServe.

The patents at issue are [U.S. Patent No. 6,981,007 \(the '007 Patent\)](#), entitled “Onsite Backup for Internet-Based Data Processing,” and the “468 Family” of patents: [U.S. Patent No. 5,895,468 \(the '468 Patent\)](#), entitled “System Automating Delivery of Professional Services”; [U.S. Patent No. 6,182,078 \(the '078 Patent\)](#), entitled “System for Delivering Professional Services Over the Internet”; and [U.S. Patent No. 6,049,801 \(the '801 Patent\)](#), entitled “Web Site Providing Professional Services.” The '468 Family is directed to automating the delivery of professional services while the '007 Patent covers technology for backing up client data. At trial, WhitServe asserted that CPi's products—Desktop EARS, TERMS, CPi On-Line, Hosted EARS, and Hosted PMS—infringe Whit-Serve's four patents. EARS and TERMS are computer software programs operated by a CPi customer, such as a law firm, to generate and send reminders to its clients of upcoming patent or trademark annuity or maintenance fee deadlines. CPi OnLine, Hosted EARS, and Hosted PMS serve the same purpose, but the CPi software and annuity database are “hosted” on CPi's servers, rather than stored on the client's computers.

CPi answered WhitServe's complaint with affirmative defenses and a counterclaim against WhitServe seeking a declaratory judgment of non-infringement, invalidity and unenforceability. CPi also named Whitmyer as a “counterclaim defendant,” asserting that he is the alter ego of WhitServe, that he is the true owner of the asserted patents, and that he personally engaged in inequitable conduct in the prosecution of those patents.<sup>FN1</sup>

The primary factual dispute at trial concerned how CPi's products operated, and whether they fell within the '468 Family claims' definition of “automatic.” There was also a dispute over whether the '007 Patent was anticipated by the prior art. The jury found that CPi failed to prove any claims invalid, that CPi's systems infringed the four patents, that CPi's infringement was willful, and that Whit-Serve was entitled to \$8,378,145 in damages.<sup>FN2</sup>

\*2 After trial, the trial court denied all of Whit-Serve's requested post-trial relief. First, the court denied Whit-Serve's request for a permanent injunction on the merits, and did not address a request for a compulsory license. WhitServe's requests for enhanced damages and attorneys' fees, prejudgment interest, prejudgment remedy, and disclosure were then dismissed as “moot” in light of the trial court's order entering judgment, in which it stated that “[t]he court concludes that the ... jury verdict ... is fair, just, and reasonable and adequately addresses all legal and equitable considerations.” WhitServe's motion for post-trial accounting was denied as “moot” without explanation. The district court later reconsidered WhitServe's “mooted” motions and this time denied them on the merits after stating that the “damages awarded in favor of the plaintiff ... constitute complete compensation with respect to this matter.” The court entered judgment in favor of Whitmyer on the third party complaint “consistent with the jury's verdict,” but denied a motion by Whitmyer seeking fees and sanctions from CPi for the assertion of that claim. The court explained its denial of Whitmyer's motion by stating that he had “failed to set forth facts warranting such relief.”



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The court also denied as “moot” a series of motions CPi filed seeking judgment as a matter of law (JMOL) and/or a new trial, again on the grounds that the jury verdict was “fair, just and reasonable.”

CPi appealed and WhitServe and Whitmyer each cross-appealed. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

CPi claims that the trial court erred in denying its post-trial motions for JMOL and/or a new trial. It argues that (1) its products do not infringe the '468 Family because they do not work “automatically”; (2) the '007 Patent is anticipated by the prior art; and (3) the damages award should be reduced or vacated for a new trial.<sup>FN3</sup> WhitServe cross-appeals on grounds that it should have been granted a permanent injunction or compulsory license against CPi and that it was entitled to pre-judgment interest, enhanced damages, attorneys' fees, and a post-trial accounting. Whitmyer cross-appeals requesting his fees and expenses.

## DISCUSSION

### I. CPi's Appeal

[1] We first address CPi's arguments on appeal. As noted, we affirm the trial court's denial of JMOL on infringement because substantial evidence supports the jury's verdict. We also affirm the denial of JMOL on anticipation on most claims, but reverse-in-part because we find that substantial evidence does not support the jury's finding that Claim 10 of the '007 Patent is not anticipated. We remand for a new trial on damages because the jury's damages verdict is unsupported by the record and the trial court abused its discretion when it failed to order a new damages trial.

[2][3][4][5] This court reviews denial of post-trial motions under regional circuit law, the Second Circuit in this case. See *Revolution Eyewear, Inc. v. Aspex Eyewear, Inc.*, 563 F.3d 1358, 1370 (Fed.Cir.2009). The Second Circuit reviews a denial of JMOL *de novo*. *AMW Materials Testing, Inc. v. Town of Babylon*, 584 F.3d 436, 456 (2d Cir.2009). Similar to the frequently applied sub-

stantial evidence standard,

\*3 a district court may set aside the [jury's] verdict pursuant to Rule 50 only where there is “such a complete absence of evidence supporting the verdict that the jury's findings could only have been the result of sheer surmise and conjecture, or there is such an overwhelming amount of evidence in favor of the movant that reasonable and fair minded men could not arrive at a verdict against him.”

*Id.* (quoting *Cross v. N.Y.C. Transit Auth.*, 417 F.3d 241, 248 (2d Cir.2005)). The Second Circuit considers the evidence in the light most favorable to the non-moving party and gives that party the benefit of all reasonable inferences that the jury might have drawn in the non-movant's favor. *Caceres v. Port Auth.*, 631 F.3d 620, 622 (2d Cir.2011).

#### A. Infringement

Claim 1 of '468 Patent is representative of the claims in the '468 Patent Family. It recites:

A device for automatically delivering professional services to a client comprising:

a computer;

a database containing a plurality of client reminders, each of the client reminders comprising a date field having a value attributed thereto;

software executing on said computer for *automatically querying* said database by the values attributed to each client reminder date field to retrieve a client reminder;

software executing on said computer for *automatically generating* a client response form based on the retrieved client reminder;

a communication link between said computer and the Internet;

software executing on said computer for *automatically transmitting* the client response form to the

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client through said communication link; and,

software executing on said computer for *automatically receiving* a reply to the response form from the client through said communication link.

'468 Patent col. 6 l. 56 to col. 7 l. 8 (emphases added).

The district court interpreted “automatic” in the claims as:

a process that, once initiated, is performed by a machine without the need for manually performing that process, that is, without the need for human intervention. A machine may still perform the claimed process automatically, even though a human might manually initiate or interrupt the process.

In reaching the conclusion that the term “automatic” as used in claim 1 does not exclude all possible human intervention, the trial court relied on our decision in *CollegeNet, Inc. v. Apply Yourself, Inc.*, 418 F.3d 1225, 1235 (Fed.Cir.2005), where we explained that dishwashers and autopilots could still be automatic even though they must be started by a human, or their operation may be interrupted by a human. As we did in *CollegeNet*, the trial court focused on the use of the term “comprising” in the claim to find that unrecited elements of manual, human actions were not excluded from its scope. *See id.* at 1235 (stating that, “[w]hile claim 1 does not expressly provide for human intervention, the use of ‘comprising’ suggests that additional, unrecited elements are not excluded. Such elements could include human actions to expressly initiate the automatic [querying, generating, transmitting, or receiving], or to interrupt such functions.”). The trial court then explained why it believed this construction of automatic was supported both by the patent's specification and by its prosecution history.

\*4 [6][7] CPI does not challenge the trial court's claim construction on appeal. <sup>FN4</sup> Instead,

CPI argues that, even allowing for the presence of some manual intervention in the elements of the claims, its products do not infringe because they require a type of manual intervention not contemplated by or consistent with the asserted claims. CPI contends that, while all of the asserted claims of the '468 Family require “software executing on said computer for automatically querying said database by values attributed to each client reminder date field to retrieve a client reminder,” “the accused products all require, at minimum, the manual entry of a due date range during the execution of the querying process.” Appellant's Br. 30 (original emphasis deleted). <sup>FN5</sup> Essentially, CPI argues that, because a person using their products must manually choose a due date range to be queried, and, in its view, choosing the date range occurs *during* the querying process, there is no infringement because that manual action neither initiates nor interrupts the querying process. WhitServe counters that this argument is illogical because the “querying process does not start until the user enter[s] a date range and starts the process.” Cross-Appellant's Br. 59. We agree with WhitServe. We find that there is substantial evidence to support the jury's implicit finding that choosing a due date range is separate from CPI's automated querying process and that all other manual operations required by CPI's products are outside the automated tasks required by the claims.

Dr. Sayward was WhitServe's expert on the fields of computer science, docketing systems, database management, and Internet and network applications. He testified that in analyzing CPI's products for infringement, he spent “hundreds of hours” looking at the products' source code and user manuals, and experimenting with test accounts. Dr. Sayward explained, element by element, how, for example, CPI's Hosted EARS product worked and infringed claim 1 of the '468 Patent. Regarding the “automatically querying” element, he explained that, after “enter[ing] a date range,” the user “press[es] the search button.” “After pressing the search button what happens under the scene is

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that the database of client reminders are searched and then a display is produced which shows the results of that search.” “So after the law firm enters the information and clicks the search button, Hosted EARS automatically queries at that time.” Thus, Dr. Sayward testified that “entering a date range” happens before the querying begins in Hosted EARS and the querying process itself (checking the database entries against a desired date range) happens automatically. Dr. Sayward testified similarly about Desktop EARS/TERMS, and CPi Online.

When CPi's counsel cross-examined Dr. Sayward, he asked whether the querying process could start before due dates were manually entered by the user. Dr. Sayward rejected that proposition and stated that entering the date range can not be part of the querying process because prior to entering the date range “you haven't formed a proper question.” To be a query, “you need a date range, so that you know what you're searching for.” The jury was entitled to credit this explanation and reject CPi's theory that querying involves choosing the date range to be searched.

\*5 CPi's argument that their products require “date entry” and other manual steps does not negate the fact that, when the evidence is viewed in the light most favorable to WhitServe, there was substantial evidence to support a finding to the contrary. Thus, we affirm the trial court's denial of CPi's motion for JMOL of noninfringement.<sup>FN6</sup>

#### B. Anticipation

[8] The jury found that two of CPi's products, Hosted EARS and Hosted PMS, infringed aU 15 claims of the '007 Patent. It also found that CPi's Desktop Ears product infringed claim 10 of the '007 Patent. CPi concedes that it infringes the '007 Patent, if valid, but argues that the '007 Patent is invalid under 35 U.S.C. § 102 as anticipated by U.S. Patent No. 5,903,881 (“the Schrader Patent”). We conclude that claim 10 of the '007 Patent is invalid as anticipated, but that substantial evidence supports the jury's finding of no anticipation as to the other claims.

[9][10][11][12][13] “[A] claim is anticipated if each and every limitation is found either expressly or inherently in a single prior art reference.” *Celeritas Techs., Ltd. v. Rockwell Int'l Corp.*, 150 F.3d 1354, 1361 (Fed.Cir.1998). The “elements must be arranged or combined in the same way as in the claim,” but “the reference need not satisfy an *ipsisssimis verbis* test.” *In re Gleave*, 560 F.3d 1331, 1334 (Fed.Cir.2009) (internal citations and quotation marks omitted). Also, the reference must “enable one of ordinary skill in the art to make the invention without undue experimentation.” *Impax Labs., Inc. v. Aventis Pharm. Inc.*, 545 F.3d 1312, 1314 (Fed.Cir.2008). Patents are presumed to be valid and invalidity must be proven by clear and convincing evidence. *Microsoft Corp. v. i4i Ltd. P'ship*, —U.S. —, —, 131 S.Ct. 2238, 2242, 180 L.Ed.2d 131 (2011). Anticipation is a question of fact reviewed for substantial evidence when tried to a jury. *Orion IP, LLC v. Hyundai Motor Am.*, 605 F.3d 967, 974 (Fed.Cir.2010). Because the jury found that the patents were not invalid, under the Second Circuit's JMOL standard, we review the evidence to see if there is such an “overwhelming amount of evidence in favor of [CPi] that reasonable and fair minded men could not arrive at a verdict against [it].” *AMW*, 584 F.3d at 456. This is a high burden.

The '007 Patent is entitled “Onsite Backup from Internet-Based Data Processing.” It recognizes that many companies have moved their data processing systems from their private networks to the Internet and now allow their customers to access and manipulate their data via a web interface. '007 Patent col. 1 ll. 21–24. The object of the '007 Patent is to allow clients to backup to their own computer a copy of their Internet-based data, which, from the specification, appears to be data resulting from outsourced data-processing that is stored on a central computer separated from the client's network by the Internet. *Id.* col. 1 ll. 21–24, col. 2 ll. 6–24. This objective is the opposite of traditional backup systems, which allow the client to copy data from their own computer onto an external

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computer or server. *Id.* col. 1 ll. 49–56. In addition to saving a copy of the Internet-based data, dependent claims 3, 6, and 9 go on to claim “software executing on said central computer for retrieving said data backup.” *Id.* col. 3 ll. 48–50, col. 4 ll. 12–15, col. 4 ll. 49–51. Essentially, those claims recite the central computer’s ability to restore any lost data by retrieving it from the client’s personal computer.

\*6 CPI focused its anticipation case on claim 10. It recites:

A system for local storage of data through the Internet comprising:

a central computer connected to the Internet;

a client computer connected to the Internet;

at least one storage having a plurality of *client data* records, said at least one storage accessible by said central computer, each *client data* record having an identifier that relates the *client data* record to a client;

a *client data request*, sent from said client computer via the Internet to said central computer; and

*client data* corresponding to said *client data request*, sent from said central computer via the Internet to said client computer and saved on said client computer.

*Id.* col. 4 ll. 52–64 (emphases added).

The Court construed “client data” to mean “a complete or partial backup or copy of data records corresponding to a particular client.” It interpreted “data request” to mean “a data backup request.” Neither party appeals these claim constructions. Thus, claim 10 requires: a client and central computer, each connected to the Internet; backups or copies of data records corresponding to a particular client that are identifiable by client and accessible by the central computer; a data backup request sent by the client computer to the central computer; and

a complete or partial backup or copy of data records corresponding to that client sent from the central computer to the client computer where they are then saved. Basically, it allows clients to access and copy their own files or files associated with them from across the Internet. On its face, claim 10 (as well as claims 11–15, which depend from claim 10) does not recite Internet-based data, which is differentiated from general client data by the fact that it must be accessible and modifiable by the client’s act of processing the data over the Internet. *See* ’007 Patent col. 1 ll. 21–24, col. 2 ll. 6–24.

The Schrader Patent is the only piece of prior art upon which CPI relied for its anticipation defense. It discloses an electronic checkbook system that reconciles pending financial transactions against cleared transactions. <sup>FN7</sup> Among other things, it claims: a computer-based system that allows the user to send transactions from his computer to a financial institution’s computer system for processing; a display showing an account balance of all cleared transactions; a display showing an account balance of both cleared and uncleared transactions; the ability to receive from the financial institution a list of transactions cleared since the last time they were checked; and then updating the two account balances. Schrader Patent col. 19 l. 48 to col. 20 l. 25. In the section of the specification entitled “Update Statement,” it explains that, once a user requests an update, the “personal finance application connects to the financial institution computer system” over the Internet. *Id.* col. 16 l. 63 to col. 17 l. 5. Then the software “creates a request file that includes a request for all cleared transactions since the date of the last update” that is sent to the financial institution. *Id.* col. 17 ll. 6–9, ll. 15–19. In response, the financial institution’s computer system “creates a response file that contains the set of transactions that have been cleared” since the last update. *Id.* col. 17 ll. 22–25. The response file is then sent back to the application and processed, which includes “extracting each of the cleared transactions from the response file and storing them.” *Id.* col. 17 ll. 26–38.

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\*7 CPI's expert, Dr. Alexander, testified about claim 10 and stated that, in Schrader, the users "retriev[e] from the financial institution these records, just as the '007 Patent requires downloading to a client." He also stated that the download is "to your business or personal computer from the bank's computer." "[T]he banks maintain the database with your checkbook record" and "these are records that are specific to you." "So there's a request. In the case of the Quicken Schrader prior art, you're at a personal computer, at your business or at home, and you request the downloading of records that essentially are unposted records that the bank has processed." Then, according to Dr. Alexander, the "the bank giv[es] you the response file, which is the records that are specific to you, based on your client ID, your account number." "And these records are saved on your computer in the case of Quicken, the Schrader patent, they are saved on your computer, and/or business computer." His testimony tracks all of claim 10's elements. CPI argues that, therefore, the Schrader Patent, which describes a computer downloading files specific to the user from a central computer, contains all of the limitations claimed in the '007 Patent.

WhitServe argues that Schrader is missing certain elements claimed in the ' 007 Patent. WhitServe states that "Dr. Sayward testified at trial that Schrader was missing additional key claim elements: (1) a central computer for transmitting client data to a client computer (required by all claims 1–15); (2) Internet-based data (required by claims 1–9); and (3) data conversion (required by claims 7–9 and 12–15)." We conclude that claim 10 of the '007 Patent is anticipated by the Schrader Patent despite these asserted differences. First, Schrader clearly discloses a central computer in the form of the financial institution's computer. Additionally, claim 10 recites neither Internet-based data nor data conversion. In fact, the only rebutting testimony offered by WhitServe specifically regarding claim 10 was its expert's conclusory testimony that claim 10's limitations "aren't taught by Schrader."

[14] In its brief, WhitServe argues that Schrader does not anticipate claim 10: "Schrader does not relate to a system for backing up *client data*" because "the Schrader request file is not a request for a data backup of *existing* data, but rather is a request for *new* data relating to cleared transactions since the client was last online." Cross-Appellant's Br. 70 (emphases added). Such "arguments of counsel cannot take the place of evidence lacking in the record." *Estee Lauder Inc. v. L'Oreal, S.A.*, 129 F.3d 588, 595 (Fed.Cir.1997) (internal citations and quotation marks omitted). Moreover, claim 10 does not distinguish between data that is "existing" or "new," and instead recites only "client data," which was defined as "a complete or partial backup or copy of data records corresponding to a particular client." Data corresponding to a user's cleared financial transactions clearly satisfies the definition of a "copy of data records corresponding to a particular client."

\*8 WhitServe points to no other elements that distinguish claim 10 from the Schrader Patent and does not argue that the Schrader Patent is not enabling. See *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 314 F.3d 1313, 1355 (Fed.Cir.2003) (explaining that there is "a [rebuttable] presumption ... that both the claimed and unclaimed disclosures in a prior art patent are enabled."). Thus, in this case, even viewing the evidence in a light most favorable to WhitServe, no reasonable juror could have found that claim 10 was not anticipated by the Schrader Patent. Therefore, the trial court's denial of CPI's motion for JMOL regarding claim 10 is reversed because claim 10 is anticipated by the Schrader Patent. Contrary to CPI's arguments, however, the fact that claim 10 is invalid does not cause all of the other claims of the ' 007 Patent to fail.

[15][16] We do not invalidate the rest of the claims because they contain additional elements that CPI has not established were either anticipated or obvious. The law states:

Each claim of a patent (whether in independent,



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dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim.... The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting invalidity.

35 U.S.C. § 282. “Typically, testimony concerning anticipation must be testimony from one skilled in the art and must identify each claim element, state the witnesses' interpretation of the claim element, and explain *in detail* how each claim element is disclosed in the prior art reference.” *Schumer v. Lab. Computer Sys., Inc.*, 308 F.3d 1304, 1315 (Fed.Cir.2002) (emphasis added).

[17] In *Koito Manufacturing Co. v. Turn-Key-Tech, LLC*, 381 F.3d 1142, 1151 (Fed.Cir.2004), the defendant entered another patent into evidence as anticipatory prior art, “but otherwise failed to provide any testimony or other evidence that would demonstrate to the jury how that reference met the limitations of the claims....” Instead, the defendant's expert testified about four prior art patents simultaneously and stated:

All these prior art patents provide for products and ways of making products with thick and thin sections. The gate locations are shown, and they all have inherently crossing flows in sections of the product, sometimes substantial sections of these products, such that they all would have a cross-laminated section as Turn Key is applying that term to the accused lenses.

*Id.* at 1152. We held that such “[g]eneral and conclusory testimony ... does not suffice as substantial evidence of invalidity.” *Id.* Because general and conclusory testimony is not enough to be even substantial evidence in support of a verdict, it is certainly not enough to require us to overturn a jury's finding of no invalidity.

[18] In this case, CPi's expert, Dr. Alexander, explained what part of the Schrader Patent anticipi-

ated each element in claim 10. When asked if encryption and data format conversion were well known at the time the '007 Patent was filed, he answered affirmatively. CPi's attorney then asked, “Do you have an opinion on the validity of Claims 1, 2, 3, 7, 8, 9, 10, 11, 12, 13, 14 and 15 of the '007 Patent?”<sup>FN8</sup> Dr. Alexander replied, “Yes, they're all invalid because of prior art.” Finally, CPi's attorney asked, “And are all the elements of those claims disclosed in the Schrader patent?” Dr. Alexander stated, “Yes, they are.” We find this generalized exchange, which failed to articulate how the Schrader Patent anticipated the other claims' specific elements, to be a far cry from the “overwhelming amount of evidence” needed to require us to overturn the jury's verdict. *See Id.*

\*9 There are several additional elements contained in the other claims, moreover, which a reasonable jury could find absent from the Schrader Patent. For example, dependent claims 3, 6, and 9 require that there be “software executing on said central computer for retrieving said data backup.” The Schrader Patent has not been shown to allow the financial institution to retrieve the data previously sent to the user. Also, claims 1–9 require Internet-based data,<sup>FN9</sup> which is not clearly disclosed by the Schrader Patent. While CPi argues that WhitServe's expert conceded that Schrader disclosed Internet-based data, what he actually said was that the “client computer get[s] the data from the financial institution computer system ‘over a network.’ “ A jury reasonably could have concluded that the fact that data is transferred over the Internet does not automatically make it “Internet-based data” because, as disclosed in the '007 Patent, that element requires the ability to *modify* centrally stored data from across the Internet, rather than simply *sending* it across the Internet.<sup>FN10</sup>

[19][20] CPi also states that the '007 patent is rendered obvious by the Schrader patent. However, “an obviousness determination ... is based on underlying factual inquiries including: (1) the scope

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and content of the prior art; (2) the level of ordinary skill in the art; (3) the differences between the claimed invention and the prior art; and (4) objective evidence of nonobviousness.” *Eli Lilly & Co. v. Teva Pharm. USA, Inc.*, 619 F.3d 1329, 1336 (Fed.Cir.2010). Other than the cursory statement that data conversion and encryption were “well known” at the time of patenting by CPI’s expert, CPI has not pointed to facts necessary for us to conclude that no reasonable jury could have found the rest of the ‘007 Patent’s claims to be nonobvious. Therefore, while we conclude that claim 10 of the ‘007 Patent is invalid as anticipated, we find that substantial evidence supports the jury’s verdict of no invalidity as to the remaining ‘007 Patent’s claims.

### C. Damages

[21][22][23][24][25] CPI appeals the trial court’s denial of its post-trial motions for JMOL or a new trial on damages on the grounds that the jury’s \$8,378,145 damages award is not supported by substantial evidence and is, in fact, against the clear weight of the evidence. “When reviewing damages in patent cases, we apply regional circuit law to procedural issues and Federal Circuit law to substantive and procedural issues pertaining to patent law.” *Word-Tech Sys., Inc. v. Integrated Network Solutions, Inc.*, 609 F.3d 1308, 1318 (Fed.Cir.2010) (internal citations and quotation marks omitted). In the Second Circuit, “a district court may grant a new trial pursuant to [Federal Rules of Civil Procedure] Rule 59 even when there is evidence to support the jury’s verdict, so long as the court ‘determines that, in its independent judgment, the jury has reached a seriously erroneous result or its verdict is a miscarriage of justice.’” *AMW*, 584 F.3d at 456 (quoting *Nimely v. City of New York*, 414 F.3d 381, 392 (2d Cir.2005)). Denial of a motion for a new trial is reviewed for abuse of discretion. *Id.* “The standard for ordering a new trial is therefore somewhat less stern than that for entering judgment as a matter of law, but our review of a district court’s disposition of a Rule motion is more deferential.” *Id.* “A district court ab-

uses its discretion when its decision is based on clearly erroneous findings of fact, is based on erroneous interpretations of the law, or is clearly unreasonable, arbitrary or fanciful.” *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1460 (Fed.Cir.1998) (en banc).

\*10 After CPI made its initial post-trial motions in this case, the trial court issued an order upholding the verdict. The only analysis it provided was that “ ‘[t]he court concludes that the \$8,378,145.00 jury verdict entered on May 25, 2010, is fair, just, and reasonable and adequately addresses all legal and equitable considerations.” It then dismissed as moot all post trial motions, including CPI’s motion regarding damages.

[26] We have said that “[m]ost jury damages awards reviewed on appeal have been held to be supported by substantial evidence.” *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1336 (Fed.Cir.2009). “Nonetheless, on post-trial JMOL motions, district court judges must scrutinize the evidence carefully to ensure that the ‘substantial evidence’ standard is satisfied, while keeping in mind that a reasonable royalty analysis ‘necessarily involves an element of approximation and uncertainty.’” *Id.* (quoting *Unisplay, S.A. v. Am. Elec. Sign Co.*, 69 F.3d 512, 517 (Fed.Cir.1995)). The same rule requiring the trial court to scrutinize the evidence applies to motions for new trials. In this case, we believe that, had the trial court scrutinized the damages evidence properly, it would have concluded that the evidence did not support the award. Because the jury’s verdict lacked evidentiary support, we conclude that the trial court abused its discretion when it denied the motion for a new trial.

[27][28][29] When a patent is infringed, the patentee is entitled to “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer.” 35 U.S.C. § 284. The patentee bears the burden of proving damages. *Lucent*, 580 F.3d at 1324. “Two alternative categories of infringement compensation are the patentee’s lost

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profits and the reasonable royalty he would have received through arms-length bargaining.” *Id.* If lost profits are not at issue, the reasonable royalty is the floor for damages. *Id.* The jury’s verdict form does not indicate how the award was calculated, whether it is a lump sum or running royalty, or whether it includes damages in addition to a reasonable royalty. At trial, both parties based their damage theories primarily on the 15 *Georgia–Pacific* factors, see *Georgia–Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116, 1120 (S.D.N.Y.1970),<sup>FN11</sup> which are meant to provide a reasoned economic framework for a “hypothetical negotiation, ... [which] attempts to ascertain the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began.” *Lucent*, 580 F.3d at 1324.

CPI’s main arguments against the verdict concern the testimony by WhitServe’s damages expert, Dr. Shapiro, and the closing argument made by WhitServe’s counsel. It argues that WhitServe improperly relied on a “business-wide” damages theory that included non-infringing revenue and caused the royalty base relied upon by the jury to be inflated by several times. It also argues that WhitServe’s damages expert’s testimony can not support the verdict because the royalty rate upon which he based his reasonable royalty calculation is merely speculative, as is WhitServe’s “other damages” theory based on the cost to develop CPI’s systems. Finally, it argues that WhitServe’s closing arguments were prejudicial and require a new trial because the trial court’s correcting statements were insufficient to prevent the jury from being tainted by WhitServe’s misstatements of law and fact.

\*11 In response, WhitServe proffers two main theories in support of the verdict. First, it argues that the lump sum licenses it presented at trial along with the *Georgia–Pacific* factors support Dr. Shapiro’s royalty rate of 16–19%, which, when applied to \$42–43 million in infringing revenue yields a royalty of about \$8 million. Second, it argues that the jury may have awarded a reasonable royalty of

about \$3 million and then increased the damages award based on “other damages” it felt WhitServe suffered. We find that neither theory supports the jury’s verdict.

#### i. Reasonable Royalty

[30] When a hypothetical negotiation would have yielded a running royalty, the classic way to determine the reasonable royalty amount is to multiply the royalty base, which represents the revenue generated by the infringement, by the royalty rate, which represents the percentage of revenue owed to the patentee. See, e.g., *Finjan, Inc. v. Secure Computing Corp.*, 626 F.3d 1197, 1208 (Fed.Cir.2010). In this case, CPI’s expert stated that there were 1,036,877 accused infringing transactions. WhitServe adopted that number at trial and on appeal. Thus, the royalty base is equivalent to the revenue generated by those transactions, which equals 1,036,877 times the average transaction fee charged by CPI for transactions that infringe WhitServe’s patents. There was a factual dispute over whether the average infringing service fee charged by CPI was \$15.69 or \$41. WhitServe’s expert, Dr. Shapiro, had based his original calculations on the \$15.69 figure provided by CPI. Dr. Shapiro changed his opinion to incorporate the \$41 figure on the eve of trial, however. By multiplying \$41 by a little more than 1 million infringing transactions, WhitServe argues the infringing revenue base was \$42–43 million.

CPI argues that number is far too high because Dr. Shapiro came up with the number by dividing CPI’s gross revenues by the total number of all transactions—including non-infringing transactions. It argues that including non-infringing transactions in the average fee calculation makes the revenue base unsupported by the evidence because it sweeps in non-infringing use, for which CPI says it charges higher fees. CPI’s expert testified that the correct revenue base was about \$18 million. WhitServe argues that CPI stipulated to evidence supporting the jury’s verdict in the form of its past financial data and that Dr. Shapiro properly used that



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information to determine that CPi's average infringing service fee was about \$41. We find that the jury was entitled to find that \$41 accurately represented the average service fee charged for infringing products.

In *Finjan*, the patentee's expert calculated the infringer's profit margin on accused products by using "company-wide, instead of product-specific, gross profits." 626 F.3d at 1209. The expert "explained to the jury that he found that the gross profit margin for the [accused] products was similar to the company-wide margin (both roughly 70%), so that 'the [accused] products ... have a gross profit margin ... that's close.'" *Id.* at 1209–10. We concluded that substantial evidence supported the award based on that profit margin because the expert "provided more than just a conclusory opinion, on which the jury was entitled to rely." *Id.* at 1210.

\*12 As in *Finjan*, we do not find reversible error in Dr. Shapiro's calculation of the average service fee because he explained that, as CPi automated more and more transactions, the average service fee remained the same over time. *See* J.A. 15667–68 (explaining that "one would expect a lower average service fee when the proportion of electronic transactions increased"). Non-infringing use, which commands a higher fee according to CPi, accounted for 97% of all transactions in 2003 but dropped to 60% in 2009 as CPi moved away from manual transactions and started conducting more automated transactions, using computers and the Internet. Dr. Shapiro explained that the average fee remained the same during that whole period, however. J.A. 15667. Thus, the jury was free to reason that the average fee would have decreased as the allegedly cheaper infringing transactions progressively made up a larger proportion of total transactions. Because that did not happen, it was reasonable to conclude that the infringing transactions were not, in fact, cheaper and that the average transaction fee is a fair approximation of the fee charged in the infringing transactions. *See Bluebonnet Sav. Bank, F.S.B. v. United States*, 266 F.3d

1348, 1355 (Fed.Cir.2001) (explaining that damage calculations are not an exact science and "it is enough if the evidence adduced is sufficient to enable a court or jury to make a fair and reasonable approximation" (internal quotation marks and citations omitted)).

[31] Although it would have been preferable to have broken the data down by specific transaction type, we do not find that Dr. Shapiro's reasoning on this point was impermissible speculation. Instead, "vigorous cross-examination, presentation of contrary evidence, and careful instruction on the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence." *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 856 (Fed.Cir.2010) (citing *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 596, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993)), *aff'd*, — U.S. —, 131 S.Ct. 2238, 180 L.Ed.2d 131 (2011). Here, CPi cross-examined Dr. Shapiro on the issue and presented contrary evidence.<sup>FN12</sup> The jury was entitled to believe that the average fee for the infringing transactions was about \$41. Thus, if there was evidence to support the corresponding royalty rate that would have yielded an \$8.3 million verdict, we could affirm.

We agree with CPi, however, that multiple errors in Dr. Shapiro's royalty rate calculation cause his ultimate opinion regarding a reasonable royalty rate to be speculative. Dr. Shapiro concluded that the royalty rate that would have resulted from a hypothetical negotiation between CPi and WhitServe was 16–19% of revenue. A 19% of revenue rate, if upheld, would support the jury's verdict because 19% of \$42–43 million is roughly \$8 million. WhitServe attempts to justify this royalty rate with several points of evidence.

[32] First, it argues that the jury was presented with a royalty rate as high as 31.8% during Dr. Shapiro's testimony. That rate was based on a *proposed*, but unaccepted, license based on the greater of \$5 or 7% per transaction. Dr. Shapiro stated that \$5 divided by CPi's asserted average service fee of

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\$15.69 equals 31.8%. This evidence can not support the jury's verdict because it is based on fiction and contradicts Dr. Shapiro's other testimony. Basically, Dr. Shapiro took WhitServe's hypothetical value of \$5 and applied it to a \$15.69 value that he had already opined was incorrect. We acknowledge that proposed licenses may have some value for determining a reasonable royalty in certain situations. Their evidentiary value is limited, however, by, *inter alia*, the fact that patentees could artificially inflate the royalty rate by making outrageous offers. See *Deere & Co. v. Int'l Harvester Co.*, 710 F.2d 1551, 1557 (Fed.Cir.1983) (upholding district court's decision to give little probative value to an offer to license).

\*13 In this case, the proposed offer and 31.8% rate have no probative value because Dr. Shapiro used the lower \$15.69 transaction fee amount to determine that \$5 represents 31.8% of the fee. Such an assertion is directly contrary to his argument in favor of a \$41 transaction fee. Dr. Shapiro can not have it both ways. He can not use \$41 to boost the royalty base and then use \$15.69 to boost the royalty rate. No reasonable juror could have credited both values. The 31.8% value is therefore based on pure conjecture and, like the 25% rule of thumb, is irrelevant. See *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed.Cir.2011) (“Gemini's starting point of a 25 percent royalty had no relation to the facts of the case, and as such, was arbitrary, unreliable, and irrelevant.”) Had he divided \$5 by the higher \$41 fee he urged, the result would have been about 12%, significantly lower than the roughly 19% upon which WhitServe argues the verdict is based.

[33] Next, WhitServe cites to the two lump sum royalties it successfully negotiated with CPI competitors. WhitServe argues that the 19% royalty rate is supported by the fact that it secured two limited, lump-sum licenses, both approximately in the \$2–3 million range. WhitServe states those licenses were limited and based on little to no infringement, and, thus, justify an increased royalty rate. CPI

counters that parties must use comparable patent licenses when determining reasonable royalty damages and that these were not comparable to what WhitServe sought at trial. In *Lucent*, we said that “[f]or a jury to use a running-royalty agreement as a basis to award lump sum damages ... some basis for comparison must exist in the evidence presented to the jury.” 580 F.3d at 1330. In that case, the running royalties did not constitute substantial evidence in support of the verdict because “the jury had almost no testimony with which to recalculate in a meaningful way the value of any of the running royalty agreements to arrive at the lump-sum damages award.” *Id.* The converse of that rule applies here because lump sum payments similarly should not support running royalty rates without testimony explaining how they apply to the facts of the case.

In this case, Dr. Shapiro cited to the two lump sum payments as evidence to support an increased royalty rate under *Georgia-Pacific*, but did not offer any testimony to explain how those payments could be converted to a royalty rate. He is correct to state that those payments support a “higher” rate, but he offered no explanation of how much the rate should have been increased. FN13 As in *Lucent*, “we therefore can not understand how the jury could have adequately evaluated the probative value of those agreements.” 580 F.3d at 1328. Thus, to the extent WhitServe argues the award is based on a running royalty, the lump-sum agreements are not substantial evidence in support of the jury's verdict. Additionally, even if the award is meant to be a lump sum, which it does not appear to be, we note the jury's verdict of \$8.3 million was over 3 times the average of the lump sum licenses presented. As in *Lucent*, where the award was a multiple of the average license amounts presented, here, there is “little evidentiary basis under *Georgia-Pacific* Factor 2 for awarding roughly three to four times the average amount in the lump-sum agreements in evidence.” 580 F.3d at 1332.

\*14 WhitServe also argues that the *Georgia-Pacific* factors support the 19% rate. As the

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starting point of his analysis, Dr. Shapiro used the now discarded rule of thumb that assumes the patentee would get about 25% of the infringer's expected profit had they reached an agreement before infringement began.<sup>FN14</sup> See *Uniloc*, 632 F.3d at 1315 (“Evidence relying on the 25 percent rule of thumb is ... inadmissible under *Daubert* and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue.”). He testified that, starting at the 25% figure, it is appropriate to adjust the rate up or down using the *Georgia-Pacific* factors. He did not explain how much each factor affected the rate,<sup>FN15</sup> however, and he testified that almost all factors justified an increase in the applicable rate, a few were neutral in terms of their impact, and none justified a decreased rate. This type of superficial recitation of the *Georgia-Pacific* factors, followed by conclusory remarks, can not support the jury's verdict.

[34] We do not require that witnesses use any or all of the *Georgia-Pacific* factors when testifying about damages in patent cases. If they choose to use them, however, reciting each factor and making a conclusory remark about its impact on the damages calculation before moving on does no more than tell the jury what factors a damages analysis could take into consideration. See *Lucent*, 580 F.3d at 1329 (explaining that a “damages award cannot stand solely on evidence which amounts to little more than a recitation of royalty numbers” and jurors cannot rely on “superficial testimony” with “no analysis”). Expert witnesses should concentrate on fully analyzing the applicable factors, not cursorily reciting all fifteen. And, while mathematical precision is not required, some explanation of both why and generally to what extent the particular factor impacts the royalty calculation is needed. We believe that Dr. Shapiro's testimony and the arguments premised thereon encouraged the jury to reach a purely speculative judgment.

After his generalized discussion of the *Georgia-Pacific* factors, Dr. Shapiro concluded his testimony by opining on the results of a hypothetical

negotiation between the parties. He testified:

There's two steps in a reasonable royalty calculation. One is to determine the royalty base, which are the revenues upon which the royalty rate is applied. The second step is the royalty rate itself. And multiplying the royalty rate by the ... royalty base results in the reasonable royalty damages. And in this matter, what I used as a royalty rate was 16 percent for any ... revenues earned prior to 2008[and] a 19 percent royalty for any revenues from 2008 up to the present.

Dr. Shapiro did not actually state the royalty base he used or the final reasonable royalty amount he thought was reasonable, but WhitServe's attorney directed the jury's attention to a demonstrative:

\*15 Q: Thank you, Dr. Shapiro—oh, I'm sorry. Dr. Shapiro, this is a chart that summarizes CPI's overall revenue and gross profits from the years 2005 to 2009, and do you believe that the damages that you've associated with CPI are reasonable in view of these numbers?

A: Yes.

After reviewing his testimony, we are left with the unmistakable conclusion that the jury heard that Dr. Shapiro started at 25% of profit and adjusted that rate “up.” He then announced that the appropriate royalty rate in this case is 16–19% of revenue. The record contains no evidence regarding CPI's expected profit margins that would explain how Dr. Shapiro converted a percent of profit royalty rate into one applied to a percent of revenue. Without some guideposts, the task of determining a reasonable royalty under 35 U.S.C. § 284 is impossible. “The law does not require an expert to convey all his knowledge to the jury....” *Lucent*, 580 F.3d at 1329. But we have also said that “superficial testimony” and the simple recitation of royalty numbers that happen to be in the ballpark of the jury's award will not support the jury's award when no analysis is offered to the jury which would allow them to evaluate the probative value of those numbers. See *id.*

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[35] When asked during oral argument where in the record we could find an explanation for Dr. Shapiro's shift from a percentage of profits to a percentage of revenue, WhitServe's counsel responded that he could not recall the number his own witness came up with but "the record is complete with his analysis of what the profit margin is." Oral Arg. at 27:18–27:40. It may be, but we could not find it. FN16 CPI's expert did testify to CPI's profit margins, asserting that the profit margin was 21.9% for all transactions between 2002 and 2007 and 26.3% for infringing transactions conducted between 2002 and 2010. If these numbers are accurate, a 19% of revenue royalty represents between 86.75% and 72.24% of CPI's profit. FN17 Thus, we must assume Dr. Shapiro started at 25% of profit and somehow arrived at a royalty amount that accounted for about three quarters of CPI's profits. After reviewing Dr. Shapiro's bare-bones *Georgia-Pacific* analysis, these amounts do not appear to be supported anywhere in the evidence. Therefore, we do not believe the jurors would have been able to determine whether such an amount is "reasonable." See *Lucent*, 580 F.3d at 1330 (explaining that a past royalty amount of \$2.00 per unit is "difficult, if not impossible, to evaluate" without any testimony on the price of the product). Thus, the royalty rate suggested by Dr. Shapiro does not support the verdict because his testimony is conclusory, speculative and, frankly, out of line with economic reality.

WhitServe next argues that perhaps the jury awarded a lower reasonable royalty and added in several million dollars of "other damages." We find that the "other damages" to which WhitServe refers have no relationship to the harm caused by CPI and also can not support the verdict.

ii. "Other Damages"

\*16 [36] WhitServe first argues that, because CPI spent \$5–10 million developing the infringing systems, \$5–10 million could be added to the award to help WhitServe "overcome the competitive harm and market distortion caused by CPI's infringement." Cross-Appellant's Br. 45. While CPI's de-

velopment costs might be relevant to a hypothetical licensing negotiation, there is no justification for an award that adds those costs on top of a running royalty based verdict. 35 U.S.C. § 284 requires that patentees be compensated for the infringement, not that their entry into the industry be fully financed. See 35 U.S.C. § 284. WhitServe next mentions "sticky customers," but points to no evidence to quantify how inertia has harmed WhitServe. Finally, WhitServe argues that the jury could have awarded a reasonable royalty of an unknown amount and added "other" damages in accordance with *Maxwell v. J.Baker, Inc.*, 86 F.3d 1098, 1108 (Fed.Cir.1996), and various district court cases that have upheld jury awards made up of a reasonable royalty plus other damages. We agree that the jury is entitled to award compensatory damages in addition to a reasonable royalty because a reasonable royalty is "merely the floor below which damages shall not fall." *Bandag, Inc. v. Gerrard Tire Co.*, 704 F.2d 1578, 1583 (Fed.Cir.1983). Patentees bear the burden of proving such damages, however and, here, there is no evidence to support a higher award.

In *Maxwell*, we upheld a jury award which expressly included \$ .05 per pair of shoes plus other damages amounting to about \$.10 per pair, because it was supported by evidence of a \$.10 per pair royalty. 86 F.3d at 1110 ("Thus, the jury did not arbitrarily increase the award of damages. Instead, the jury's verdict reflects the actual damages sustained by Maxwell...")• WhitServe has not demonstrated lost sales, diminished royalty rates, or other compensable damages. Therefore, any additional damages would be speculative and the damages do not fall "within the range encompassed by the record as a whole." *Unisplay*, 69 F.3d at 519.

[37] We find that the jury's damages award—whether characterized as a reasonable royalty or "other damages"—must be the result of sheer surmise and conjecture, "divorced from proof of economic harm linked to the claimed invention and ... inconsistent with sound damages jurispru-

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dence” *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 868 (Fed.Cir.2010). We find, therefore, that the trial court abused its discretion when it failed to grant CPi a new trial on damages. See *AMW*, 584 F.3d at 456 (stating a new trial can be granted when the verdict is seriously erroneous). We vacate the award and remand for a new trial on damages.<sup>FN18</sup>

## II. WhitServe's Cross-Appeal

WhitServe has cross-appealed, asserting that the district court improperly denied its requests for a permanent injunction, compulsory license, pre-judgment interest, enhanced damages, attorneys' fees, and a post-trial accounting. As noted above, the trial court addressed each motion only briefly. The trial court denied WhitServe's request for a permanent injunction in one page—stating that, because WhitServe had failed to establish irreparable harm from ongoing infringement, no injunction should issue. WhitServe's motion for an accounting was denied as moot without explanation. WhitServe's other motions were all originally denied as “moot” in light of the court's order finding that the jury award “adequately addressed all equitable and legal considerations.” When WhitServe sought reconsideration and argued that its motions were not moot, the court denied the post-trial motions on the merits. Again, the court premised its ruling solely on its view that the “damages awarded in favor of the plaintiff on May 25, 2011(sic) constituted complete compensation with respect to this matter.” *WhitServe LLC v. Computer Packages, Inc.*, No. 06–CV–01935, slip op. at 1 (D.Conn. May 5, 2011) (“WhitServe's Motion for Reconsideration as to Motions Denied as Moot”) (ECF No. 488).

\*17 The trial court's treatment of the challenged post-trial motions was inadequate. The trial court's order denying those motions is vacated and the motions are remanded for consideration in light of governing legal principles and consideration of the charge upon which the jury verdict in favor of the plaintiff was premised.

### A. Relief for Ongoing Infringement

[38] WhitServe first cross-appeals the trial

court's refusal to provide any relief for CPi's ongoing infringement of its patents. Specifically, WhitServe argues it was an abuse of discretion for the trial court to deny its request for either a permanent injunction or an ongoing royalty and leave it uncompensated for future acts of infringement by CPi except via resort to serial litigation. CPi responds that the trial court properly refused to enjoin its infringement because WhitServe failed to establish it would suffer irreparable harm and that WhitServe was effectively granted prospective relief in the form of a paid-up license so no forward-looking relief was necessary.

[39] There are several types of relief for ongoing infringement that a court can consider: (1) it can grant an injunction; (2) it can order the parties to attempt to negotiate terms for future use of the invention; (3) it can grant an ongoing royalty; or (4) it can exercise its discretion to conclude that no forward-looking relief is appropriate in the circumstances. See *Telcordia Techs., Inc. v. Cisco Sys., Inc.*, 612 F.3d 1365, 1379 (Fed.Cir.2010) (“If the district court determines that a permanent injunction is not warranted, the district court may, and is encouraged, to allow the parties to negotiate a license.”); *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314–15 (Fed.Cir.2007) (“[A]warding an ongoing royalty where ‘necessary’ to effectuate a remedy ... does not justify the provision of such relief as a matter of course whenever a permanent injunction is not imposed.”).

[40] All of these decisions are reviewed for abuse of discretion. See, e.g., *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391, 126 S.Ct. 1837, 164 L.Ed.2d 641 (2006) (“The decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion.”); *Telcordia*, 612 F.3d at 1379 (“[T]he district court did not abuse its discretion by directing the parties to negotiate the terms of the appropriate royalty.”); *Paice*, 504 F.3d at 1315 (“[T]his court is unable to determine whether the district court abused its discretion in



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setting the ongoing royalty rate.”). Even under this highly deferential standard of review, we find the trial court's treatment of the questions of prospective relief inadequate. Accordingly, we remand for further consideration of WhitServe's alternative motions for a prospective remedy.

Preliminarily, we can not accept CPI's suggestion that a paid-up license was awarded. Although the jury heard evidence of two lump-sum licenses WhitServe had previously granted, the parties limited their damages arguments to past infringement rather than projected future infringement. The jury was instructed to award “damages,” which by definition covers only past harm. The jury's verdict did not indicate that the award was meant to cover future use of WhitServe's patents, and the trial court did not interpret the award as such. *See Telcordia*, 612 F.3d at 1377–78 (Fed.Cir.2010) (explaining trial courts have discretion to interpret verdict forms). We, accordingly, decline to find that post-trial relief was properly denied because a paid-up license was awarded. *Cf. Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1380–81 (Fed.Cir.2008) (holding that injunctive relief was unwarranted when the jury's award already included prospective relief).

\*18 As for the injunction, while the trial court stated that WhitServe had failed to establish irreparable harm, it did not explain why it reached that conclusion. For instance, the trial court did not address WhitServe's contention that it was a direct competitor in the market via its subsidiary, NetDocket, nor discuss whether monetary damages were alternatively available and adequate to address the forward-looking harm, if any, WhitServe might suffer. From such a record, it is impossible to conclude that the trial court properly exercised its discretion to assess whether injunctive relief is appropriate. While injunctive relief may very well not be appropriate on these facts, we simply can not tell on this record.<sup>FN19</sup>

[41] The record regarding the trial court's refusal to award a compulsory license is even more

sparse; the trial court never even addressed it. While this may be because WhitServe apparently first requested this relief in its reply in support of its motion for permanent injunction, the record, again, does not allow us to draw that conclusion. In *Paice*, we explained that a trial court's failure to explain the basis for its ongoing royalty rate precludes this court from reviewing the decision for an abuse of discretion, and thus, that remand was appropriate so the trial court could give some “indication as to why that rate is appropriate.” *See 504 F.3d at 1315* (trial court's failure to explain reasons for its decision regarding ongoing royalty prevents meaningful appellate review). While a trial court is not required to grant a compulsory license even when an injunction is denied, the court must adequately explain why it chooses to deny this alternative relief when it does so.

[42] We, therefore, vacate and remand this matter and direct the trial court to address the propriety of prospective relief and to explain any decision it makes with respect thereto. Of course, this decision must be made in light of both any new damages award and all relevant equitable considerations.

#### B. Prejudgment Interest

[43][44][45] WhitServe also cross-appeals the trial court's denial of its motion for prejudgment interest. “This court reviews a district court's denial of prejudgment interest for an abuse of discretion.” *Crystal Semiconductor Corp. v. TriTech Microelectronics Int'l, Inc.*, 246 F.3d 1336, 1346 (Fed.Cir.2001). As a rule, “prejudgment interest should be awarded under [35 U.S.C. § 284] absent some justification for withholding such an award.” *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 657, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1983). An award of prejudgment interest carries out Congress's “overriding purpose of affording patent owners complete compensation” since a patentee's damages also include the “forgone use of the money between the time of infringement and the date of judgment.” *Id.* at 655–56.

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[46] When the trial court denied the request for prejudgment interest, it stated that “an award of prejudgment interest is not necessary as the jury’s \$8,378,145.00 award is adequate to compensate for the defendant’s infringement on the plaintiffs patents.” District courts are given broad discretion to interpret verdict forms. *See Telcordia*, 612 F.3d at 1377–78. In this case, however, the judge specifically instructed the jury that they may “not award any interest on any damages.” The jury’s award could not, accordingly, constitute compensation for interest and the trial court abused its discretion in denying prejudgment interest without further analysis or justification. *See Devex*, 461 U.S. at 655 (explaining prejudgment interest is “necessary to ensure that the patent owner is placed in as good a position as he would have been in had the infringer entered into a reasonable royalty agreement”). The denial is vacated and remanded for a determination of whether prejudgment interest is warranted in light of any new damages award and, if deemed not warranted, for a full explanation as to why.

#### C. Enhanced Damages

\*19 [47][48] WhitServe next cross-appeals the district court’s denial of enhanced damages and attorneys’ fees despite the jury’s finding of willful infringement. As with the other motions we now consider, the district court denied as “moot” WhitServe’s motion for enhanced damages, and, on reconsideration, denied them on grounds that the verdict constituted “complete compensation.” “The district court’s decision on whether to enhance damages is reviewed for abuse of discretion, that is, whether the decision was based on clearly erroneous findings of fact, an incorrect conclusion of law, or a clear error of judgment.” *Spectralytics, Inc. v. Cordis Corp.*, 649 F.3d 1336, 1347 (Fed.Cir.2011).

[49] The decision whether to grant enhanced damages as allowed under 35 U.S.C. § 284 requires a two-step process. *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed.Cir.1996). “First, the fact-finder must determine whether an infringer is guilty of

conduct upon which increased damages may be based. If so, the court then determines, exercising its sound discretion, whether, and to what extent, to increase the damages award given the totality of the circumstances.” *Id.* “An act of willful infringement satisfies th[e] culpability requirement and is, without doubt, sufficient to meet the first requirement to increase a compensatory damages award.” *Id.* (citing *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826–27 (Fed.Cir.1992), *superseded on other grounds as recognized by Hoechst Celanese Corp. v. BP Chems. Ltd.*, 78 F.3d 1575 (Fed.Cir.1996)).

[50][51][52] The jury found CPI’s infringement to be willful, and CPI has not appealed that finding. “Upon a finding of willful infringement, a trial court should provide reasons for not increasing a damages award or for not finding a case exceptional for the purpose of awarding attorneys fees.” *Id.* at 1572. In this case, the only reason provided for not increasing the award was that the jury’s verdict constituted “complete compensation.” Enhanced damages, however, are punitive, not compensatory, and can be awarded only in the judge’s discretion. *Id.* at 1570; *Odettes, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1274 (Fed.Cir.1999). Additionally, the judge explicitly told the jury that they “may not add anything to the amount of damages to punish the accused infringer or to set an example.” Thus, the jury’s verdict did not, and properly can not, include enhanced damages. We find, therefore, that the trial court abused its discretion in denying the motion for enhanced damages without independent justification; we remand the issue for a determination of whether enhanced damages are warranted and an explanation of the grounds for that determination.

#### D. Attorneys’ Fees

[53] WhitServe cross-appeals the trial court’s denial of its attorneys’ fees. “The court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285. “Although an attorney fee award is not mandatory when willful infringement has been found, precedent estab-

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lishes that the court should explain its decision not to award attorney fees.” *Spectralytics*, 649 F.3d at 1349. As in *Spectralytics*,

\*20 the district court did not separately analyze the attorney fee issue, but denied attorney fees in conjunction with denial of enhanced damages. Indeed, similar considerations may be relevant to both enhanced damages and attorney fees. However, the situations in which § 284 and § 285 may be invoked are not identical. For example, attorney misconduct or other aggravation of the litigation process may weigh heavily with respect to attorney fees, but not for enhancement of damages.

*Id.* (internal citations omitted). Therefore, the trial court abused its discretion by failing to explain why attorneys' fees were unwarranted and the issue is remanded for a proper determination.

#### E. Post-Trial Accounting

[54][55] Finally, WhitServe appeals the denial of a post-trial accounting. “[W]hen damages are not found by a jury, the court *shall* assess them.” 35 U.S.C. § 284 (emphasis added). District courts have discretion to award damages for periods of infringement not considered by the jury. *See Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 582 F.3d 1288, 1303 (Fed.Cir.2009) (holding that “the district court was within its discretion to impose a royalty on [post-verdict sales not considered by the jury] in order to fully compensate” the patentee); *Finjan*, 636 F.3d at 1212–13 (explaining that the trial court erred when it did not award damages for the time between entry of judgment and entry of an injunction because otherwise the patentee would not be fully compensated); *Ecolab, Inc. v. FMC Corp.*, 569 F.3d 1335, 1353 n. 5 (Fed.Cir.2009), *modified in part by Ecolab, Inc. v. FMC Corp.*, 366 F. App'x 154, 155 (Fed.Cir.2009) (stating that an accounting should be ordered in order to adequately compensate the plaintiff). WhitServe states that the jury's verdict “was based on financial data up to March 31, 2010, and therefore does not include compensatory damages for CPI's infringement after

this date.” CPI argues that the jury's award was a paid-up license and no accounting is necessary.

“District courts have broad discretion to interpret an ambiguous verdict form, because district courts witness and participate directly in the jury trial process.” *Telcordia*, 612 F.3d at 1378. Here, however, not only did the trial court not exercise its discretion under *Telcordia* and find that the jury award included a paid-up license for post-verdict conduct, but we have already found that nothing in the record would support such a conclusion. Much like prejudgment interest, therefore, the trial court abused its discretion when it failed to award, or explain its reasons for denying, damages for the period between the jury's verdict and judgment. Accordingly, we vacate and remand this ruling. While we would normally direct an accounting of damages flowing from post-verdict and pre-judgment infringement, our decision to vacate the damages award and order a new trial would make such an accounting premature. On remand, the trial court shall give due consideration to any request for an accounting following a new damages verdict. <sup>FN20</sup>

#### III. Whitmyer's Cross-Appeal

\*21 [56][57] In his separate cross-appeal, Whitmyer claims the court erred in not awarding fees under 35 U.S.C. § 285 or sanctions under Federal Rule of Civil Procedure 11. A district court's Rule 11 determination is reviewed for an abuse of discretion. *Antonious v. Spalding & Evenflo Cos., Inc.*, 275 F.3d 1066, 1072 (Fed.Cir.2002). A fee award under 35 U.S.C. § 285 first requires a finding that the case was exceptional. *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1327 (Fed.Cir.2003). Whitmyer asked for sanctions and fees against CPI because CPI allegedly engaged in “vexatious” litigation. The trial court denied the motion because Whitmyer “failed to set forth facts warranting such relief.”

On appeal, Whitmyer complains that CPI filed a declaratory judgment against him in his personal capacity and deposed him 5 times for a total of 17 hours. CPI states that Whitmyer was deposed in his



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personal capacity as the sole principal of WhitServe and NetDocket and as a member of the St. Onge law firm, which is Net-Docket's sole client and is representing Whitmyer in this matter. CPi also argues that, because WhitServe's only assets are the patents, it was justified in counterclaiming against him personally in order to pierce the corporate veil and recover its fees. It also points out that Whitmyer never filed, or withdrew, any motions that argued that CPi failed to plead sufficient claims against Whitmyer, and thereby conceded that CPi was not acting vexatiously. While CPi's claims against Whitmyer are certainly questionable, including its original designation of him as a "counterclaim defendant," after reviewing Whitmyer's motion for fees and sanctions, as well as his truncated briefing on the issue, we decline to find an abuse of discretion in the court's denial of sanctions. We also find that the court did not err in concluding that the case was not exceptional. Therefore, the trial court's denial of Whitmyer's request for fees and sanctions is affirmed.

#### SUMMARY

- 1) The jury verdict of infringement is affirmed with regard to the valid claims.
- 2) The jury verdict finding the '007 patent to be not anticipated by the Schrader Patent is affirmed in part. The jury's verdict regarding claim 10 of the '007 is reversed because that claim is invalid as anticipated by the Schrader Patent.
- 3) The jury's damages award is vacated and remanded for a new trial.
- 4) The trial court's holdings regarding WhitServe's post-trial motions for a permanent injunction, compulsory license, prejudgment interest, enhanced damages, attorneys' fees, and a post-trial accounting are vacated and remanded.
- 5) The trial court's denial of Whitmyer's request for sanctions and fees is affirmed.

**AFFIRMED-IN-PART,**

**RE-**

**VERSED-IN-PART, VACATED-IN-PART,  
 AND REMANDED.**

#### COSTS

No costs.

Opinion for the court filed by Circuit Judge O'MALLEY.

MAYER, Circuit Judge, dissenting.

I respectfully dissent. There can be no infringement of U.S. Patent Nos. 5,895,468, 6,049,801 and 6,182,078 (collectively the "WhitServe patents") because they are invalid. The WhitServe patents are "barred at the threshold by [35 U.S.C.] § 101," *Diamond v. Diehr*, 450 U.S. 175, 188, 101 S.Ct. 1048, 67 L.Ed.2d 155 (1981), because they are directed to the abstract idea that it is useful to provide people with reminders of approaching due dates and deadlines. See *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, —U.S. —, —, 132 S.Ct. 1289, 1303, 182 L.Ed.2d 321 (2012) (explaining that section 101 performs a vital "screening function"); *Bilski v. Kappos*, —U.S. —, —, 130 S.Ct. 3218, 3225, 177 L.Ed.2d 792 (2010) (noting that whether claims are directed to statutory subject matter is a "threshold test").

#### I.

\*22 In *Bilski*, the Supreme Court rejected an application because it did not "add" anything to the otherwise abstract idea of minimizing economic risk. 130 S.Ct. at 3231. The claimed method failed to meet section 101's eligibility requirements because it simply described the idea of hedging against economic risk and applied it using "familiar statistical approaches" and "well-known random analysis techniques." *Id.* at 3224, 3231. In *Mayo*, likewise, process claims were invalidated under section 101 because they merely described a law of nature and applied it using "well-understood, routine, [and] conventional" means. 132 S.Ct. at 1294.

A similar analysis applies here. Prior to the "invention" disclosed in the WhitServe patents, at-

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torneys and other professionals used manual docketing systems to keep track of upcoming deadlines for their clients. See *U.S. Patent No. 5,895,468* col. 1 ll. 10–57. These manual docketing systems were inefficient and time-consuming because they required an attorney or other professional to “examin[e] a calendar periodically to notice upcoming deadlines,” and to “send [a client] multiple reminders if necessary.” *Id.* col. 1 ll. 38–41. “Another disadvantage” of these docketing systems was that they did “not employ modern computer communications media, such as the Internet.” *Id.* col. 1 ll. 54–56. The WhitServe patents purport to solve these problems by disclosing the use of general purpose computers and the Internet to keep track of upcoming client deadlines and to generate client reminders that such deadlines are approaching. See *id.* col. 2 ll. 21–22 (explaining that the claimed system “automatically prepares reminders ... for client due dates”); see also *id.* col. 2 ll. 24–25 (stating that the system “transmits reminders” of client due dates “over the Internet”).

Because the WhitServe patents simply describe a basic and widely-understood concept—that it is useful to provide people with reminders of important due dates and deadlines—and then apply that concept using conventional computer technology and the Internet, they fail to meet section 101’s subject matter eligibility requirements. “While running a particular process on a computer undeniably improves efficiency and accuracy, cloaking an otherwise abstract idea in the guise of a computer-implemented claim is insufficient to bring it within section 101.” *MySpace, Inc. v. Graphon Corp.*, 672 F.3d 1250, 1267 (Fed.Cir.2012) (Mayer, J., dissenting) (footnote omitted); see *Bancorp Servs., LLC v. Sunlife Assurance Co.*, No.2011–1467, 2012 WL 3037176 (Fed.Cir. July 26, 2012) (concluding that claims directed to a computerized method of managing a stable value protected life insurance policy fell outside section 101); *Dealertrack, Inc. v. Ruber*, 674 F.3d 1315, 1333 (Fed.Cir.2012) (holding that claims drawn to a method of applying for credit did not satisfy section 101, notwithstand-

ing the fact that they contained a limitation requiring the invention to be “computer aided”); *Fort Props., Inc. v. Am. Master Lease LLC*, 671 F.3d 1317, 1323 (Fed.Cir.2012) (concluding that claims which recited “using a computer” in implementing an otherwise abstract investment idea were patent-ineligible); *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1375 (Fed.Cir.2011) (emphasizing “that the basic character of a process claim drawn to an abstract idea is not changed by claiming only its performance by computers, or by claiming the process embodied in program instructions on a computer readable medium”).

\*23 “[L]imiting an abstract idea to one field of use or adding token postsolution components [does] not make the concept patentable.” *Bilski*, 130 S.Ct. at 3231. Accordingly, the fact that the claimed system is arguably limited to communications between attorneys and other professionals and their clients is insufficient to bring it within the ambit of section 101. Likewise, the fact that the WhitServe patents contain both method and apparatus claims is insufficient to render them patent-eligible. See *Bancorp*, 2012 WL 3037176, at \*9 (“[T]he district court correctly treated the asserted system and medium claims as no different from the asserted method claims for patent eligibility purposes.”); *CLS Bank Int’l v. Alice Corp.*, No.2011–1301, 2012 WL 2708400, at \*11 (Fed.Cir. July 9, 2012) (“Because mere computer implementation cannot render an otherwise abstract idea patent eligible, the analysis ... must consider whether the asserted claims (method, system, and media) are substantively directed to nothing more than a fundamental truth or disembodied concept ....” (citations omitted)). When assessing whether method or apparatus claims meet the requirements of section 101, patent eligibility does not “depend simply on the draftsman’s art.” *Parker v. Flook*, 437 U.S. 584, 593, 98 S.Ct. 2522, 57 L.Ed.2d 451 (1978).

Because the patent system is designed to promote “the public disclosure of new and useful advances in technology,” *Pfaff v. Wells Elecs., Inc.*,

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525 U.S. 55, 63, 119 S.Ct. 304, 142 L.Ed.2d 261 (1998), the section 101 analysis turns on whether the claims disclose some new technology or “‘inventive concept,’” *Mayo*, 132 S.Ct. at 1294, for applying an abstract idea or law of nature. Section 101’s prerequisites cannot be satisfied where, as here, a patentee simply describes a well-known concept and applies it using conventional computer technology and the Internet. See *Mayo*, 132 S.Ct. at 1302 (concluding that a process for calibrating the proper dosage of thiopurine drugs fell outside section 101 because it “add[ed] nothing of significance” to the application of a law of nature).

## II.

“[A] court may consider an issue antecedent to ... and ultimately dispositive of the dispute before it, even an issue the parties fail to identify and brief.” See *U.S. Nat’l Bank v. Indep. Ins. Agents*, 508 U.S. 439, 447, 113 S.Ct. 2173, 124 L.Ed.2d 402 (1993) (citations and internal quotation marks omitted). It is appropriate to take up an issue not specifically raised by the parties where there have been significant changes in applicable law since the trial court’s decision. See *Hormel v. Helvering*, 312 U.S. 552, 558, 61 S.Ct. 719, 85 L.Ed. 1037 (1941); see also *Kamen v. Kemper Fin. Servs., Inc.*, 500 U.S. 90, 99, 111 S.Ct. 1711, 114 L.Ed.2d 152 (1991) (“When an issue or claim is properly before the court, the court is not limited to the particular legal theories advanced by the parties, but rather retains the independent power to identify and apply the proper construction of governing law.”).

When it was before the trial court, Computer Packages, Inc. (“CPI”) unsuccessfully sought to obtain a declaratory judgment that the WhitServe patents were invalid under section 101. See Joint App’x 136, 142. Although CPI did not include a discussion of section 101 when it filed its appeal briefs here, we can take it up because the Supreme Court’s *Mayo* decision, which issued after CPI’s briefs were filed, makes clear that the Whit-Serve patents disclose no “‘inventive concept,’” “ 132 S.Ct. at 1294, that would even arguably confer patent eligibility.

See *Forshey v. Principi*, 284 F.3d 1335, 1356 (Fed.Cir.2002) (en banc) (“[D]ecision of an issue not decided or raised below is permitted when there is a change in the jurisprudence of the reviewing court or the Supreme Court after consideration of the case by the lower court.”). The majority errs in refusing to address the question of whether the WhitServe patents meet section 101’s eligibility requirements and in requiring CPI to return to the trial court to relitigate the appropriate measure of damages for its alleged infringement of plainly invalid claims. See *Bradley v. Sch. Bd. of Richmond*, 416 U.S. 696, 711, 94 S.Ct. 2006, 40 L.Ed.2d 476 (1974) (“[A] court is to apply the law in effect at the time it renders its decision, unless doing so would result in manifest injustice or there is statutory direction or legislative history to the contrary.”); *Hormel*, 312 U.S. at 557 (“Rules of practice and procedure are devised to promote the ends of justice, not to defeat them. A rigid and undeviating judicially declared practice under which courts of review would invariably and under all circumstances decline to consider all questions which had not previously been specifically urged would be out of harmony with this policy.”).

FN1. Because Whitmyer was not a plaintiff to the original action, he was later realigned as a third-party defendant, though it is unclear when that occurred and whether it was done by court order or stipulation.

FN2. Willfulness has not been appealed. See Oral Arg. at 36:47–37:00, available at <http://www.cafc.uscourts.gov/oral-argument-recordings/2011-1206/all> (“The only reason we didn’t appeal it is because there are so many issues in the case already.”).

FN3. CPI’s claim that the patents are unenforceable and its request for a “correction of ownership” are not at issue in this appeal.

FN4. While CPI alluded to the possibility

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that the trial court's claim construction was contrary to the patent's specification and prosecution history at times in its opening brief, it did not raise the issue in the "Statement of the Issues," cited no legal support for its claim construction "arguments," and did not even recite the standard of review for claim construction. It has, accordingly, waived the ability to argue for an alternative claim construction. See *Kao Corp. v. Unilever U.S., Inc.*, 441 F.3d 963, 973 n. 4 (Fed.Cir.2006) (stating that failure to set forth substantive discussion of claim construction in the statement of the issues presented, summary of the argument, and argument itself, constitutes waiver of any alternative claim construction). This finding renders moot WhitServe's motion, filed after CPI's opening brief, asking that we prohibit CPI from later requesting *de novo* review of the court's claim constructions.

FN5. In a footnote, CPI raises another reason why it believes the ' 801 Patent is not infringed. Appellant's Br. 32 n. 4. This argument is waived. *SmithKline Beecham v. Apotex Corp.*, 439 F.3d 1312, 1320 (Fed.Cir.2006) ("[A]rguments raised in footnotes are not preserved.").

FN6. From this evidence, the jury reasonably also could have concluded that CPI's products infringed under the doctrine of equivalents. The jury was instructed that they could find infringement under the doctrine, but CPI appealed only on the basis that its products do not literally infringe. There is, accordingly, more than one basis upon which to conclude that substantial evidence supports the jury's infringement verdict.

FN7. The Schrader Patent is sold under the trademark Quicken®.

FN8. It is unclear why Dr. Alexander did not mention claims 4 through 6, but it would not change the result if he had.

FN9. For example, claim 1 of the '007 Patent recites:

A system for onsite backup of *internet-based data* comprising:

a central computer;

a client computer;

a communications link between said central computer and the Internet;

a communications link between said client computer and the Internet;

at least one database containing a plurality of data records accessible by said central computer, each data record containing a client identification number;

software executing on said central computer for receiving a data backup request from said client computer;

software executing on said central computer for transmitting said data backup to said client computer for onsite backup of *internet-based data* on said client computer.

'007 Patent col. 3 ll. 30–44 (emphases added).

FN10. The '007 Patent describes an Internet-based data processing system in which a "client computer *executes software* 20, *residing on the data processing system* 15, for displaying, *updating*, and deleting data 12 stored on the central data processing system 15." '007 Patent col. 2 ll. 50–53 (emphases added). WhitServe's expert accurately described Internet-based data as "[i]f you have data that you constructed

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and you send it to a central computer for further processing, Internet based data is that data that you created yourself, plus the data that gets created as a consequence of doing that processing on a server computer.” He also agreed that a good definition is: “information that could be created on an application on the other side of the Internet from a client computer[.]”

FN11. We have stated that the factors include:

- (1) royalties the patentee has received for licensing the patent to others;
- (2) rates paid by the licensee for the use of comparable patents;
- (3) the nature and scope of the license (exclusive or nonexclusive, restricted or nonrestricted by territory or product type);
- (4) any established policies or marketing programs by the licensor to maintain its patent monopoly by not licensing others to use the invention or granting licenses under special conditions to maintain the monopoly;
- (5) the commercial relationship between the licensor and licensee, such as whether they are competitors;
- (6) the effect of selling the patented specialty in promoting sales of other products of the licensee;
- (7) the duration of the patent and license term;
- (8) the established profitability of the product made under the patent, including its commercial success and current popularity;
- (9) the utility and advantages of the patent property over old modes or devices;
- (10) the nature of the patented invention and the benefits to those who have used the invention;
- (11) the extent to which the infringer has used the invention and the value of that use;
- (12) the portion of profit or of the selling price that may be customary in that particular business to allow for use of the invention or analog-

- ous inventions;
- (13) the portion of the realizable profit that should be credited to the invention as opposed to its non-patented elements;
- (14) the opinion testimony of qualified experts;
- and (15) the results of a hypothetical negotiation between the licensor and licensee.

*i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 853 n. 3 (Fed.Cir.2010), *aff'd*, — U.S. —, 131 S.Ct. 2238, 180 L.Ed.2d 131 (2011).

FN12. CPi complains that Dr. Shapiro came up with his higher average transaction fee the night before he testified and presented the trial court with a conclusory expert report with no analysis and no citations to data. The trial court excluded the report after CPi objected but allowed Dr. Shapiro to testify as to his conclusion and permitted WhitServe to publish a chart including the information to the jury during closing. CPi states this information was inadmissible, prejudicial, and requires a new trial. Upon reviewing the trial transcript, it is unclear whether the trial court's ruling should have prohibited Dr. Shapiro from testifying as to the higher amount. At one point, the judge said that “whatever was furnished to [CPi] is going to be excluded, and that includes the material that's on that slide, and it's got to be excluded.” However, Dr. Shapiro was permitted to testify over objections. We review the admission of evidence under the standard of the law of the pertinent circuit, *Micro Chemical, Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1390–91 (Fed.Cir.2003), which is abuse of discretion in this case. *United States v. Roberts*, 660 F.3d 149, 157 (2d Cir.2011). It is difficult to tell if the trial court abused its discretion. Certainly, had CPi had more warning about Dr. Shapiro's proposed testimony, it may have more ef-



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fectively countered it. On the other hand, the trial court was in the best position to evaluate the threat of prejudice, if any, from the late disclosure, and he chose to allow some aspects of it. Ultimately, we do not decide whether the trial court's admission of this testimony was erroneous because we have determined a new trial is warranted on other grounds. If it is admitted again on remand, CPI will have time to formulate its rebuttal.

**FN13.** In contrast, CPI's expert, Mr. Tate, explained how he converted one of the lump-sum payments into what he called an effective royalty rate of 1.3% by dividing the license fee by the revenue generated by accused infringing sales.

**FN14.** We do not reverse based on the 25% rule, which we have held to be inadmissible under *Daubert*, because we announced that new rule of evidence after trial. See *Landgraf v. USI Film Prods.*, 511 U.S. 244, 275 n. 29 (1994) (assuming that "a new rule of evidence would not require an appellate remand for a new trial"). Additionally, neither party objected to its use at trial and the trial court was under no obligation to exclude the use of the 25% rule. See *Lucent*, 580 F.3d at 1325 (explaining that when neither party objected to the evidence and the trial judge had "no independent mandate to exclude" the evidence we must accept that it was properly before the jury). In fact, unlike in *Uniloc*, where Microsoft challenged its use, *both parties* used the 25% rule in this case. See 632 F.3d at 1312. On remand, use of the 25% rule should be revisited in light of *Uniloc*.

**FN15.** For example, we note the entire discussion of factors 9 and 13, which is representative of all of Dr. Shapiro's testimony, was:

Q: And here you have a slide showing the analysis of the ninth and thirteenth factors, and if you could please explain what those factors are about and how you applied them in this case?

A: Yes. The ninth factor refers to the advantages of a patented product over the old method. 13 refers to the portion of the profit due to the invention. Basically there's a whole host of CPI internal documents that discuss the disadvantages of the old paper-based process prior to 2002, and that would also support a higher royalty rate.

**FN16.** Much of Dr. Shapiro's testimony consists of his references to demonstrative charts shown to the jury, but without explanation or even recitation of the numbers presented therein. It is possible that useful information was on the charts, but they are not before us or even referenced by WhitServe. Additionally, we are aware that the trial judge excluded much of Dr. Shapiro's damages report. The record and briefs are silent on which charts were excluded and which went to the jury. When parties rely on demonstratives to present evidence or mathematical calculations to the jury, it is their burden to assure that the record captures the substance of the data so presented. We can not guess at what the jury saw.

**FN17.**  $19/21.9 = 86.75\%$  and  $19/26.3 = 72.24\%$ .

**FN18.** CPI also urged a new trial because WhitServe made an impermissible emotional plea to the jury during closing arguments that was not sufficiently corrected by the trial court. See *Marcic v. Reinauer Transp. Cos.*, 397 F.3d 120, 124 (2d Cir.2005) ("A party is generally entitled to a new trial if the district court committed errors that were a clear abuse of discretion

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that were clearly prejudicial to the outcome of the trial.” (internal citations and quotation marks omitted)). During closing, WhitServe stated that “according to the law,” the jury could add \$5–10 million to the award as “compensation for the four years of hell” resulting from the litigation. It is beyond debate that juries may not award litigation costs or punish infringers. See *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1581 (Fed.Cir.1996) (forbidding a “kicker” for heavy litigation expenses on top of a reasonable royalty); *Pall Corp. v. Micron Separations, Inc.*, 66 F.3d 1211, 1223 (Fed.Cir.1995) (“[T]he purpose of compensatory damages is not to punish the infringer, but to make the patentee whole.” (citing *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964))). Because there are separate grounds for remand, we do not decide whether the trial court’s correcting statements, which did not clearly indicate that WhitServe was not entitled to “compensation” for “four years of hell,” were sufficient to prevent undue prejudice to CPi from this impermissible argument. On remand, we trust that the trial court will ensure such blatantly improper statements are not repeated.

FN19. We note, moreover, that the trial court did not address any of the other factors relevant to the equitable analysis it generally is to employ when assessing the propriety of injunction relief. See *eBay*, 547 U.S. 391 (explaining that “a plaintiff seeking a permanent injunction must satisfy a four-factor test”). For instance, as WhitServe argues, while there was considerable evidence that CPi had substantial non-infringing products in its portfolio, the trial court did not consider whether the possible absence of harm to CPi might weigh in favor of an injunction.

FN20. WhitServe asks the court to fix damages for the period of time between March 31, 2010 and trial. This request is moot in light of the remand for a new damages trial.

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# **EXHIBIT 4**

Not Reported in F.Supp.2d, 2011 WL 1740143 (E.D.Va.)  
(Cite as: 2011 WL 1740143 (E.D.Va.))

**FIND Request:** 2011 WL 1740143, at \*8  
Only the Westlaw citation is currently available.

United States District Court, E.D. Virginia,  
Alexandria Division.

ROLLS-ROYCE PLC, Plaintiff,

v.

UNITED TECHNOLOGIES CORPORATION  
(d/b/a Pratt & Whitney), Defendant.

No. 1:10cv457 (LMB/JFA).

May 4, 2011.

Scott Guthrie Lindvall, Kaye Scholer LLP, New York, NY, Aaron Levi Webb, Richard Earle Rice, William Paul Berridge, Oliff & Berridge PLC, Alexandria, VA, Roy William Sigler, Kaye Scholer LLP, Washington, DC, for Plaintiff.

Antigone Gabriella Peyton, Cloudigy Law PLLC, Arlington, VA, Charles Brandon Rash, Finnegan Henderson Farabow Garrett & Dunner LLP, Washington, DC, Robert Leo Burns, II, Finnegan Henderson Farabow Garrett & Dunner LLP, Reston, VA, for Defendant.

*MEMORANDUM OPINION*

LEONIE M. BRINKEMA, District Judge.

\*1 Before the Court are defendant United Technologies Corporation's ("UTC") Motion in Limine to Preclude Rolls-Royce from Presenting Evidence or Argument at Trial of Lost Profits and Price Erosion Damages [Dkt. No. 507] and Motion in Limine No. 2 to Preclude Rolls-Royce from Presenting Evidence or Argument at Trial of Unsupported Lump Sum Reasonable Royalty Damages [Dkt. No. 558]. In each motion UTC seeks to prevent plaintiff Rolls-Royce plc ("Rolls-Royce") from presenting evidence and argument that it is entitled to damages which UTC maintains are either contrary to patent law in that they are time barred or are unsupported by sound economic analysis and the evidence in the record. For the reasons dis-

cussed below, UTC's motions will be granted and the plaintiff's damage claims will be limited to the parameters set by this Opinion.

*I. Background*

Rolls-Royce and UTC are direct competitors in the jet engine market relevant to this litigation. Each party has multiple patents covering elements of the jet engines they manufacture. Rolls-Royce manufactures and sells the Trent 900 engine, which incorporates the forward, rearward, forward swept fan blade design covered by Rolls-Royce's '077 patent at issue in this civil action. UTC and General Electric formed a joint venture known as Engine Alliance, which manufactures and sells the GP7200 engine.<sup>FN1</sup> Among defendant UTC's contributions to the GP7200 engine is the fan blade component, which Rolls-Royce alleges infringes its '077 patent, and is the subject of this patent infringement litigation.

In 2000, Airbus began taking orders for jet engines for its new A380 jumbo jet, which seats 550 passengers and is billed as the "Superjumbo of the 21st Century." Supplemental Expert Report of Mary A. Woodford, Ex. C to Mot. in Limine ("Woodford Report") at ¶ 20. The first A380 entered commercial service in late 2007. As of March 2010, Airbus has forecast that it will produce a total of 630 A380s. *Id.* at ¶ 43.

When an airline purchases an A380 from Airbus, it has a choice of only two available engines to be installed on the airframe: either Rolls-Royce's Trent 900, or Engine Alliance's GP7200 engine. The ordering process begins with the airline placing a "firm order" with either Rolls-Royce or Engine Alliance, indicating that "the airline or customer has a commitment to purchase those engines." *Id.* at ¶ 47. Jet engine manufacturers typically sell their engines at deep discounts, especially to early purchasers of a new line of engines, and make much of their profits on "aftermarket" services such as repair, maintenance, and spare parts. *Id.* at ¶ 29. Since

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2000, five airlines and the International Lease Finance Corporation have placed firm orders with Engine Alliance to provide engines for a total of 128 A380s.<sup>FN2</sup> *Id.* To date, however, Engine Alliance has actually delivered engines for only 19 aircraft. In the same time period, Rolls–Royce has received orders to equip 106 A380s with the Trent 900, beginning with 10 firm orders from Singapore Airlines in late 2000. *Id.* at ¶ 45, Mot. in Limine at 7. At oral argument on March 17, 2011, both parties agreed that it takes several years from receipt of a firm order to actual delivery and installation of an engine. The parties disagreed, however, about the likelihood of a firm order materializing into a final sale. UTC argues that firm orders are not a guaranteed purchase, citing to one customer's recent cancellation of an order for 20 engines for four aircraft, Tr. at 21. Counsel for Rolls–Royce, however, described cancellations of firm orders for A380 engines as “fairly rare.” Tr. at 8.

\*2 Mary A. Woodford, Rolls–Royce's damages expert, has prepared an extensive damages report, upon which Rolls–Royce seeks patent infringement damages of \$3.7 billion, consisting of \$1.4 billion for losses due to price erosion and \$2.3 billion for lost profits. Woodford Report at ¶¶ 114, 128. The price erosion damages are based on Rolls–Royce's sale of engines for 106 aircraft at prices lower than what it would have been able to charge had Engine Alliance not presented a competing engine. The lost profit damages calculations are based on sales for 128 aircraft that Rolls–Royce lost to Engine Alliance. As an alternative basis for a damage award, Woodford calculated a lump sum, fully paid royalty of \$1.3 billion. That figure is based on a \$493 million royalty brought up to 2010 dollars.

## II. Discussion

Fed.R.Evid. 103(c) allows a court “to the extent practicable ... to prevent inadmissible evidence from being suggested to the jury by any means[.]” Courts exercise this power by reviewing motions in limine before or during trial. *See Luce v. United States*, 469 U.S. 38, 41, n. 4 (1984) (“Although the

Federal Rules of Evidence do not explicitly authorize in limine rulings, the practice has developed pursuant to the district court's inherent authority to manage the course of trials.”). In patent infringement actions, the Court has discretion “both in selecting the methodology for and in calculating a damage award.” *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1579 (Fed.Cir.1996).

### A. Price erosion damages

Rolls–Royce bases its claim for price erosion damages on the assumption that, absent competition from Engine Alliance, it would have been able to charge a higher price for its engine. Woodford Report at ¶ 128. Woodford estimates that had the GP7200 engine not been available, Rolls–Royce would have received \$759.36 million more for the engines that it has sold, and it would have received \$592.31 million more in aftermarket repair services and spare parts for those engines, for a total price erosion loss of \$1.351 billion. Ex. D. to Woodford Report. UTC argues that much of the price erosion damage claim is barred by 35 U.S.C. § 286 and that the calculations of price erosion are not supported by evidence or sound economic analysis.

#### 1. Section 286 limitation on price erosion damages

UTC first argues that 35 U.S.C. § 286 bars Rolls–Royce from seeking damages for any infringement that occurred more than six years before Rolls–Royce filed this civil action on May 5, 2010. Section 286 provides that:

Except as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action.

UTC argues that Rolls–Royce negotiated the engine price for 69 of the 106 aircraft at issue before May 5, 2004, and that any price erosion damages for the engines sold for those 69 aircraft are therefore time-barred.<sup>FN3</sup>

\*3 In response, Rolls–Royce argues that Sec-

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tion 286 is a statute of limitations that does not restrict the plaintiff from seeking damages accruing before May 2004 because UTC failed to plead a statute of limitations defense, thereby waiving the defense. Rolls–Royce also argues that it should be afforded equitable tolling because of the interference action brought by UTC which caused a delay in Rolls–Royce's bringing an infringement action against UTC. Opp. at 5.<sup>FN4</sup>

Rolls–Royce's argument ignores more than two decades of Federal Circuit precedent. The Federal Circuit has examined Section 286 and determined that it is a bar on damages, not a statute of limitations:

[Section 286] is not a statute of limitations barring suit in the usual meaning of the term. It does not say that ‘no suit shall be maintained.’ Take, for example, the situation of [defendant] R & H in this case as it was before the district court. R & H was allegedly continuing the use of the '007 patent process. Waiting for more than six years after that use commenced did not create a bar under § 286 to the *bringing of a suit* for infringement or *maintaining* the suit. Assuming a finding of liability, the only effect § 286 has is to prevent any ‘recovery ... for any infringement committed more than six years prior to the filing of the complaint....’ Therefore, suit could be maintained and recovery of damages could be had for infringement taking place *within* the six years prior to the filing of the complaint.

*Standard Oil Co. v. Nippon Shokubai Kagaku Kogyo Co.*, 754 F.2d 345, 347–48 (Fed.Cir.1985). See also *Bradford Co. v. Jefferson Smurfit Corp.*, 2001 U.S.App. LEXIS 25205 (Fed.Cir. Oct. 30, 2001) (“section 286 is not a statute of limitations.”).

Rolls–Royce acknowledges that the Federal Circuit has held that Section 286 is not a statute of limitations, yet it urges this Court to ignore that controlling precedent in favor of its own interpretation of the statute by focusing on its legislative his-

tory; however, a district court cannot ignore binding Federal Circuit precedent. Because Section 286 is a clear bar on damages and not a statute of limitations, equitable tolling does not apply and UTC did not waive the defense by failing to raise it. Accordingly, to the extent Rolls–Royce bases any of its damages on acts occurring before May 5, 2004, these damages must be stricken.

## 2. Methodology for calculating price erosion damages

In calculating price erosion damages, Woodford examined orders that Rolls–Royce has received to date from eight airlines which have ordered Trent 900 engines for 106 aircraft. She then compared the difference between the price Rolls–Royce agreed to accept with the price that she predicted Rolls–Royce would have received absent competition from Engine Alliance. Woodford Report at ¶¶ 119–123. Rolls–Royce had discounted its Trent 900 engines, which have a list price of \$20 million, by an average of 87.3 percent, resulting in a final price of \$2.54 million. Woodford's report estimates that had the GP7200 engine not been available, Rolls–Royce would have only had to discount the Trent 900 by 77 percent, which would have nearly doubled the price of the engine to \$4.6 million. Mot. in Limine at 25. In other words, Rolls–Royce estimates that it would have been able to charge nearly twice as much for its engines had it not faced competition from Engine Alliance

\*4 Price erosion damages are allowed if they “account for the nature, or definition, of the market, similarities between any benchmark market and the market in which price erosion is alleged, and the effect of the hypothetically increased price on the likely number of sales at that price in that market.” *Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l*, 246 F.3d 1336, 1357 (Fed.Cir.2001). UTC argues that Rolls–Royce's calculation of price erosion damages should be stricken because it is based on incorrect economic assumptions. Specifically, UTC argues that Woodford based her opinion about how Rolls–Royce

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would have discounted its engines solely on Rolls–Royce's internal business plan, and not on any customer surveys or other economic analysis of the airline market.

Rather than providing evidence to support her methodology, Woodford simply states that “[a]s a general matter, markets with products that are necessities, or have few acceptable substitutes, tend to experience smaller effects on quantity demanded when there is an increase in price.” Woodford Report at ¶ 124. The only market Woodford cites for this conclusion is the processed fluid milk market, a market hardly similar to the very unique jet engine market. Even if one were to assume that a market for necessities is always inelastic, Woodford does not cite any evidence for the proposition that a jet engine is a necessity in the same way as is milk.

Woodford further disregards the significance of price elasticity by stating that the increased engine price would only result in a passenger paying an average of \$4.19 more per round trip ticket. Woodford Report at ¶ 127. This calculation relies on the wrong analysis because the increased engine price is not being paid directly by passengers. The proper analysis must consider how the purchaser, in this case the airlines, would react to increased engine prices. Whether they chose to pass the increase on to customers is a separate matter. Woodford cannot just simply assume that airlines would happily pay millions of dollars more per engine. It is not even clear whether Airbus would have undertaken the project of producing the Airbus 380 in the first place if it had only one engine supplier to rely upon.

Therefore, the unsupported assumption of price inelasticity significantly undermines the validity of Rolls–Royce's price erosion damages claim. See *Crystal Semiconductor Corp.*, 246 F.3d at 1360–61 (“Yet, Crystal also seeks price erosion damages without showing that a higher CODEC price would have allowed Crystal to sell its CODECS in that same market segment. Without economic evidence of the resulting market for higher

priced CODECs, Crystal cannot have both lost profits and price erosion damages on each of those lost sales.”).

#### *B. Lost profits*

Woodford estimates that Rolls–Royce suffered \$2.3 billion in lost profits for Engine Alliance's sale of engines for 128 aircraft. Woodford Report at ¶ 114. This calculation includes profits lost for both the sales of the engines and sales of 25 years of “aftermarket” service contracts. *Id.* at ¶ 83. Woodford's estimated lost revenues per aircraft range from \$50.82 million to \$82.40 million in 2010 dollars, and estimated profits per aircraft range from \$16.51 million to \$22.06 million in 2010 dollars. Ex. L to Woodford Report.

\*5 To obtain lost profits in a patent infringement case, the plaintiff has the burden of proving: “(1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made.” *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir.1978).

UTC argues that many of the lost profits claims are time-barred and incorrectly based on the price of the entire engine rather than just the fan blade component. UTC also argues that the damage calculations are based on unsupported assumptions about sales of aftermarket services, and that Rolls–Royce improperly seeks lost profits on engines that UTC has yet to deliver.

#### *1. Section 286 limitation on lost profits*

Woodford bases her lost profits conclusions on the number of firm orders placed for GP7200 engines. Woodford Report at ¶ 83 (“Engine Alliance's firm orders over the damage period provide the base for Rolls–Royce's quantity of lost sales.”). UTC first objects that many of these firm orders occurred before May 5, 2004.<sup>FN5</sup> Mot. in Limine at 8. The evidence supports UTC's objection. For example, International Lease Finance Corporation



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placed firm orders for GP7200 engines for four aircraft in August 2003, Air France placed firm orders for 10 aircraft in mid-2001, and Emirates placed orders for 43 aircraft in 2002 and 2003. *Id.* at 9–10.

In response, Rolls–Royce argues that all of the lost profits “are tied to infringing acts that occurred between May 2004 and trial.” *Opp.* at 21:

In some cases, the agreement and contract may be before May 2004, but in those cases the certification and manufacture occur in the accounting period. In other cases, the sale and agreement may fall within the accounting period with manufacture and delivery happening later. In all cases, the certification process required by contract occurred in 2005 and 2006.”

*Id.*

Patent infringement occurs when a defendant “makes, uses, offers to sell or sells” a patented item without consent of the patent owner. 35 U.S.C. § 271(a). Rolls–Royce correctly argues that it may recover lost profits for concrete acts of infringement that occurred after May 5, 2004. The record shows that to date Engine Alliance has delivered GP7200 engines to Airbus for only 19 of the 128 aircraft for which it has firm orders. Although the orders of those engines may have occurred before May 5, 2004, delivery after May 5, 2004 places them within the eligible time period. Engines for these 19 aircraft, therefore, may be included in Rolls–Royce’s lost profits claim if Rolls–Royce prevails on its infringement case.

Rolls–Royce also attempts to recover damages for engines that have been either certified by the Federal Aviation Administration or manufactured after May 5, 2004, even though they have not yet been delivered to customers. *Opp.* at 5–8. UTC counters that the “vast majority” of engines ordered before May 2004 do not exist and “thus have never been manufactured, used, tested, or delivered.” Reply at 6. Rolls–Royce responds that many of these engines do exist; however, its only support

for this claim are vague lists and deposition testimony. This apparent factual dispute may be moot because UTC has stated and presented some evidence that it plans to install non-infringing blades in all future GP7200 engines, and that this design-around cuts off Rolls–Royce’s claim to lost profits for any engine not yet made. Given the uncertainty of the evidence concerning the design around, Rolls–Royce may not claim lost profits for firm orders of GP7200 engines that occurred before May 5, 2004 if the engines have not yet been installed.

## 2. Entire market value

\*6 In addition to problems with the number of engines for which damages can be sought, Rolls–Royce bases its lost profits claim on the price of the entire engine, even though the patent only covers one design aspect of the fan blade, which in turn is one of more than 10,000 components in the engine.<sup>FN6</sup> UTC argues that Rolls–Royce should not be permitted to claim lost profits based on the price for the entire engine.

To recover lost profit damages based on the full price of a product that contains both patented and unpatented features, a plaintiff must satisfy the requirements of the “entire market value rule,” by demonstrating that the patented feature is the “basis for customer demand” for the entire product. *Imonex Servs. Inc. v. W.H. Munzprufer Dietmar Trenner GH*, 408 F.3d 1374, 13890 (Fed.Cir.2005), see also *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549 (Fed.Cir.1995) (stating that “damages for component parts used with a patented apparatus were recoverable under the entire market value rule if the patented apparatus “was of such paramount importance that it substantially created the value of the component parts.”) (internal quotation marks and citation omitted).<sup>FN7</sup> Therefore, Rolls–Royce must prove that the profile of UTC’s swept fan blade is the basis for demand for the entire GP7200 engine.

UTC correctly argues that Rolls–Royce’s expert has not cited any economic evidence that the design of UTC’s fan blade is the basis for customer de-

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mand for the entire engine. In a deposition, Woodford admits that she did not ask representatives of either Airbus or any of the airline customers about the factors that they considered in deciding whether to purchase the GP7200 over Rolls–Royce's Trent 900. Ex. E to Mot. in Limine. Failing to provide any evidence of demand undermines “any argument for applicability of the entire market value rule.” *Cornell Univ. v. Hewlett–Packard Co.*, 609 F.Supp.2d 279, 289 (N.D.N.Y. 2009) (Rader, C.J., sitting by designation).

In fact, Woodford's report actually acknowledges that fan performance is only one of eight features that helped Engine Alliance achieve the weight and fuel consumption requirements for these engines. Woodford Report at ¶ 57. A deposition of Sara Sheard, Rolls–Royce's commercial director of civil aerospace, and several Rolls–Royce internal documents revealed that when airlines consider purchasing engines for the A380, they consider numerous factors including price, safety, reliability, and maintenance costs. See Ex. 2 to Opp., Report of Robert N. Yerman (“Yerman Report”) at ¶¶ 73–75.

At oral argument and in its brief, Rolls–Royce relied heavily on internal UTC documents that state that the sweep of the fan blade is an important feature. Tr. at 59–60. But this is merely commentary by UTC employees and it does not provide any evidence whatsoever of consumer demand. See *Cornell Univ.*, 609 F.Supp.2d at 288–89 (rejecting entire market value argument based solely on defendant's internal documents).

\*7 Rolls–Royce also argues that the entire market value applies because this Court, in the interference proceeding, found that “the improved efficiency and noise characteristics of the fan blade have been a major driving force behind sales of Rolls–Royce engines that incorporate them.” *Rolls–Royce PLC v. United Techs. Corp.*, 730 F.Supp.2d 489, 508 (E.D.Va.2009). That finding was in the context of the secondary consideration of commercial success for nonobviousness, and did not address whether the fan blade profile was the

sole or even primary basis of consumer demand for the entire engine. A finding of commercial success does not necessarily lead to application of the entire market value rule. See *Biacore v. Thermo Bioanalysis Corp.*, 79 F.Supp.2d 422, 471 (D.Del.1999) (refusing to apply the entire market value rule despite a finding of commercial success). Because there is insufficient evidence to support Woodford's use of the entire market value of the engines in calculating lost profits, that aspect of her report will be stricken.

Instead of basing its lost profits claim on the entire market value of the GP7200, Rolls–Royce will be limited to a maximum of 50 percent of the market value. This more reasonable figure is derived from the fact that UTC and General Electric contribute equally to the GP7200. UTC's economics expert, Robert N. Yerman, argues that the fan stage represents 14.65 percent of an engine's value. Yerman Report at ¶ 186. UTC argues, therefore, that Rolls–Royce can recover no more than 14.65 percent of lost profits. As with Rolls–Royce's expert, Yerman also does not provide sufficient details or reasoning for his calculation. Given the lack of empirical data underlying the parties' views as to the basis for calculating lost profits, the Court will limit the range to no more than 50 percent of the engine's value.

Accordingly, Rolls–Royce will not be permitted to seek damages for lost profits based on the value of the entire engine. Instead, the parties may present evidence to the jury to determine where within the zero to 50 percent range the proper value should be based.

### 3. Aftermarket services

A significant portion of Rolls–Royce's lost profits claim is based on the value of the aftermarket services that it would have provided if it had sold the engines that Engine Alliance had sold. In reaching that damage estimate, Woodford assumed that 90 percent of the engine purchasers would have also contracted for 25–year agreements under Rolls–Royce's “Total Care” program. Under that

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program, airlines pay Rolls–Royce a fixed amount per flight hour in exchange for aftermarket services. UTC argues that this calculation is flawed because Woodford's conclusion is not based on firm evidence that airlines will actually sign up for 25–year agreements.

Rolls–Royce argues that this lost profits claim is reasonable because all of its Trent 900 customers have signed up for Total Care; however, Rolls–Royce also acknowledges that only one of its customers—British Airways—has committed to a 25–year contract. The remaining customers have only signed up for between 10 and 15 years of aftermarket services. Opp. at 25, n. 17. On this evidence, assuming that 90 percent of its customers would purchase a 25–year aftermarket contract is an egregious overreaching which undercuts the reliability of the expert's conclusion. Accordingly, this damage claim cannot go forward.

#### 4. Sale of future engines

\*8 UTC also argues that Woodford's expert report improperly includes lost profit damages for engines that have not been delivered or installed. As of March 15, 2011, Engine Alliance has only delivered engines for 19 aircraft. Reply at 15. In addition to seeking damages for those engines, Rolls–Royce seeks damages for all engines for which UTC has firm orders. In calculating that damage amount, Rolls–Royce assumes that all firm orders will materialize into a final sale. Rolls–Royce has the burden of demonstrating that these future sales will occur. See *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1581 (Fed.Cir.1992) (“The burden of proving future injury is commensurately greater than that for damages already incurred, for the future always harbors unknowns.”).

At oral argument, both parties acknowledged that not all firm orders are final, and that airlines have canceled firm orders, though the parties disagree on the frequency of such cancellation. UTC cited cancellations of Engine Alliance firm orders from ILFC, Federal Express, and United Parcel Ser-

vice. Reply at 15–16. Rolls–Royce did not dispute that those cancellations occurred but unsuccessfully tried to downplay their significance by arguing that these cancellations did not come from passenger airlines; that distinction is irrelevant. The cancellations demonstrate that firm orders do not always result in sales, and confirm the conclusion that the expert's report is based on overly inflated assumptions about actual sales.

Therefore, this portion of Woodford's damages calculation will be stricken.

#### C. Royalty calculation

As an alternative damages theory, Rolls–Royce puts forward a \$1.3 billion royalty calculation. UTC opposes that amount, arguing that at best the figure that should be argued before the jury should not exceed \$493 million, with any calculation of interest or conversion to present dollars being left to the Court. UTC also argues that Rolls–Royce's expert, Mary Woodford, bases her royalty calculation on the assumption that in 2000, before UTC had made or sold any engines, it would have paid an up front lump sum royalty of \$493 million for a license to use the '077 patent's fan blade design, despite clear evidence that UTC was unwilling to invest the approximately \$1 billion expected to be required to develop “the new engine.” UTC points to its decision to enter into the joint venture with General Electric, in which each party contributed 50/50 to the development of the engine, as clear evidence of UTC's unwillingness to invest \$1 billion in the project. Obviously, \$493 million represents nearly half a billion dollars, which amounts to almost all of UTC's investment in the new engine project. On this evidence, UTC makes a very strong argument that even the \$493 million figure is highly speculative; however, it does not ask the Court to strike that figure. Rather, UTC argues that Rolls–Royce should be limited to arguing for no more than a \$493 million royalty with any increase for prejudgment interest or conversion to current dollars left to the Court.

\*9 Rolls–Royce's response and the basis upon



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which Woodford increased the \$493 figure to \$1.3 billion are wholly inadequate in that they fail to address UTC's arguments. For these reasons, UTC's Motion in Limine No. 2 will be granted and Rolls–Royce's presentation of an alternative damage theory based on a fully paid, up front lump sum royalty is limited to a claim for \$493 million. At trial, UTC may oppose that amount and Rolls–Royce may defend the \$493 million figure. Increasing any royalty figure by prejudgment interest or for present value will be left to the Court.

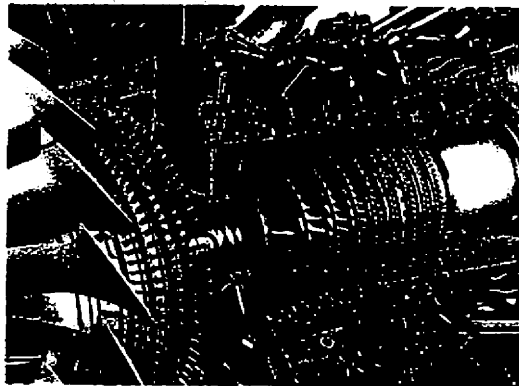
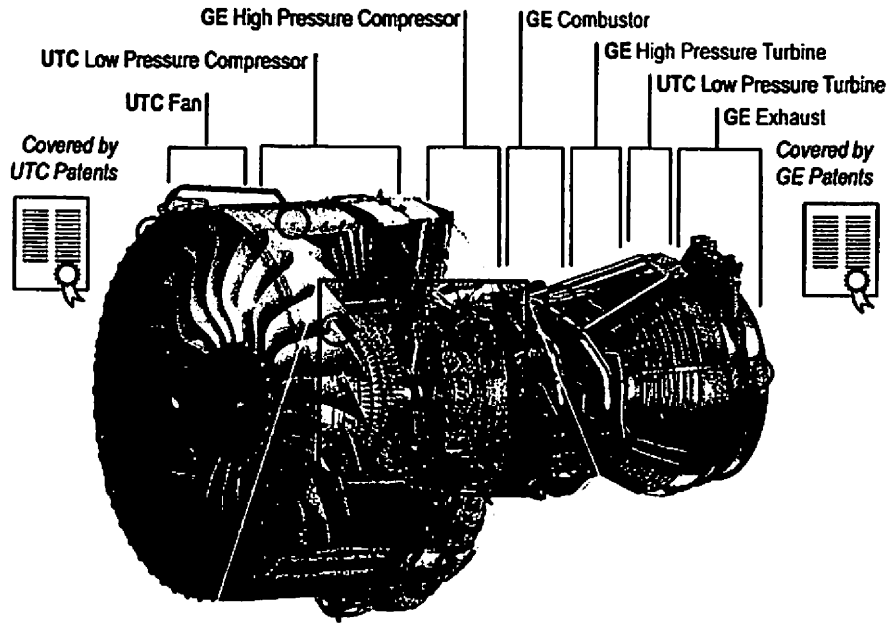
### III. Conclusion

Although Rolls–Royce has had more than 10 months to develop a concrete and economically sound damages theory, as discussed above, its claim for \$3.2 billion in price erosion and lost profits damages is based on misstatements of the law, a lack of sound evidence, and unsupported economic assumptions, and its paid up royalty theory is similarly flawed. Woodford's expert report reads more like a lawyer's brief advocating for the

highest conceivable damage award rather than an expert trying to assist the trier of fact reach a reasonable damages figure. Because of this extensive overreaching, the entire report is undermined. For these reasons, UTC's Motion in Limine to Preclude Rolls–Royce from Presenting Evidence or Argument at Trial of Lost Profits and Price Erosion Damages [Dkt. No. 507] and Motion in Limine No. 2 to Preclude Rolls–Royce from Presenting Evidence or Argument at Trial of Unsupported Lump Sum Reasonable Royalty Damages [Dkt. No. 558] will be granted and Rolls–Royce's evidence and argument concerning damages will be limited to the parameters discussed in this Opinion.

An Order reflecting these decisions will be issued along with this Memorandum Opinion.

Not Reported in F.Supp.2d, 2011 WL 1740143 (E.D.Va.)  
 (Cite as: 2011 WL 1740143 (E.D.Va.))



**FN1.** UTC provides the fan blade component of the engine and General Electric provides the compressor and other portions. They share the costs of producing each engine equally and divide revenues equally.

**FN2.** An A380s airframe has four engines, but Engine Alliance and Rolls-Royce often sell spare engines. For consistency, this opinion will refer to the number of aircraft for which engines are sold rather than the actual number of engines that are ordered.

**FN3.** Three of the eight airlines—Singapore Airlines, Qantas Airways, and Lufthansa—placed firm orders with Rolls-Royce between 2000 and 2002, before the May 5, 2004 six-year period began.

**FN4.** Both Rolls-Royce and UTC have patented technology covering the profiles of the fan blades in the A380 engines. The PTO issued U.S. Patent No. 6,0071,077 (“077 Patent”) to Rolls-Royce on June 6, 2000. On June 5, 2001, UTC filed a second reissue application, no. 09/874,931 (“931

Not Reported in F.Supp.2d, 2011 WL 1740143 (E.D.Va.)  
(Cite as: 2011 WL 1740143 (E.D.Va.))

Reissue Application”) based on its earlier patent no. 5,642,985, which had issued on July 1, 1997. In 2003, UTC convinced the Patent and Trademark Office's Board of Patent Appeals and Interferences to declare an interference between Rolls–Royce's '077 Patent and UTC's '931 Reissue Application. Rolls–Royce appealed the interference decision to this Court in 2005, and the Court reversed the PTO's decision. *Rolls–Royce PLC v. United Techs. Corp.*, 730 F.Supp.2d 489 (E.D.Va.2009). The Federal Circuit affirmed this Court on May 5, 2010. *Rolls–Royce PLC v. United Techs. Corp.*, 603 F.3d 1325 (Fed.Cir.2010).

FN5. The Woodford Report does not mention the dates of each firm order that were included in the lost profits calculation.

FN6. The main portions of a jet engine are the compressor, burner, turbine, and fan stage. Incoming air passes through the fan stage at the front of the engine, continues through the core compressor and burner, where it is mixed with fuel and combusted. This combustion generates propulsive thrust in a manner analogous to propeller blades on a piston-driven airplane engine. Woodford Report at ¶ 19. This diagram of the GP7200, presented by UTC during oral argument, depicts the fan blades in relation to the rest of the engine, and indicates some of the other features for which either UTC or GE has patents.

FN7. In its Opposition brief, Rolls–Royce argues that the entire market value rule applies if the patented and unpatented components work together as a “functional unit.” At oral argument, however, counsel for Rolls–Royce conceded that it misstated the legal rule. Tr. at 58–59.

Rolls-Royce PLC v. United Technologies Corp.  
Not Reported in F.Supp.2d, 2011 WL 1740143  
(E.D.Va.)

END OF DOCUMENT

E.D. Va.,2011.



# **EXHIBIT 5**

--- F.3d ---, 2012 WL 3329695 (C.A.Fed. (Ill.))  
(Cite as: 2012 WL 3329695 (C.A.Fed. (Ill.)))

**FIND Request:** 2012 WL 3329695, at \*13  
Only the Westlaw citation is currently available.

United States Court of Appeals,  
Federal Circuit.  
MEYER INTELLECTUAL PROPERTIES LIM-  
ITED and Meyer Corporation, U.S.,  
Plaintiffs–Appellees,  
v.  
BODUM, INC., Defendant–Appellant.

No. 2011–1329.  
Aug. 15, 2012.

**Background:** Patent owner filed action against competitor alleging infringement of patents for method for frothing liquids such as milk. The United States District Court for the Northern District of Illinois, [Milton I. Shadur, J.](#), [597 F.Supp.2d 790](#) and [674 F.Supp.2d 1015](#), granted summary judgment to patentee on issue of liability, and [715 F.Supp.2d 827](#), [2010 WL 2266661](#), and [2010 WL 3943648](#), granted patentee's motions in limine to preclude competitor from introducing certain evidence at trial. Jury subsequently returned a verdict in favor of patentee, finding that the patents were not invalid and that competitor's infringement was willful. Competitor's motion for judgment as a matter of law (JMOL) was denied, and patentee was awarded enhanced damages and attorney's fees in the amount of \$906,487.56. Competitor appealed.

**Holdings:** The Court of Appeals, [O'Malley](#), Circuit Judge, held that:

- (1) “providing” meant “furnishing, supplying, making available, or preparing,” and thus any single party could satisfy first step of patented method, which called for “providing a container,” along with other steps;
- (2) genuine issues of material fact precluded summary judgment that patents were directly infringed;
- (3) district court abused its discretion in limiting scope of prior art competitor could introduce at trial

to what was purportedly expressly relied on in report of competitor's expert;  
(4) district court abused its discretion in excluding testimony of competitor's expert regarding obviousness of asserted patents, on ground expert's report was insufficiently detailed;  
(5) district court abused its discretion in excluding lay testimony of competitor's chief executive officer (CEO) regarding one of competitor's coffee presses; and  
(6) district court abused its discretion in disposing of competitor's inequitable conduct defense on motion in limine.

Reversed in part, vacated in part, and remanded.

[Dyk](#), Circuit Judge, filed concurring opinion.

West Headnotes

[1] Patents 291 ↪ 324.5

291 Patents

291XII Infringement

291XII(B) Actions

291k324 Appeal

291k324.5 k. Scope and Extent of Review in General. [Most Cited Cases](#)

Court of Appeals reviews the district court's grant of summary judgment of patent infringement without deference, drawing all reasonable inferences in favor of the nonmoving party.

[2] Patents 291 ↪ 226.6

291 Patents

291XII Infringement

291XII(A) What Constitutes Infringement

291k226.5 Substantial Identity of Subject Matter

Matter

291k226.6 k. Comparison with Claims

of Patent. [Most Cited Cases](#)

Evaluating a district court decision granting

--- F.3d ---, 2012 WL 3329695 (C.A.Fed. (Ill.))  
 (Cite as: 2012 WL 3329695 (C.A.Fed. (Ill.)))

summary judgment of patent infringement requires two steps: (1) claim construction; and (2) comparison of the properly construed claims to the accused product or process.

**[3] Patents 291 ↪ 228.1**

291 Patents

291XII Infringement

291XII(A) What Constitutes Infringement

291k228 Patents for Processes

291k228.1 k. In General. **Most Cited**

Cases

Where the asserted patent claims are method claims, the sale of a product, without more, does not infringe the patent; instead, direct infringement of a method claim requires a showing that every step of the claimed method has been practiced.

**[4] Patents 291 ↪ 259(1)**

291 Patents

291XII Infringement

291XII(A) What Constitutes Infringement

291k259 Contributory Infringement; Inducement

291k259(1) k. In General. **Most Cited**

Cases

To prevail on an inducement-of-infringement claim, a patentee must establish that: (1) there has been direct infringement; (2) the defendant, with knowledge of the patent, actively and knowingly aided and abetted such direct infringement. **35 U.S.C.A. § 271(b).**

**[5] Patents 291 ↪ 259(1)**

291 Patents

291XII Infringement

291XII(A) What Constitutes Infringement

291k259 Contributory Infringement; Inducement

291k259(1) k. In General. **Most Cited**

Cases

A finding of direct infringement is a prerequisite to a finding of induced infringement. **35**

U.S.C.A. § 271(b).

**[6] Patents 291 ↪ 324.1**

291 Patents

291XII Infringement

291XII(B) Actions

291k324 Appeal

291k324.1 k. In General. **Most Cited**

Cases

Competitor in patent infringement action did not waive argument on appeal that its first-generation milk frothers did not directly infringe patents for method for frothing liquids such as milk; competitor's response to patentee's summary judgment motion rejected the notion that any single person or entity could perform all steps of claimed method, arguing that only competitor practiced the step of "providing a container," while remaining steps of method were practiced by others, but not competitor.

**[7] Patents 291 ↪ 101(11)**

291 Patents

291IV Applications and Proceedings Thereon

291k101 Claims

291k101(11) k. Process or Method

Claims. **Most Cited Cases**

"Providing," in patents for method for frothing liquids such as milk, meant furnishing, supplying, making available, or preparing, and thus any single party could satisfy first step of method, which called for "providing a container," along with subsequent steps calling for pouring liquid into the container, introducing a plunger, and pumping the plunger to aerate the liquid.

**[8] Patents 291 ↪ 324.5**

291 Patents

291XII Infringement

291XII(B) Actions

291k324 Appeal

291k324.5 k. Scope and Extent of Review in General. **Most Cited Cases**

--- F.3d ---, 2012 WL 3329695 (C.A.Fed. (Ill.))  
 (Cite as: 2012 WL 3329695 (C.A.Fed. (Ill.)))

Patent claim construction is an issue of law subject to de novo review on appeal.

**[9] Patents 291** 🔑159

291 Patents

291IX Construction and Operation of Letters Patent

291IX(A) In General

291k159 k. Extrinsic Evidence in General.

Most Cited Cases

**Patents 291** 🔑165(3)

291 Patents

291IX Construction and Operation of Letters Patent

291IX(B) Limitation of Claims

291k165 Operation and Effect of Claims in General

291k165(3) k. Construction of Language of Claims in General. [Most Cited Cases](#)

**Patents 291** 🔑167(1)

291 Patents

291IX Construction and Operation of Letters Patent

291IX(B) Limitation of Claims

291k167 Specifications, Drawings, and Models

291k167(1) k. In General. [Most Cited Cases](#)

**Patents 291** 🔑168(2.1)

291 Patents

291IX Construction and Operation of Letters Patent

291IX(B) Limitation of Claims

291k168 Proceedings in Patent Office in General

291k168(2) Rejection and Amendment of Claims

291k168(2.1) k. In General. [Most Cited Cases](#)

To ascertain the scope and meaning of the as-

serted patent claims in an infringement action, court looks to the claim language, the specification, the prosecution history, and any relevant extrinsic evidence.

**[10] Patents 291** 🔑161

291 Patents

291IX Construction and Operation of Letters Patent

291IX(A) In General

291k161 k. State of the Art. [Most Cited Cases](#)

As a general rule, a patent claim term is given the plain and ordinary meaning as understood by a person of ordinary skill in the art at the time of invention.

**[11] Patents 291** 🔑167(1)

291 Patents

291IX Construction and Operation of Letters Patent

291IX(B) Limitation of Claims

291k167 Specifications, Drawings, and Models

291k167(1) k. In General. [Most Cited Cases](#)

Although patent claim construction begins with the language of the claims themselves, the claims must be read in view of the specification, of which they are a part.

**[12] Patents 291** 🔑167(1)

291 Patents

291IX Construction and Operation of Letters Patent

291IX(B) Limitation of Claims

291k167 Specifications, Drawings, and Models

291k167(1) k. In General. [Most Cited Cases](#)

The patent specification is the single best guide to the meaning of a disputed claim term, and the specification acts as a dictionary when it expressly



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defines terms used in the claims or when it defines terms by implication.

**[13] Patents 291 ↪324.53**

291 Patents  
 291XII Infringement  
 291XII(B) Actions  
 291k324 Appeal  
 291k324.53 k. Amendments, Additional Proofs, and Trial of Cause Anew. **Most Cited Cases**

Although patent claim construction is a question of law, Court of Appeals is generally hesitant to construe claim terms for the first time on appeal.

**[14] Patents 291 ↪323.2(3)**

291 Patents  
 291XII Infringement  
 291XII(B) Actions  
 291k323 Final Judgment or Decree  
 291k323.2 Summary Judgment  
 291k323.2(3) k. Particular Cases.

**Most Cited Cases**

Genuine issues of material fact existed as to whether competitor or its customers performed within the United States each of the claimed steps of patents for method for frothing liquids such as milk, precluding summary judgment that patents were directly infringed by competitor's accused first-and second-generation products. 35 U.S.C.A. § 271(a).

**[15] Patents 291 ↪312(4)**

291 Patents  
 291XII Infringement  
 291XII(B) Actions  
 291k312 Evidence  
 291k312(3) Weight and Sufficiency  
 291k312(4) k. Degree of Proof; Prima Facie Case. **Most Cited Cases**

Patentee must prove infringement by a preponderance of the evidence.

**[16] Patents 291 ↪324.53**

291 Patents  
 291XII Infringement  
 291XII(B) Actions  
 291k324 Appeal  
 291k324.53 k. Amendments, Additional Proofs, and Trial of Cause Anew. **Most Cited Cases**

Deposition testimony that was not before the district court when it was deciding the motions for summary judgment in a patent infringement action was inadmissible on appeal of summary judgment that competitor infringed patents for method for frothing liquids such as milk.

**[17] Courts 106 ↪96(7)**

106 Courts  
 106II Establishment, Organization, and Procedure  
 106II(G) Rules of Decision  
 106k88 Previous Decisions as Controlling or as Precedents  
 106k96 Decisions of United States Courts as Authority in Other United States Courts  
 106k96(7) k. Particular Questions or Subject Matter. **Most Cited Cases**

Court of Appeals for the Federal Circuit reviews the district court's decision to exclude evidence in a patent infringement action under the law of the relevant regional circuit.

**[18] Patents 291 ↪324.54**

291 Patents  
 291XII Infringement  
 291XII(B) Actions  
 291k324 Appeal  
 291k324.54 k. Presumptions and Discretion of Lower Court. **Most Cited Cases**

Court of Appeals would review for abuse of discretion district court's evidentiary rulings excluding evidence proffered by competitor, in action alleging infringement of patents for method for frothing liquids such as milk, which required competitor to show both that district court erred in excluding evidence and that the exclusion prejudiced

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competitor's substantial rights. [Fed.Rules Civ.Proc.Rule 61, 28 U.S.C.A.](#)

**[19] Patents 291 ↪292.4**

291 Patents

291XII Infringement

291XII(B) Actions

291k292 Discovery

291k292.4 k. Other Matters. [Most](#)

[Cited Cases](#)

District court abused its discretion in limiting scope of prior art that competitor could introduce at trial to what was purportedly expressly relied on in report of competitor's expert, in action alleging infringement of patents for method for frothing liquids; competitor's interrogatory responses put patentee on notice of competitor's intent to use prior art included therein, and limitation of prior art prejudiced competitor's invalidity defense by preventing it from using its primary piece of prior art to show obviousness of simple technology involved in patents.

**[20] Federal Civil Procedure 170A ↪1274**

170A Federal Civil Procedure

170AX Depositions and Discovery

170AX(A) In General

170Ak1272 Scope

170Ak1274 k. Evidentiary Matters. [Most](#)

[Cited Cases](#)

If anything, the scope and content of an expert's report should operate only to limit his testimony at trial, not the testimony of any other witnesses.

**[21] Patents 291 ↪292.4**

291 Patents

291XII Infringement

291XII(B) Actions

291k292 Discovery

291k292.4 k. Other Matters. [Most](#)

[Cited Cases](#)

Where the technology involved in a patent in-

fringement action is simple, there is no requirement to exclude prior art that was disclosed in the competitor's interrogatory responses as forming the factual basis for its invalidity claim but was not relied upon in an expert report.

**[22] Patents 291 ↪159**

291 Patents

291IX Construction and Operation of Letters

Patent

291IX(A) In General

291k159 k. Extrinsic Evidence in General. [Most](#)

[Cited Cases](#)

Where the technology involved in a patent infringement action is easily understandable, expert testimony is not required.

**[23] Patents 291 ↪292.4**

291 Patents

291XII Infringement

291XII(B) Actions

291k292 Discovery

291k292.4 k. Other Matters. [Most](#)

[Cited Cases](#)

District court abused its discretion in excluding testimony of competitor's expert regarding obviousness of asserted patents, on ground expert's report was insufficiently detailed, in action alleging infringement of patents for method for frothing liquids; report did not merely list prior art references and provide conclusion of obviousness, but provided detailed claim charts comparing asserted claims to relevant prior art to support conclusion that, given simple technology involved, common sense would have motivated one of ordinary skill in the art to combine prior art references. [Fed.Rules Civ.Proc.Rule 26\(a\)\(2\)\(B\)\(i\), 28 U.S.C.A.](#)

**[24] Federal Civil Procedure 170A ↪1274**

170A Federal Civil Procedure

170AX Depositions and Discovery

170AX(A) In General

170Ak1272 Scope

--- F.3d ---, 2012 WL 3329695 (C.A.Fed. (Ill.))  
 (Cite as: 2012 WL 3329695 (C.A.Fed. (Ill.)))

170Ak1274 k. Evidentiary Matters.

#### Most Cited Cases

Purpose of the requirement for the disclosure of a written expert report is to convey the substance of the expert's opinion so that the opponent will be ready to rebut, to cross-examine, and to offer a competing expert if necessary. [Fed.Rules Civ.Proc.Rule 26\(a\)\(2\)\(B\)\(i\)](#), 28 U.S.C.A.

#### [25] Patents 291 292.4

291 Patents

291XII Infringement

291XII(B) Actions

291k292 Discovery

291k292.4 k. Other Matters. [Most](#)

#### Cited Cases

In the patent context, an expert report that merely lists a number of prior art references and concludes that one skilled in the art would find the claims obvious is deficient. [Fed.Rules Civ.Proc.Rule 26\(a\)\(2\)\(B\)\(i\)](#), 28 U.S.C.A.

#### [26] Patents 291 312(2)

291 Patents

291XII Infringement

291XII(B) Actions

291k312 Evidence

291k312(2) k. Admissibility. [Most](#)

#### Cited Cases

District court abused its discretion, in action alleging infringement of patents for method for frothing liquids, in excluding lay testimony of competitor's chief executive officer (CEO) regarding one of competitor's coffee presses; CEO's proposed testimony, which was within his personal knowledge and corroborated with drawings and catalog pages, was offered to show that coffee press met certain requirements of patents-in-suit and predated those patents, and exclusion of testimony, along with other evidentiary errors, prevented competitor from presenting the substance of its obviousness defense.

#### [27] Patents 291 112.5

291 Patents

291IV Applications and Proceedings Thereon

291k112 Conclusiveness and Effect of Decisions of Patent Office

291k112.5 k. Sufficiency of Evidence to Offset Effect of Decision in General. [Most Cited Cases](#)

Under the “*Barbed-Wire* doctrine,” corroboration is required of any witness whose testimony alone is asserted to invalidate a patent.

#### [28] Patents 291 97.14

291 Patents

291IV Applications and Proceedings Thereon

291k97.7 Unenforceability of Patent; Inequitable Conduct or Fraud on Office

291k97.14 k. Determination; Summary Judgment. [Most Cited Cases](#)

District court abused its discretion in disposing of competitor's inequitable conduct defense on motion in limine, in action alleging infringement of patents for method for frothing liquids; district court erroneously addressed sufficiency of competitor's inequitable conduct defense on an evidentiary motion, which essentially converted motion in limine into motion for summary judgment, and in doing so, district court did not allow for full development of evidence and deprived competitor of opportunity to present all pertinent material to defend against dismissal of inequitable conduct defense.

#### [29] Federal Courts 170B 823

170B Federal Courts

170BVIII Courts of Appeals

170BVIII(K) Scope, Standards, and Extent

170BVIII(K)4 Discretion of Lower Court

170Bk823 k. Reception of Evidence.

#### Most Cited Cases

Exclusion of evidence on a motion in limine is an evidentiary ruling reviewed for an abuse of discretion.

#### Patents 291 328(2)

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## 291 Patents

291XIII Decisions on the Validity, Construction, and Infringement of Particular Patents

291k328 Patents Enumerated

291k328(2) k. Original Utility. **Most**

**Cited Cases**

## Patents 291 ↻328(4)

## 291 Patents

291XIII Decisions on the Validity, Construction, and Infringement of Particular Patents

291k328 Patents Enumerated

291k328(4) k. Reissue. **Most Cited Cases**

## Patents 291 ↻328(2)

## 291 Patents

291XIII Decisions on the Validity, Construction, and Infringement of Particular Patents

291k328 Patents Enumerated

291k328(2) k. Original Utility. **Most**

**Cited Cases**

5,580,169. Cited.

37,137. Cited.

5,780,087, 5,939,122. Construed.

Joshua C. Krumholz, Holland & Knight, LLP, of Boston, MA, argued for plaintiffs-appellees. Of counsel on the brief were R. David Donoghue and Daniel L. Farris, of Chicago, IL.

Robert S. Rigg, Vedder Price, P.C., of Chicago, IL, argued for defendant-appellant. With him on the brief were David E. Bennett, and William J. Voller, III.

Before **DYK**, **MOORE**, and **O'MALLEY**, Circuit Judges.

Opinion for the court filed by Circuit Judge **O'MALLEY**. Circuit Judge **DYK** concurs.

**O'MALLEY**, Circuit Judge.

\*1 In this patent case, Meyer Intellectual Properties Limited and Meyer Corporation, U.S. (collectively, "Meyer") filed suit against Bodum, Inc. ("Bodum") in the United States District Court for the Northern District of Illinois, alleging that Bodum infringed two of Meyer's patents, both of which are directed to a method for frothing milk: U.S. Patent Nos. 5,780,087 ("the '087 Patent") and 5,939,122 ("the '122 Patent") (collectively, "the patents-in-suit"). Bodum counterclaimed for declaratory judgment of noninfringement and invalidity.

The district court granted Meyer's motions for summary judgment that Bodum's products infringed the patents-in-suit. Before proceeding to trial, the district court granted Meyer's motions *in limine* prohibiting Bodum from: (1) introducing and relying on certain prior art; (2) presenting certain testimony relating to that prior art; and (3) introducing any evidence to support its inequitable conduct claims. The jury returned a verdict in favor of Meyer, finding that the patents-in-suit were not proven to be invalid, finding that Bodum's infringement was willful, and awarding Meyer damages in the amount of \$50,000. The district court subsequently denied Bodum's post-trial motions for judgment as a matter of law ("JMOL") and granted Meyer's motion requesting enhanced damages and attorney fees.

Bodum appeals from the district court's final judgment awarding damages and attorney fees to Meyer in the amount of \$906,487.56. Judgment, *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, 764 F.Supp.2d 1004 (N.D.Ill.2011), ECF No. 237. On appeal, Bodum challenges several of the court's rulings. Specifically, Bodum challenges the district court's decisions: (1) granting summary judgment in favor of Meyer on infringement; (2) granting Meyer's motions *in limine* precluding Bodum from presenting certain prior art and testimony at trial; (3) denying Bodum's motion for JMOL that Bodum did not willfully infringe the patents-in-suit; (4) enhancing damages and awarding attorney fees in

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Meyer's favor; and (5) denying Bodum's renewed motion for JMOL and motion to alter the court's infringement decisions. For the reasons explained below, we reverse-in-part, vacate-in-part, and remand.

## BACKGROUND

### A. Factual Background

#### 1. The Patents-in-Suit

Frank Brady (“Brady”) is the sole inventor of the '087 and '122 Patents. For approximately ten years, from 1986 to 1996, Brady was an independent sales representative for Bodum, a company that designs and sells housewares products, including coffee makers, milk frothers, and other kitchen products. Tr. of Proceedings held on Nov. 12, 2010, *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06–6329 (N.D.Ill. Apr. 29, 2011), ECF No. 268 at 683:14–23. In that capacity, and as the Chief Executive Officer of Brady Marketing Company, Inc., Brady marketed and sold a number of Bodum's household products, including Bodum's French press coffee makers. Brady explained that he first conceived of a frother using aeration instead of steam in the mid–1990s, and that he introduced it for sale at a trade show in May 1996. Tr. of Proceedings held on Nov. 10, 2010, *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06–6329 (N.D.Ill. Apr. 29, 2011), ECF No. 267 at 466:3–467:2. Around that same time, Brady began selling his frothers through his company BonJour, Inc. (“BonJour”).

\*2 On September 23, 1996, Brady filed a patent application directed to a “Method for Frothing Liquids.” That application became the '087 Patent, which issued on July 14, 1998. During prosecution of the application that resulted in the '087 Patent, the PTO examiner initially rejected Claim 1 as anticipated by a prior art reference: U.S. Patent No. 5,580,169 (“the Ghidini Patent”). In response, Brady amended the claim to provide: (1) a dimensional limitation requiring that the container have a height that is at least two times the diameter; and (2) a plunger with a screen and a spring, where the spring is “positioned about the circumference of the

plunger body such that the spring is biased to hold the screen in place in contact with, though not sealably connected to, the container.” With these changes, Claim 1 of the '087 Patent was allowed.

While the application that resulted in the '087 Patent was pending, Brady filed a continuation application that later became the '122 Patent. The '122 Patent issued on August 17, 1999.

The patents-in-suit, which share a common specification, are directed to a method for frothing liquids such as milk. Specifically, the patents relate to “an apparatus and method for frothing, which allows the user to obtain foamy, frothed milk without the use of a complicated steamer device.” '087 Patent col.1 ll.5–10; '122 Patent col.1 ll.8–12. FN1 The “Background of the Invention” explains that, at the time the application was filed, “[m]ost of the prior art foaming devices [were] complicated machines which involve the use of steam to aerate or foam the liquid.” '087 Patent col.1 ll.12–15. The background section concludes with the statement that, “[w]hat is needed, and is lacking in the prior art, is a device to froth liquids, such as milk, which is simple to use, has no need for electricity or steam, and is relatively easy to clean and store.” *Id.* at col. 1 ll.64–67.

Generally speaking, the claims disclose four steps: (1) providing a container that has a height to diameter aspect ratio of 2:1; (2) pouring liquid (e.g., milk) into the container; (3) introducing a plunger that includes at least a rod and plunger body with a screen; and (4) pumping the plunger to aerate the liquid. '087 Patent col.5 ll.20—col.6 ll.8.

#### 2. Bodum's Accused Products

Meyer accuses three of Bodum's milk frothers of infringement: (1) the Chambord Frother Model No.1964; (1) the Aerijs Frother Model No. 1364; and (3) the Shin Bistro Frother Model No. 10492. Bodum began selling a first generation of accused milk frothers—referred to as the Version 1 frothers—in 1999. The Version 1 frothers departed from Bodum's previous non-electric milk frothers in that:



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(1) the carafe was taller and thinner; and (2) the plunger had a different construction involving a mesh and spring design. The following images show a comparison between Bodum's Version 1 Chambord Frother and the Figures from Meyer's '087 Patent:

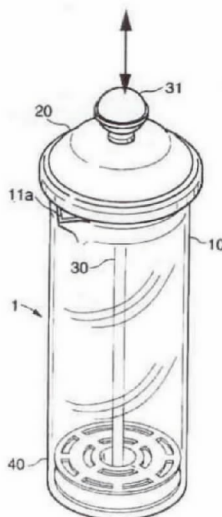
087 Patent:

Bodum Version 1

Figure 1 of the '087

Chambord

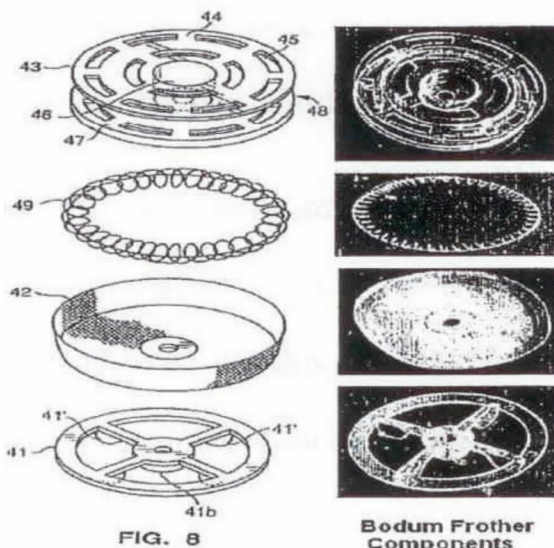
Patent



(JA005344)

FIG. 1

Plunger Comparison



B. Procedural History

\*3 In May 2005, Brady sold his com-

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pany—BonJour—to Meyer. In the sale, BonJour transferred its intellectual property rights to Meyer, and it is undisputed that Meyer owns the patents-in-suit.

On November 20, 2006, Meyer filed suit against Bodum in the Northern District of Illinois, alleging infringement of the patents-in-suit. In the Complaint, Meyer alleged that Bodum “has been and still is using, selling, offering for sale and/or importing one or more milk frother products for frothing liquids that infringe, directly, indirectly, contributorily and/or by inducement” the '087 Patent and the '122 Patent. Complaint, *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06-cv-6329 (N.D.Ill. Nov. 20, 2006), ECF No. 1. Meyer amended its complaint a year later, in November 2007, to add a claim for willful infringement.

On January 19, 2007, Bodum: (1) filed an answer asserting an affirmative defense of inequitable conduct; and (2) counterclaimed seeking a declaration that the asserted claims of the patents-in-suit are invalid and not infringed.

Roughly six months after it was served with the complaint, Bodum ceased manufacturing its Version 1 frothers and transitioned to Version 2 frothers with a new plunger design. Bodum did not change the name or designation of its frother products. According to Bodum, “[u]nlike the Version 1 plunger, the Version 2 plunger does not have a spring or other biasing element that holds the screen against the inside wall of the container or housing, and the screen does not extend beyond the diameter of the plunger plate.” Appellant Br. 9. Instead, the Version 2 plunger contains an O-ring around the circumference of the plunger body. Bodum subsequently removed the O-ring from the Version 2 frother and began selling the new design as Version 3 in July 2008.

#### 1. Claim Construction

On May 14, 2008, the district court issued its claim construction order. *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, 552 F.Supp.2d 810

(N.D.Ill.2008) (“*Claim Construction Order*”). In that order, the court noted that the parties “agree[d] on which claims are in dispute and have submitted a joint letter identifying the disputed language.” *Id.* at 812. Consistent with the parties' request, the court limited its construction to certain language in Claim 1 of the '087 Patent and Claims 1 and 10 of the '122 Patent. The bulk of the court's claim construction order is not relevant to resolution of this appeal so we do not discuss it in any detail. Notably, however, the parties did not ask the court to construe the phrase “providing a container” as it is used in Claim 1 of the patents-in-suit at this stage of the proceedings. See '087 Patent col.5 ll.23–25 (“providing a container characterized by a height and a diameter, the height being at least two times the diameter”).

#### 2. Summary Judgment

On September 2, 2008, Meyer moved for partial summary judgment, arguing that, by providing its Version 1 frothers along with instructions for their use, Bodum induced others—specifically Meyer's own expert Albert Karvelis—to infringe the patents-in-suit. In response, Bodum argued that: (1) Meyer failed to provide sufficient evidence of an intent to induce infringement; (2) Bodum could not induce infringement because it believed in good faith that the Meyer patents are invalid; (3) Bodum could not be liable for inducement because no single third party could perform all the steps in the patented claims, not even Mr. Karvelis; and (4) even if Mr. Karvelis had performed all of the steps of the method claims, his acts could not be acts of “infringement” since he was acting under an implied license created by the umbrella of the parties' litigation.

\*4 Two things are notable about the parties' summary judgment filings. First, Meyer presented no evidence that anyone other than its own expert had directly “infringed” the '087 and '122 Patents. Second, both parties discussed what it meant to “provide a container” for frothing though, again, neither expressly sought construction of that term.

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On February 11, 2009, the district court granted Meyer's motion for partial summary judgment, finding that Bodum had induced infringement of certain claims in the '087 and '122 Patents by its sales of the Version 1 frothers. *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, 597 F.Supp.2d 790 (N.D.Ill.2009) (“*Summary Judgment Version 1*”).

Meyer then filed a second motion for partial summary judgment, this time arguing that Bodum's sale of its Version 2 and 3 frothers both directly infringed and induced infringement of the '122 Patent.<sup>FN2</sup> The court granted summary judgment of direct infringement and inducement as to the Version 2 frothers, but found genuine issues of material fact as to literal infringement with respect to the Version 3 frothers. *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, 674 F.Supp.2d 1015, 1022 (N.D.Ill.2009) (“*Summary Judgment Version 2*”). The court began by noting that the '122 Patent includes a limitation that “substantially no liquid passes between the circumference of the plunger body and the inside wall of the container.” *Id.* at 1017. Although Bodum attempted to design around this limitation by removing the O-ring from the Version 2 frother so that a greater amount of liquid could pass between the plunger and the container, Bodum “mistakenly produced and sold frothers with O-rings (“Version 2 frothers”) during a period that began about July 2007 and ran through June 2008.” *Id.*

Bodum argued that it could not be liable for infringement because Meyer did not offer evidence that Bodum itself performed each step of the method and Meyer offered no evidence that its customers did so. The court rejected this argument and reiterated its view that, if Meyer's patents are valid, Bodum's production and sale of the Version 2 frothers infringe directly and induce others to infringe.

### 3. Motions *in Limine*

In April 2010, Meyer filed several motions *in limine*. Specifically, Meyer sought to: (1) bar Bodum's proffered expert, Robert John Anders (“Anders”), from testifying regarding his opinion

that the patents-in-suit are invalid as obvious under 35 U.S.C. § 103; (2) prevent Bodum from relying on evidence it claims constitutes prior art, including documents Anders referred to in his report; (3) preclude Bodum from presenting any evidence regarding its inequitable conduct defense; and (4) prevent Bodum from introducing what Meyer characterized as previously undisclosed prior art references.

In a series of decisions, the district court granted all of Meyer's motions, limiting significantly the evidence Bodum could introduce at trial. First, the court issued an order excluding Anders' opinion on obviousness and preventing him from testifying on that subject because he “advance[d] his opinion as a mere ipse dixit: ‘Trust me—I know obviousness when I see it, and this is it.’ ” *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, 715 F.Supp.2d 827, 830 (N.D.Ill.2010).

\*5 Next, the district court issued an order barring Bodum from using prior art evidence not contained in Anders' report. *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06-cv-6329, 2010 U.S. Dist. LEXIS 56168 (N.D.Ill. June 7, 2010). Looking at Anders' report, the court found that it was divided into three sections—A, B, and C—and that, although Anders identified fifty-six items in Part A “as matters that [he] reviewed en route to his arrival at the opinions that he then sets out in Parts B and C,” his “ensuing opinions themselves focused solely on just two of those many items as the actual predicates for his stated conclusions.” *Id.* at \*4. In other words, the court found that Anders limited the universe of prior art and that Bodum's lawyers could not expand that scope. Finally, the court granted Meyer's motion to preclude Bodum from arguing that Brady engaged in inequitable conduct in obtaining the patents-in-suit. Specifically, the court found that Bodum's “inequitable conduct charge ... failed to meet the demanding requirements” of materiality and intent. *Id.* at \*6–9.

Bodum moved the court to reconsider both of its orders granting Meyer's motions *in limine*. In relevant part, Bodum argued that: (1) during dis-



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covery, Bodum identified and disclosed much of the contested prior art in its Second Supplemental Answers to Plaintiffs' Interrogatories 2 and 3; (2) it was improper for the court to use the Anders' report to limit the scope of prior art upon which Bodum could rely at trial; (3) the Anders' report is a single report with three component parts which should be read together; and (4) even if Bodum were limited to the references upon which Anders expressly relied, those references included a drawing of a Bodum French press container with dimensions which matched those disclosed in Meyer's ['122 Patent](#).

In a decision dated October 7, 2010, the court denied Bodum's motion to reconsider. First, the court reiterated that Anders "considered a great deal of potentially relevant material and, having done so, settled on just two items as the relevant prior art." *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06-cv-6329, 2010 U.S. Dist. LEXIS 107169, at \*3 (N.D.Ill. Oct. 7, 2010). Second, the court stated that:

It simply will not do for Bodum to take an end run around its own chosen expert's opinion by adverting testimony from its own people, Jorgen Bodum and Thomas Perez, as to other items that they consider prior art, whether that testimony is tendered under the rubric of Evid. R. 702 (the rule governing "expert" testimony) or of Evid. R. 701 (the rule that gives room for opinion testimony by lay witnesses).

*Id.* Accordingly, the court limited Bodum to only two of the references identified in Anders' report: (1) United States Reissued [Patent, No. RE37,137](#) ("the Ghidini Reissue Patent"); and (2) a Bodum French Press container.

#### 4. Jury Trial

Beginning on November 8, 2010, the court conducted a jury trial to address three issues: (1) invalidity based on obviousness; (2) whether Bodum's infringement of the asserted claims was willful; and (3) damages.

\*6 On November 10, 2010, near the end of Meyer's case-in-chief, Meyer moved the court to preclude Bodum from introducing and using a modern version of the Bodum 3-Cup French Press as prior art on grounds that: (1) Bodum had no corroborating evidence tying the modern version to that which allegedly pre-dated the Meyer patents; and (2) it was an attempt to backdoor the court's prior rulings limiting the prior art on which Bodum could rely. The district court granted the motion on the second ground, and the Bodum 3-Cup French Press was not introduced as an exhibit at trial.

Also at the end of Meyer's case-in-chief, Bodum filed a motion for JMOL that it did not willfully infringe the asserted patents. The district court denied that motion on the record on November 15, 2010.

On November 17, 2010, the jury returned a verdict in favor of Meyer, finding that the patents-in-suit were not invalid and that Bodum's infringement was willful. The jury awarded damages to Meyer in the requested amount of \$50,000.

#### 5. Post-Trial Motions

Following the jury verdict, Meyer filed a motion asking the court to: (1) award treble damages pursuant to [35 U.S.C. § 284](#); (2) declare this case exceptional within the meaning of [35 U.S.C. § 285](#); and (3) award Meyer its attorney fees in the amount of \$756,487.56. In a decision dated February 16, 2011, the district court granted Meyer's motion, increased the jury's damage award to \$150,000, and awarded Meyer its full attorney fees. *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, 764 F.Supp.2d 1004 (N.D.Ill.2011) ( "[Decision Awarding Attorney Fees](#) ").

Bodum subsequently filed two post-trial motions. First, Bodum filed a renewed motion for JMOL, again asking the court to find that Bodum did not willfully infringe the patents-in-suit. In that motion, Bodum argued that: (1) it did not have knowledge of the '087 and ['122 Patents](#) prior to the filing of the complaint; (2) Meyer failed to move

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for a preliminary injunction, and thus could not show willful infringement under *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed.Cir.2007) (en banc); (3) Bodum's efforts to design around the patents-in-suit demonstrate that it was not objectively reckless; and (4) Bodum raised substantial questions of noninfringement and invalidity.

Second, Bodum moved the court pursuant to Rule 59(e) of the Federal Rules of Civil Procedure to alter its previous decisions granting summary judgment of infringement. In that motion, Bodum asked the court to revisit its prior decisions in light of this court's December 2010 decision in *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, 629 F.3d 1311 (Fed.Cir.2010), vacated, 419 Fed.Appx. 989 (Fed.Cir.2011). Specifically, in light of *Akamai*, Bodum argued that the court should withdraw its findings of direct infringement because: (1) Meyer failed to show that Bodum performed every step of the asserted claims; (2) the claims are incapable of being directly infringed by a single third party; and (3) there is no direct infringement under a divided infringement or joint infringement theory because Bodum's customers are not agents of Bodum, and are not obligated to use the frothers in any particular way.

\*7 The district court conducted a hearing on March 14, 2011, and denied both of Bodum's post-trial motions on the record. First, the court denied Bodum's renewed JMOL for the reasons previously stated on the record at the conclusion of Meyer's case in chief. With respect to Bodum's Rule 59(e) motion, the district judge explained that he reviewed *Akamai* and noted that "joint liability may be found when one party 'controls or directs' the activities of another party." Tr. of Proceedings held on Mar. 14, 2011, *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06-cv-6329 (N.D.Ill. Apr. 29, 2011), ECF No. 272, at 4:19-21. The judge then stated that the patented method here "has only one intended goal. That is the production of froth liquid such as milk. And the devices marketed by Bodum have exactly that function. This isn't a matter of

purchasers that—that where the devices that Bodum's customers choose among several possible means of accomplishing a purpose." *Id.* at 6:1-7. The court concluded that it "would be a solipsism if you permitted an escape for a party that practices the method up to the point of its ultimate utilization...." *Id.* at 7:11-16. Accordingly, the court found no basis to reverse its prior rulings granting summary judgment in Meyer's favor.

Bodum timely appealed several of the district court's decisions to this court. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

#### DISCUSSION

On appeal, Bodum argues that the district court erred when it: (1) granted summary judgment of direct infringement and inducement of the asserted method claims, despite the lack of evidence that any one party—including Bodum—actually performed each step of the asserted claims; (2) made several evidentiary rulings that made it impossible for Bodum to present its case; (3) dismissed Bodum's affirmative defense of inequitable conduct on a motion *in limine*; and (4) denied Bodum's JMOL of no willful infringement. We address each of these issues in turn.

##### A. Infringement

The district court issued two separate decisions granting summary judgment that Bodum directly infringed and induced infringement of the patents-in-suit. First, with respect to Bodum's Version 1 frothers, the court found that: (1) Bodum conceded direct infringement; and (2) whenever a Bodum customer uses its milk frother and follows the instructions contained therein, that customer directly infringes the patents-in-suit, and Bodum induces the same as a matter of law. *Summary Judgment Version 1*, 597 F.Supp.2d at 794, 798-99. Bodum moved the district court to clarify its decision, arguing that it could not be a direct infringer because it only practices the first step of the claim—"providing a container"—and its customers could not be direct infringers because, while they practice each of the other steps, they do not practice

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the “providing” step. The district court judge conducted a status hearing and explained to Bodum that:

\*8 I took a look at the box that contains this plunger. And everything that you have done is everything except hold the customer's hand on the plunger. I mean you know, you have given the direct—you have got essentially a one purpose invention. And you have done everything, including the first step to practice the thing, because again all that you lack is putting your client's hot hand on the plunger, because you instructed the customer, “Here is how you use the thing.”

Tr. of Proceedings held on May 1, 2009, *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06–cv–6329 (N.D.Ill. May 5, 2011), ECF No. 273 at 5:12–20. Accordingly, the court denied Bodum's motion to clarify.

The district court subsequently granted Meyer's motion for summary judgment that Bodum's sale of the Version 2 frothers infringe the claims of the '122 Patent, finding that: (1) Bodum must have tested its products before putting them on the market; and (2) “[t]hough Meyer does not provide evidence of specific instances of direct infringement by Bodum's customers, such proof is not required because ... Version 2 ‘necessarily infringes’ the patented method when operated as directed.” *Summary Judgment Version 2*, 674 F.Supp.2d at 1018, 1021. FN3

[1][2] We review the district court's grant of summary judgment without deference, drawing all reasonable inferences in favor of the nonmoving party. *King Pharm., Inc. v. Eon Labs, Inc.*, 616 F.3d 1267, 1273 (Fed.Cir.2010). Summary judgment is appropriate when there are no genuine issues of material fact and the moving party is entitled to judgment as a matter of law. *Fed.R.Civ.P.* 56. Evaluating a district court decision granting summary judgment of infringement requires two steps: (1) claim construction; and (2) comparison of

the properly construed claims to the accused product or process. *Abbott Labs. v. Sandoz, Inc.*, 566 F.3d 1282, 1288 (Fed.Cir.2009).

[3] Where, as here, the asserted patent claims are method claims, the sale of a product, without more, does not infringe the patent. *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 850 (Fed.Cir.2010) (citation omitted). Instead, direct infringement of a method claim requires a showing that every step of the claimed method has been practiced. *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1317 (Fed.Cir.2009).

[4][5] Under 35 U.S.C. § 271(b), a party who “actively induces infringement of a patent shall be liable as an infringer.” To prevail on an inducement claim, a patentee must establish that: (1) there has been direct infringement; (2) the defendant, with knowledge of the patent, actively and knowingly aided and abetted such direct infringement. *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1305 (Fed.Cir.2006) (en banc). It is well-established that a finding of direct infringement is a prerequisite to a finding of inducement. *Ricoh Co. v. Quanta Computer Inc.*, 550 F.3d 1325, 1341 (Fed.Cir.2008) (“[A] finding of inducement requires a threshold finding of direct infringement.”).

\*9 On appeal, Bodum argues both that the district court assumed that acts of direct infringement occurred when there was no evidence in the record that they did and that the district court misapplied the law with respect to inducement in the context of method claims. According to Bodum, because there was no evidence that any single party, including Bodum itself, actually performed each step of the asserted method claims, there can be no finding of direct infringement or inducement. Since this court's decision in *Akamai* has been vacated pending *en banc* review, Bodum relies upon our decision in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed.Cir.2007) to support its argument.

Meyer responds that: (1) as the district court

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held, Bodum waived its direct infringement argument with respect to Version 1; and (2) Bodum's own witnesses admitted actual use of Bodum's Version 1 and Version 2 frothers during testing of the frothers. Notably, Meyer abandons its argument that a finding of infringement can be premised on the acts of its own expert during the course of litigation. Meyer neither cites nor discusses *BMC* in its brief to this court.<sup>FN4</sup>

For the reasons discussed below, we conclude that the district court erred in granting summary judgment of infringement with respect to both the Version 1 and Version 2 frothers because the record was inadequate to support such a conclusion as a matter of law. In reaching this conclusion, we find no reason to discuss or apply this court's case law on divided infringement or to await its clarification *en banc* because we find that, properly construed, each step of the method claims could be performed by a single user.

#### 1. Waiver

[6] First, we disagree with the district court's finding that Bodum conceded direct infringement as to its Version 1 frother. In its initial motion seeking summary judgment, Meyer's sole argument with respect to direct infringement was that "literal and direct infringement exists by one, such as *Meyer's* expert, Albert Karvelis, when practicing the method prescribed in Bodum's instructions while using Bodum's accused milk frothers." Mem. in Supp. of Pls.' Mot. for Partial Summ. J., *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06-cv-6329, (N.D.Ill. Sept. 2, 2008), ECF No. 90 at 8 (emphasis added). Meyer did not argue that anyone other than Mr. Karvelis practiced each step of the claimed method by using Bodum's Version 1 frother. Nor did Meyer offer evidence of or even argue that anyone at Bodum ever practiced every step of the method claim or that there was any known customer who did so.

In response, Bodum both rejected the notion that Mr. Karvelis' actions could constitute acts of infringement and argued that no single person or

entity—not even Mr. Karvelis—could perform all steps of the method claim because Bodum itself practiced the "providing a container" step, and only that step. Recognizing that induced infringement requires proof of both direct infringement and that the alleged inducer knowingly aided and abetted that direct infringement, Bodum argued that:

\*10 Meyer's allegation of direct infringement is improper for at least the reason that, as drafted, no one party can directly infringe any of the independent method claims. Only Bodum performs the first step of each independent claim, the step of providing a container or housing associated with its Accused Products. The remaining steps are each performed only by Bodum's customers. As a result there is no direct infringement and consequently, no inducement.

Def.'s Mem. in Opp'n, *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06-cv-6329, (N.D.Ill. Nov. 21, 2008), ECF No. 99 at 13. Given this language, we find that the district court erred in concluding that Bodum "raise[d] no defense to the argument that its products directly infringed the Meyer Patents." *Summary Judgment Version 1*, 597 F.Supp.2d at 794. In these circumstances, we agree with Bodum that no waiver occurred.

#### 2. Claim Construction

[7][8] Resolution of the parties' dispute turns, in large part, on the construction of the term "providing" as it is used in the patent claims. Claim construction is an issue of law subject to *de novo* review on appeal. See *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1456 (Fed.Cir.1998) (en banc).

[9][10] To ascertain the scope and meaning of the asserted claims, we look to the claim language, the specification, the prosecution history, and any relevant extrinsic evidence. *Phillips v. AWH Corp.*, 415 F.3d 1303, 1315–17 (Fed.Cir.2005) (en banc). As a general rule, a claim term is given the plain and ordinary meaning as understood by a person of ordinary skill in the art at the time of invention. *Id.* at 1312–13.

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[11][12] Although claim construction begins with the language of the claims themselves, the claims “must be read in view of the specification, of which they are a part.” *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 979 (Fed.Cir.1995) (en banc). Indeed, the specification “is the single best guide to the meaning of a disputed term” and it “acts as a dictionary when it expressly defines terms used in the claims or when it defines terms by implication.” *Phillips*, 415 F.3d at 1321 (quoting *Vitronics Corp. v. Conceptor, Inc.*, 90 F.3d 1576, 1582 (Fed.Cir.1996)). We have also recognized that dictionaries “are often useful to assist in understanding the commonly understood meaning of words.” *Id.* at 1322. As such, we have held that judges are free to rely on dictionary definitions when construing claims, “so long as the dictionary definition does not contradict any definition found in or ascertained by a reading of the patent documents.” *Id.* at 1322–23 (quoting *Vitronics*, 90 F.3d at 1584 n. 6).

As noted, representative Claim 1 of the '087 Patent generally discloses four steps: (1) providing a container with a 2:1 height to diameter ratio; (2) pouring milk into the container; (3) introducing a plunger; and (4) pumping the plunger to aerate the liquid. The parties' summary judgment arguments, and the district court's ruling thereon, focused on the first step: “providing a container.” It is undisputed that the patents-in-suit do not explicitly define the term “providing.”

\*11 [13] During claim construction, neither party asked the court to construe the term “providing.” Although claim construction is a question of law, we are generally hesitant to construe claim terms for the first time on appeal. *Wavetronix v. EIS Elec. Integrated Sys.*, 573 F.3d 1343, 1355 (Fed.Cir.2009). Under the circumstances of this case, however, we find it appropriate to do so. While the parties specifically addressed the meaning and scope of this term in their summary judgment briefing to the district court, the court did not formally construe the claim term because it found

no reason to do so. Instead, the court found that Bodum could be liable for induced infringement even if it, and only it, performed the providing step because Bodum thereafter directed its customers on how to perform the remaining steps of the claim. Because the record is sufficiently developed to enable us to construe the term, and because the parties' debate really focuses on the scope, rather than the meaning of the claim terms, we choose to address the question the trial court sidestepped.

In opposition to Meyer's motion for summary judgment, Bodum supplied the following dictionary definition for the word “provide”: “1. To furnish; supply. 2. To make available; afford. 3. To set down as a stipulation. 4. Archaic: To make ready ahead of time; prepare.” Am. Heritage College Dictionary 1102 (3d ed.2000). Bodum argued that, because it supplies, furnishes, and otherwise makes the accused products available for sale, it is the only party that can carry out the providing step. In its reply, Meyer agreed that providing should be given its common ordinary meaning, but argued that “there is no limitation in the claims on who does the ‘providing,’ and none exists. Bodum can do the providing or the end user completing the claimed method steps can do the providing. In either event, direct infringement occurs.” Reply in Supp. of Pls.' Mot. for Partial Summ. J., *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06–cv–6329, (N.D.Ill. Dec. 5, 2008), ECF No. 105 at 13.

In its decision granting summary judgment as to Bodum's Version 1 frothers, the district court acknowledged Bodum's proffered dictionary definition and its argument that, because an end user “cannot ‘provide’ the container as called for by the claims,” Bodum does not induce infringement. *Summary Judgment Version 1*, 597 F.Supp.2d at 798. Rather than analyze the scope of the term “providing,” however, the district court found that, even under Bodum's definition, Bodum's argument fails because “it impermissibly distorts the fundamental concept of patent infringement.” *Id.* Spe-



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cifically, the court held that, “[w]hen any end user ‘uses’ a Bodum milk frother—a container—that has been ‘provided’ by Bodum, and in doing so follows Bodum’s instructions detailing the steps to be taken in such use of the frother ... it thus directly infringes the Meyer Patents.” *Id.* at 798–99. Notably, however, nothing in the district court’s decision suggests that Bodum is the *only* party that can “provide” the container for use.

\*12 After careful review of the intrinsic evidence, we find that nothing in the claim language or the patent specification limits the “providing” step to a specific party. Under Bodum’s proffered dictionary definition, it is clear that Bodum “furnishes” or “supplies” the container by manufacturing and selling its milk frothers. It is also clear under that same definition, however, that anyone who takes a Bodum frother from the kitchen cabinet and places it on the counter before filling it with milk can satisfy the “providing” step. That person has undoubtedly made the container available for use and prepared it for frothing. Accordingly, we construe the term “providing” to mean “furnishing, supplying, making available, or preparing” and find that anyone—Bodum or the end user of its products—can satisfy the providing step. Given this construction, we find that the claims at issue here are drawn to actions that can be performed by a single party.

### 3. Direct Infringement

[14] Having concluded that a single party is capable of infringing the patents-in-suit, we move to the parties’ arguments regarding infringement. We turn first to the issue of direct infringement. As noted, in its motion for summary judgment with respect to Bodum’s Version 1 frother, Meyer’s only evidence of direct infringement was the activities of Meyer’s own expert. On appeal, Bodum argues that Meyer did not introduce any evidence that either Bodum or its customers used the claimed method. Meyer responds that Bodum’s witnesses conceded use. Again, Meyer does not argue that there was evidence of customer infringement. For the reasons

explained below, we agree with Bodum that the district court’s judgments of infringement as to both the Version 1 and Version 2 frothers suffer from the same deficiency: there was no evidence of direct infringement in the record.

As to the Version 1 frothers, the district court relied only on its conclusion that Bodum had conceded direct infringement, though the court never explained to whom that concession pertained. Because we find that Bodum made no such concession, Meyer points to no other evidence of direct infringement as to the Version 1 frothers, and we find none in the underlying summary judgment papers, we conclude that the trial court erred in finding direct infringement as a matter of law as to those frothers.

In its decision granting Meyer summary judgment with respect to the Version 2 frothers, the district court rejected Bodum’s argument that Meyer failed to prove direct infringement. Specifically, the court found it unbelievable that “an established company such as Bodum would have placed Version 2 and later Version 3 on the market for public sale, and would have kept those products on the market for substantial periods of time, without having first confirmed for itself that each product would perform its allotted task....” *Summary Judgment Version 2*, 674 F.Supp.2d at 1018. In other words, the court assumed that Bodum must have tested its products. Given this assumption, the court concluded that Bodum’s use of the ‘122 Patent method “has been established as a matter of law.” *Id.*

\*13 [15] We find it troubling that the district court based its direct infringement analysis on what it assumed happened, rather than on actual evidence of record. This assumption contradicts our well-established law that a patentee must prove infringement by a preponderance of the evidence. *See Siemens Med. Solutions USA, Inc. v. Saint-Gobain Ceramics & Plastics, Inc.*, 637 F.3d 1269, 1279 (Fed.Cir.2011) (“Patent infringement, whether literal or by equivalence, is an issue of fact, which the

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patentee must prove by a preponderance of the evidence.”). And, by assuming testing without any evidence in the record, the court improperly drew an inference in favor of Meyer and against Bodum. Because factual inferences must be drawn in favor of the nonmoving party on summary judgment, we find that the district court's decision cannot stand. See *IMS Tech., Inc. v. Haas Automation, Inc.*, 206 F.3d 1422, 1429 (Fed.Cir.2000) (noting that, on summary judgment, “[w]e view the evidence in a light most favorable to the non-movant, and draw all reasonable inferences in its favor”).

For the first time on appeal, Meyer cites to deposition testimony from Bodum's President, Thomas Perez, as evidence that Bodum used the claimed method in testing and developing its frothers. Specifically, Meyer points to Perez's testimony that Bodum's design team always tests each of its products. Bodum argues that Meyer's reliance on this testimony is misplaced because the portions cited were neither submitted with the motions for summary judgment nor introduced at trial. In addition, Bodum points to the testimony of Jorgen Bodum, Bodum's Chief Executive Officer (hereinafter referred to as “Jorgen”), that he conducts product development with his design team which consists of five people in Hong Kong and fifteen people in Switzerland. In other words, there is no evidence that Bodum used or tested its milk frother products in the United States.

[16] We agree with Bodum that Meyer cannot for the first time on appeal introduce deposition testimony that was not before the district court when it was deciding the motions for summary judgment. And, given Jorgen's trial testimony that Bodum's product development team is located in Hong Kong and Switzerland, Meyer has not—at this stage—shown any instances of direct infringement in the United States. Because direct infringement of a method claim requires that each of the claimed steps are performed within the United States, the evidence of record is insufficient as a matter of law to support the court's decision grant-

ing summary judgment. See *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1318 (Fed.Cir.2005) (“We therefore hold that a process cannot be used ‘within’ the United States as required by section 271(a) unless each of the steps is performed within this country.”).

Based on the foregoing, we find that Meyer failed to point to specific instances of direct infringement and failed to offer any evidence that someone at Bodum used its Version 1 and Version 2 frothers. Accordingly, we find that there are genuine issues of material fact as to whether anyone at Bodum practiced each step of the asserted method claims.

\*14 We now turn to the trial court's conclusion that Bodum intended that its customers would use the frothers to produce froth liquid and that the act of frothing thereafter would constitute direct infringement. While it may be true that Bodum's customers may be characterized as direct infringers under our now-controlling construction of the providing step, Meyer never argued at the summary judgment stage that they were, and it does not make that argument here. Indeed, Meyer presented no evidence in support of its motion for summary judgment regarding either product sales or customer use; it relied only on Mr. Karvelis' testing of the product. Judgment as a matter of law on such a sparse record is simply not appropriate.

Because we conclude that genuine issues of material fact remain, we reverse the district court's grant of summary judgment with respect to Bodum's Version 1 and Version 2 frothers and remand for further consideration in light of our construction of the term “providing.”

#### B. Evidentiary Rulings

We turn next to Bodum's challenges to the district court's evidentiary rulings. On appeal, Bodum argues that the district court improperly: (1) excluded Bodum's primary prior art, including Bodum's 3-Cup French Press; (2) barred Bodum's expert witness—Anders—from testifying that the

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asserted patents were invalid for obviousness; and (3) precluded Jorgen from testifying about the Bodum 3-Cup French Press. Given these rulings, Bodum argues that it was stripped of its ability to present its obviousness defense at trial.

[17][18] We review the district court's decision to exclude evidence under the law of the relevant regional circuit. *Research Corp. Techs. v. Microsoft Corp.*, 536 F.3d 1247, 1255 (Fed.Cir.2008) (“The Federal Circuit applies its own law with respect to issues of substantive patent law and certain procedural issues pertaining to patent law, but applies the law of our sister circuits to non-patent issues.”) (citation omitted). The Seventh Circuit—the pertinent regional circuit in this case—reviews evidentiary rulings for an abuse of discretion. *Von der Ruhr v. Immtech Int'l, Inc.*, 570 F.3d 858, 862 (7th Cir.2009) (noting that “decisions regarding the admission and exclusion of evidence are peculiarly within the competence of the district court”) (citation omitted).

In the Seventh Circuit, appellate review of evidentiary rulings is limited to determining “whether an ‘error in either the admission or the exclusion of evidence’ was made which affected ‘the substantial rights’ of the plaintiffs.” *Nachtsheim v. Beech Aircraft Corp.*, 847 F.2d 1261, 1266 (7th Cir.1988) (quoting Fed.R.Civ.P. 61). Generally speaking, “the test of whether a substantial right of a party has been affected is whether the error in question affected the outcome of the case.” 2 Jack B. Weinstein & Margaret A. Berger, *Weinstein's Federal Evidence* § 103.41[2] (Joseph M. McLaughlin, ed., Matthew Bender 2d ed.2011).

\*15 More recently, the Seventh Circuit held that “[n]o error in either the admission or exclusion of evidence is ground[s] for ... vacating, modifying, or otherwise disturbing a judgment or order, unless refusal to take such action appears to the court inconsistent with substantial justice.” *Thompson v. City of Chicago*, 472 F.3d 444, 455 (7th Cir.2006) (quoting *Goodman v. Illinois Dept. of Fin. & Prof. Reg.*, 430 F.3d 432, 439 (7th Cir.2005)). The court

recognized that “[e]ven an erroneous evidentiary ruling can be deemed harmless if the record indicates that the same judgment would have been rendered regardless of the error.” *Id.* (quoting *Goodman*, 430 F.3d at 439). Accordingly, Bodum must show both that the district court erred in excluding evidence and that the exclusion prejudiced its substantial rights.

For the reasons explained below, we find that the district court abused its discretion in granting Meyer's motions *in limine* and that these evidentiary errors were prejudicial because they prevented Bodum from presenting its obviousness defense. Accordingly, we vacate and remand for a new trial to address whether the asserted claims are invalid as obvious.

#### 1. Prior Art

[19] As previously noted, the district court granted Meyer's motions *in limine* and limited the universe of prior art on which Bodum could rely. In particular, the court found that: (1) Bodum's discovery responses “identified a not particularly extensive group of [prior art] items”; and (2) Anders reviewed the fifty-six items listed in Part A of his report but then “focused solely on just two of those many items as the actual predicates for his stated conclusions.” *Meyer v. Bodum*, 2010 U.S. Dist. LEXIS 56168, at \*2–4. In its proposed list of exhibits in the Final Pretrial Order, however, Bodum included what the court characterized as a “laundry list” of prior art exhibits. Because it found that Bodum's discovery responses and expert report narrowed the relevant prior art, the court found that Bodum could rely only on two items of prior art at trial: the Reissue Ghidini Patent and the Bodum French 3-Cup French Press. As discussed below, moreover, at trial, the court *further* limited Bodum's introduction of evidence to exclude the Bodum 3-Cup French Press.

Bodum explains that, prior to trial, its invalidity position was that each claim of the '087 and '122 Patents is made obvious by a combination of the Bodum 3-Cup French Press and the Reissue



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Ghidini Patent.<sup>FN5</sup> According to Bodum, its 3-Cup French Press “teaches all of the elements required in the '087 and '122 Patents with the exception of using a coffee press as a frother,” and the Reissue Ghidini Patent teaches a method for frothing milk in a container with a plunger assembly. Appellant's Br. 17. Bodum contends that, had it been permitted to offer the wrongfully excluded exhibits, “it would have been clear to the jury that the combination of at least the Bodum 3-Cup French Press and the Reissue Ghidini Patent show all of the features of the claimed invention.” *Id.* at 20.

\*16 On appeal, Bodum argues that the district court erred when it excluded its 3-Cup French Press as well as the other prior art that was disclosed both during discovery and in Anders' report. In response, Meyer argues that Bodum's prior art was not properly disclosed and that the relevant scope of prior art was narrowed by Bodum's own expert. We disagree with Meyer.

We turn first to the district court's exclusion of prior art that Bodum disclosed in its interrogatory responses. During discovery, Meyer asked Bodum to identify and explain the factual bases for Bodum's claim that the patents at issue were invalid. In its Second Supplemental Answers to Interrogatories 2 and 3, Bodum identified, among other things, its prior Chambord French Press products, the Insta-Brewer French Press coffee maker, which “includes a container that is at least twice as tall as it is wide and includes a plunger structure,” advertisements for the Insta-Brewer showing that it was available for sale in 1965, a still frame image from the movie “The Ipress File” which showed use of the Insta-Brewer in 1965, the file history of the Reissue Ghidini Patent, and catalogs showing that the Bodum 3-Cup French Press was offered for sale in the United States prior to 1995. Indeed, at oral argument, counsel for Meyer conceded that, at a minimum, the following prior art was disclosed in Bodum's interrogatory responses: “certainly the 3 cup was in there, the Ghidini Patent was in there, there was also, I think, a digital image from a

movie, there was also a catalog.” See Oral Argument at 17:45, available at <http://www.ca9.uscourts.gov/oral-argument-recordings/2011-1329/all>.

Turning to the prior art discussed in Anders' report, careful review of Part C reveals that Anders' opinion on obviousness was not, as the district court found, limited to just two pieces of prior art. Indeed, Part C of the report specifically references: (1) the Ghidini Reissue Patent; (2) the Bodum French Press; and (3) the “drawing of a Bodum French press container dated 6.2.84 with Bates number B01781 shows a container having a height that is two times the diameter.” J.A. 4378. The district court trifurcated Anders' report and found that the list of documents included in Part A were not relied upon with respect to obviousness because they were not substantively discussed in Part C. The fact remains, however, that those references in Part A—including the Bodum Chambord 3-cup coffee maker and catalog pages of Bodum products—were included in the expert report and were, thus, provided to Meyer.

[20] Even assuming we agree with the district court that Anders relied only on the specific prior art listed in Part C for his obviousness opinion, the district court still erred in using the Anders' report to limit Bodum's ability to present, through other witnesses at trial, prior art that was previously disclosed during discovery. If anything, the scope and content of Anders' report should operate only to limit his testimony at trial—not the testimony of any other witnesses.

\*17 Meyer concedes that it received Bodum's interrogatory responses, and thus was on notice of Bodum's intent to use the prior art included therein.

<sup>FN6</sup> Meyer nonetheless contends the court was correct to prohibit reliance on that art at trial, however. During oral argument, counsel for Meyer explained that, although it knew about the prior art in Bodum's discovery responses, “there was a further narrowing as to what the case was going to be ... in the expert report.” Oral Argument at 19:40. Coun-

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sel explained that the district court ultimately precluded Bodum's expert from testifying as to obviousness, and that the court “felt that this [other prior art disclosed during discovery] should not come in without expert testimony coming in with it because it was just going to lead to speculation from the jury.” *Id.* at 23:54.

[21][22] Where, as here, the technology involved is simple, we can think of no explanation for excluding prior art that was disclosed in interrogatory responses but was not relied upon in an expert report. As this court recently reiterated, “[t]here is no invariable requirement that a prior art reference be accompanied by expert testimony.” *In re Bromidone Patent Litig.*, 643 F.3d 1366, 1376 (Fed.Cir.2011) (citation omitted). It is well-established, moreover, that, where the technology involved is easily understandable, expert testimony is not required. *Wyers v. Master Lock Co.*, 616 F.3d 1231, 1242 (Fed.Cir.2010); see also *Centricut, LLC v. Esab Group, Inc.*, 390 F.3d 1361, 1369 (Fed.Cir.2004) (“In many patent cases expert testimony will not be necessary because the technology will be ‘easily understandable without the need for expert explanatory testimony.’” (citation omitted)).

The district court's evidentiary errors improperly narrowed the scope of prior art that Bodum could introduce at trial and prevented Bodum from using its primary piece of prior art—the Bodum 3-Cup French Press. Because we find that the court's erroneous evidentiary rulings prejudiced Bodum's ability to present its invalidity defense, we vacate and remand for a new trial on obviousness.

## 2. Expert Testimony

[23] Bodum next argues that the district court erred in granting Meyer's motion to exclude Anders' testimony. In response, Meyer contends that Anders offered a conclusory opinion with no explanation or support and that the district court properly excluded his testimony under [Rule 26\(a\) of the Federal Rules of Civil Procedure](#).<sup>FN7</sup>

[24] [Rule 26\(a\)](#) requires disclosure of a written

expert report that contains “a complete statement of all opinions the witness will express and the basis and reasons for them.” [Fed.R.Civ.P. 26\(a\)\(2\)\(B\)\(i\)](#). The purpose of this rule is “to convey the substance of the expert's opinion ... so that the opponent will be ready to rebut, to cross-examine, and to offer a competing expert if necessary.” *Walsh v. Chez*, 583 F.3d 990, 994 (7th Cir.2009).

[25] In the patent context, an expert report that merely lists a number of prior art references and concludes that one skilled in the art would find the claims obvious is deficient under [Rule 26. \*Innogenetics, N.V. v. Abbott Labs.\*](#), 512 F.3d 1363, 1373 (Fed.Cir.2008). In *Innogenetics*, for example, we found that the expert's report failed to “state how or why a person ordinarily skilled in the art would have found the claims ... obvious in light of some combination of those particular references.” *Id.* Given this deficiency, we affirmed the district court's decision precluding the expert's vague and conclusory testimony regarding obviousness. *Id.* at 1374.

\*18 Here, the district court found that Anders' report failed to comply with [Rule 26](#), and that Anders advanced “his opinion as a mere ipse dixit...” *Meyer*, 715 F.Supp.2d at 830. In reaching this decision, the district court relied heavily on *Innogenetics*, suggesting that it “might well have been written for this case.” *Id.* We disagree. Unlike the situation in *Innogenetics*, here, Anders' report does more than merely list prior art references and provide a conclusion of obviousness.

First, Anders defined a person of ordinary skill in the art as someone who has “an undergraduate degree in industrial design or mechanical engineering, with one to three years experience” or, in the alternative, “a person without a degree but with five or more years of practical experience in the consumer products or housewares industry.” Expert Report of Robert John Anders, *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06-cv-6329 (N.D.Ill. Nov. 16, 2010), ECF No. 217 at 27. Anders then provided detailed claim charts comparing

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the asserted claims to the relevant prior art. As previously noted, the claim charts in Part C of Anders' report identify three items of prior art: (1) the Ghidini Reissue Patent; (2) the Bodum French Press; and (3) the "drawing of a Bodum French press container dated 6.2.84" with a height that is two times the diameter.

In his report, Anders explained that "a designer of ordinary skill in the art at the time of the claimed invention would have been familiar with the methods for aerating milk based liquids as well as with the structure of the French press apparatus, and thus the combination would have been obvious to said designer." *Id.* at 29. In Anders' opinion, all Brady did was "copy an old apparatus which was also known to be capable of frothing milk ... and fabricate a 'method' that was in fact also old and well known and detailed in the prior art patents." *Id.* Given these circumstances, Anders concluded that the patents-in-suit are invalid for obviousness.

Careful review of Anders' report reveals that it contains a sufficiently detailed statement of his opinions and the bases for his conclusions. This is particularly true given that the technology involved in this case—using a plunger to froth milk in a container—is not complex. According to Anders, the patents-in-suit are obvious because one skilled in the art would have been motivated based on familiarity with the prior art to combine the known method for aerating milk in a frother with the structure of a French press. In other words, Anders invoked the common sense of one skilled in the art as evidence of motivation to combine prior art references. Given the technology involved, we find no fault in Anders' reliance on common sense in rendering his obviousness opinion. Indeed, this court has specifically recognized that the common sense of one skilled in the art can play a role in the obviousness analysis. See *Perfect Web Techs., Inc. v. InfoUSA, Inc.*, 587 F.3d 1324, 1329 (Fed.Cir.2009) (holding that "an analysis of obviousness ... may include recourse to logic, judgment, and common sense available to the person of ordinary skill [which] do[es]

not necessarily require explication in any reference or expert opinion").

\*19 Because the technology involved is simple and common sense would motivate one of skill in the art to make the combination, Anders' report is sufficiently detailed. Accordingly, we conclude that the district court abused its discretion when it excluded Anders' testimony. We further find that the exclusion of Anders' testimony was not harmless because it impaired Bodum's ability to present its obviousness defense. And, as Bodum points out in its brief, while Meyer's expert was permitted to testify as to why the patent was not obvious, the exclusion of Anders' testimony made it look as though Bodum had no rebuttal.

### 3. Lay Testimony

[26] Prior to trial, the district court ruled that Bodum could not introduce testimony from lay witnesses to expand the scope of prior art on which its expert relied. Although Bodum intended to have Jorgen introduce and authenticate a Bodum 3-Cup French Press at trial, the district court ultimately prohibited any such testimony on grounds that it was an impermissible attempt to "back-door" the court's prior orders excluding prior art.

On appeal, Bodum argues that the district court erred in refusing to let Jorgen testify to issues that were within his personal knowledge, including the Bodum 3-Cup French Press and catalogs and drawings depicting the features of that device prior to the filing of the applications that resulted in the patents-in-suit. In response, Meyer argues that the district court acted within its discretion in refusing to let Jorgen testify because uncorroborated testimony from interested parties is insufficient to invalidate a patent under the so-called *Barbed-Wire* doctrine.

[27] The "*Barbed-Wire* doctrine" provides that "[c]orroboration is required of any witness whose testimony alone is asserted to invalidate a patent." *TypeRight Keyboard Corp. v. Microsoft Corp.*, 374 F.3d 1151, 1159 (Fed.Cir.2004) (citation omitted); see also *Checkpoint Sys., Inc. v.*

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*All-Tag Sec. S.A.*, 412 F.3d 1331, 1339 (Fed.Cir.2005) (“The law has long looked with disfavor upon invalidating patents on the basis of mere testimonial evidence absent other evidence that corroborates that testimony.”) (citation omitted). We have explained that this requirement “arose out of a concern that inventors testifying in patent infringement cases would be tempted to remember facts favorable to their case by the lure of protecting their patent or defeating another’s patent.” *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1577 (Fed.Cir.1996); see also *Barbed-Wire Patent*, 143 U.S. 275, 284, 12 S.Ct. 443, 36 L.Ed. 154 (1892) (recognizing that testimony regarding invalidity can be “unsatisfactory” given “the forgetfulness of witnesses, their liability to mistakes, their proneness to recollect things as the party calling them would have them recollect them, aside from the temptation to actual perjury....”).

Bodum argues that the *Barbed-Wire* doctrine does not apply here because: (1) the district court did not rely on it in excluding the testimony; and (2) Bodum is not relying on oral testimony alone to prove invalidity. We agree with Bodum on both points.

\*20 First, as noted, the district court excluded Jorgen’s testimony on grounds that its proffer was an attempt to “backdoor” the judge’s prior ruling excluding Anders’ expert testimony. *Meyer*, 2010 U.S. Dist. LEXIS 107169, at \*3. Nowhere in that order did the court cite to or rely upon the *Barbed-Wire* doctrine. When counsel for Meyer invoked the *Barbed-Wire* doctrine on the record during trial, the court reiterated its earlier order limiting Bodum’s prior art and simply stated that: “whether it happens to be supported or not by the barbed wire theory, which I think tends to sort of, in a way, corroborate it, is really not the point. So I am not permitting it.” Tr. of Proceedings held on Nov. 10, 2010, *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06-cv-6329 (N.D.Ill. Apr. 29, 2011), ECF No. 267 at 459:13-460:17. Accordingly, the record reveals that the district court did

not base its decision on the *Barbed-Wire* doctrine.

Second, Meyer’s reliance on the *Barbed-Wire* doctrine is misplaced because Bodum did not seek to rely on uncorroborated oral testimony to establish invalidity. Instead, Bodum proffered Jorgen to testify that the version of the Bodum 3-Cup French Press it sought to introduce into evidence was an accurate example of the product as it existed prior to the patents-in-suit. According to Bodum, Jorgen would have testified that the design of the Bodum 3-Cup French Press has not changed in any material respect since 1982, and that it includes: (1) a carafe with a 2:1 height to diameter ratio; and (2) a plunger mechanism almost identical to that disclosed in the patents-in-suit.

To corroborate Jorgen’s testimony, Bodum intended to offer drawings of the carafe and pages from its catalogs—all of which predated the patents-in-suit. According to Bodum, the drawings and catalogs show that the Bodum 3-Cup French Press has the dimensional requirements and plunger disclosed in the patents-in-suit, and that those features were present in the model that pre-dated Meyer’s patents. Although Meyer convinced the district court that Bodum’s reliance on the catalogs and drawings was an attempt to establish those documents as prior art to get around the court’s prior orders limiting the scope of prior art admissible at trial, it is clear that Bodum was relying on those documents to corroborate Jorgen’s testimony—not as independent prior art. Given this corroborating evidence, the *Barbed-Wire* doctrine would not have barred Jorgen’s testimony.

Finally, we agree with Bodum that, given the simplicity of the technology involved, the jury could have considered the Bodum 3-Cup French Press, other documents disclosed during discovery, and lay testimony to reach its decision regarding obviousness. This is not a situation where Bodum sought to have a lay witness give his own opinion regarding invalidity. Indeed, as counsel for Bodum explained to the district court: “we are not asking them to give an opinion. Mr. Bodum is going to



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testify about facts. Was this [3-Cup French Press] on sale? Yes. Is it—was it sold in 1982? Yes.” Tr. of Proceedings held on Nov. 10, 2010, *Meyer Intellectual Props. Ltd. v. Bodum, Inc.*, No. 06-cv-6329 (N.D.Ill. Apr. 29, 2011), ECF No. 267 at 460:18–20. In these circumstances, we see no problem with having Bodum's CEO of thirty-six years testify to factual matters within his personal knowledge where those facts are supported by corroborating documentation.

\*21 Accordingly, we hold that the district court erred in granting Meyer's motion *in limine* barring Jorgen Bodum from testifying as to the Bodum 3-Cup French Press and the related drawings and catalogs. This error—coupled with each of the district court's evidentiary errors discussed above—had the cumulative effect of preventing Bodum from presenting the substance of its obviousness defense. The district court's exclusion of Bodum's primary exhibits and related testimony resulted in a one-sided trial and we find that the court's errors were not harmless. On remand, the court should permit Jorgen to testify as to those matters within his personal knowledge with the corroborating documentation Bodum has identified and previously disclosed during discovery.

### C. Inequitable Conduct

[28] Prior to trial, the district court granted Meyer's motion *in limine* to bar Bodum from presenting evidence in support of its inequitable conduct defense. Specifically, the court found that Bodum “failed to meet the demanding requirements” to prove inequitable conduct. *Meyer*, 2010 U.S. Dist. LEXIS 56168, at \*9. Bodum filed a motion asking the court to reconsider its decision. In that motion, Bodum argued that the court erred in transforming Meyer's request to limit evidence into a motion for summary judgment of no inequitable conduct without giving Bodum a chance to introduce all evidence that would be relevant to the court's decision. The court denied Bodum's motion to reconsider in a minute entry on August 4, 2010, and Bodum was barred from presenting any evi-

dence regarding inequitable conduct at trial.

On appeal, Bodum argues that the district court erred by dismissing its affirmative defense of inequitable conduct on a motion *in limine*. In response, Meyer argues that, even if the district court erred, that error was harmless because there is no right to a jury trial on inequitable conduct.

[29] As previously noted, the exclusion of evidence on a motion *in limine* is an evidentiary ruling reviewed for an abuse of discretion. *Mid-America Tablewares, Inc. v. Mogi Trading Co.*, 100 F.3d 1353, 1362 (7th Cir.1996). The Seventh Circuit has held that a motion *in limine* is not the appropriate vehicle for weighing the sufficiency of the evidence. Specifically, in *Mid-America*, the court stated that, while argument regarding the sufficiency of the evidence “might be a proper argument for summary judgment or for judgment as a matter of law, it is not a proper basis for a motion to exclude evidence prior to trial.” *Id.* at 1362–63 (affirming the district court's decision denying a motion *in limine* to exclude evidence of lost profits and noting that the “determination as to whether future profits were within the contemplation of the parties when contracting necessarily turns on the specific facts established at trial”).

After careful review of the record, we conclude that the district court erred in addressing the sufficiency of Bodum's inequitable conduct defense on an evidentiary motion. We agree with Bodum that the district court essentially converted Meyer's motion *in limine* into a motion for summary judgment. In doing so, the court did not allow for full development of the evidence and deprived Bodum of an opportunity to present all pertinent material to defend against the dismissal of its inequitable conduct defense. Although both parties argue the merits of Bodum's inequitable conduct defense on appeal, we need not address those arguments at this stage. Because we conclude that it was procedurally improper for the court to dispose of Bodum's inequitable conduct defense on a motion *in limine*, we reverse the court's decision and remand for further proceed-

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ings.

#### D. Willfulness

\*22 The jury found in favor of Meyer on the issue of willfulness. After the jury verdict, Bodum filed a renewed motion for JMOL that it did not willfully infringe the patents-in-suit. On March 14, 2011, the district court denied Bodum's motion in an oral ruling on the record and entered a minute entry to that effect. The court later granted Meyer's motion to enhance damages and award Meyer its attorney fees, stating that: (1) "the jury's finding of willfulness implies that Bodum was aware of Meyer's products and, as already indicated, Bodum copied those products in every relevant way"; and (2) there was "serious trial misconduct on Bodum's part" including that "Bodum moved to allow their lay witnesses to testify about asserted prior art that this Court had previously excluded because those items had not been designated as relevant prior art by Bodum's retained expert." *Decision Awarding Attorney Fees*, 764 F.Supp.2d at 1008–09.

On appeal, Bodum argues both that the court erred in denying its motion for JMOL of no willful infringement, and that enhanced damages and attorney fees are not warranted. Given our decision to remand this case for a new trial to address infringement and invalidity, we vacate the jury's verdict of willfulness and the district court's decision denying Bodum JMOL that it did not willfully infringe the patents-in-suit. On remand, *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*, 682 F.3d 1003 (Fed.Cir.2012), may be a helpful starting place for any future analysis of willfulness.

Because we vacate the jury's finding of willfulness, we also vacate the district court's decision awarding enhanced damages to Meyer. *See i4i*, 598 F.3d at 858 ("A finding of willful infringement is a prerequisite to the award of enhanced damages."). With respect to attorney fees, the district court based its decision, at least in part, on the willfulness verdict and Bodum's alleged litigation misconduct in its presentation of evidence. Because we have herein reversed the district court's evidentiary rul-

ings and vacated the willfulness verdict, we also vacate the award of attorney fees.

#### CONCLUSION

For the foregoing reasons, we:

- (1) reverse the district court's decision granting summary judgment that Bodum's Version 1 frother infringed the patents-in-suit;
  - (2) reverse the district court's decision granting summary judgment that Bodum's Version 2 frother infringed the '122 Patent;
  - (3) reverse the district court's decisions precluding Bodum from introducing prior art that was disclosed during discovery and preventing Jorgen Bodum from testifying as to the Bodum 3–Cup French Press and other prior art evidence;
  - (4) reverse the district court's decision barring Bodum's expert from testifying on the issue of obviousness;
  - (5) reverse the district court's decision precluding Bodum from introducing any evidence of inequitable conduct;
  - (6) vacate the district court's decision denying Bodum JMOL that it did not willfully infringe the patents-in-suit and therefore vacate the jury's verdict of willfulness; and
- \*23 (7) vacate the district court's decision enhancing damages and awarding attorney fees to Meyer.

This case is remanded for further proceedings consistent with this opinion.

**REVERSED-IN-PART, VA-  
CATED-IN-PART, and REMANDED**

#### COSTS

Costs to Bodum.

DYK, Circuit Judge, concurring.

While I agree with and join the thorough ma-

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majority opinion, in looking at this case from a broader perspective, one cannot help but conclude that this case is an example of what is wrong with our patent system. The patents essentially claim the use of a prior art French press coffee maker to froth milk. Instead of making coffee by using the plunger to separate coffee from coffee grounds, the plunger is depressed to froth milk. The idea of frothing cold milk by the use of aeration rather than steam is not new as reflected in the prior art Ghidini patent. Under the Supreme Court's decision in *KSR International Co. v. Teleflex, Inc.*, 550 U.S. 398, 420, 127 S.Ct. 1727, 167 L.Ed.2d 705 (2007), and its predecessors, it would be reasonable to expect that the claims would have been rejected as obvious by the examiner, and, if not, that they would have been found obvious on summary judgment by the district court. But no such thing. The parties have spent hundreds of thousand of dollars and several years litigating this issue, and are invited by us to have another go of it in a second trial. Such wasteful litigation does not serve the interests of the inventorship community, nor does it fulfill the purposes of the patent system.

**FN1.** Despite the reference to an “apparatus” in the opening sections of the '122 Patent, there are no apparatus claims in that patent; only method claims are at issue here.

**FN2.** Meyer did not assert the '087 Patent against either the Version 2 or Version 3 frothers.

**FN3.** After trial, the court denied Bodum's Rule 59(e) motion to alter the court's prior summary judgment decisions, reiterating that Bodum's products have one goal—to froth milk—and that Bodum cannot avoid liability by claiming that it does not use the device.

**FN4.** On appeal, Bodum separately argues that its Version 2 frother cannot infringe because it does not have a spring biasing

screen, as is required in Claims 19 and 23 of the '122 Patent. In response, Meyer argues that: (1) there is no spring limitation in Claims 19 or 23 of the '122 Patent; and (2) the O-ring present in the Version 2 frother is the equivalent of the spring specified in certain claims of the patents-in-suit. Appellees' Br. 54–55. Because we find issues of material fact with respect to direct infringement and inducement, we need not address Bodum's additional arguments at this stage.

**FN5.** Bodum was not allowed to use the Ghidini Reissue Patent as prior art because it did not pre-date the patents-in-suit. It was, however, permitted to use the original Ghidini patent—United States Patent No. 5,580,169 (“the '169 Patent”) —which predated the asserted patents, and both Ghidini Patents were admitted at trial.

**FN6.** In its decision, the district court stated that Bodum never supplemented its initial discovery responses and that “Bodum's initial response has set the outer boundaries of the potential ‘prior art’ universe.” Meyer, 2010 U.S. Dist. LEXIS 56168, at \*2. To the contrary, however, Meyer admits in its briefing in support of its motion *in limine* that it received, and was relying upon, Bodum's Second Supplemental Answers to Plaintiffs' Interrogatories Nos. 2 and 3 dated March 18, 2009. Mem. in Supp. of Pls.' Mot. *in Limine*, Meyer Intellectual Props. Ltd. v. Bodum, Inc., No. 06–cv–6329 (N.D.Ill. Apr. 29, 2010), ECF No. 167, at 2 n. 1. As such, the district court erred in finding that Bodum did not supplement its discovery responses.

**FN7.** On appeal, Meyer also argues that the district court relied on Rule 702 of the Federal Rules of Evidence in excluding Anders, and that this court can only reverse the district court's ruling if it is

--- F.3d ----, 2012 WL 3329695 (C.A.Fed. (Ill.))  
(Cite as: 2012 WL 3329695 (C.A.Fed. (Ill.)))

“manifestly erroneous.” Appellees' Br. 34–35. Notably, however, Meyer moved to bar Anders' testimony solely under Rule 26—not Rule 702. And, although the district court's decision briefly mentions Rule 702, the court focuses its analysis on Rule 26(a)(2)(B)(i).

C.A.Fed. (Ill.),2012.  
Meyer Intellectual Properties Ltd. v. Bodum, Inc.  
--- F.3d ----, 2012 WL 3329695 (C.A.Fed. (Ill.))

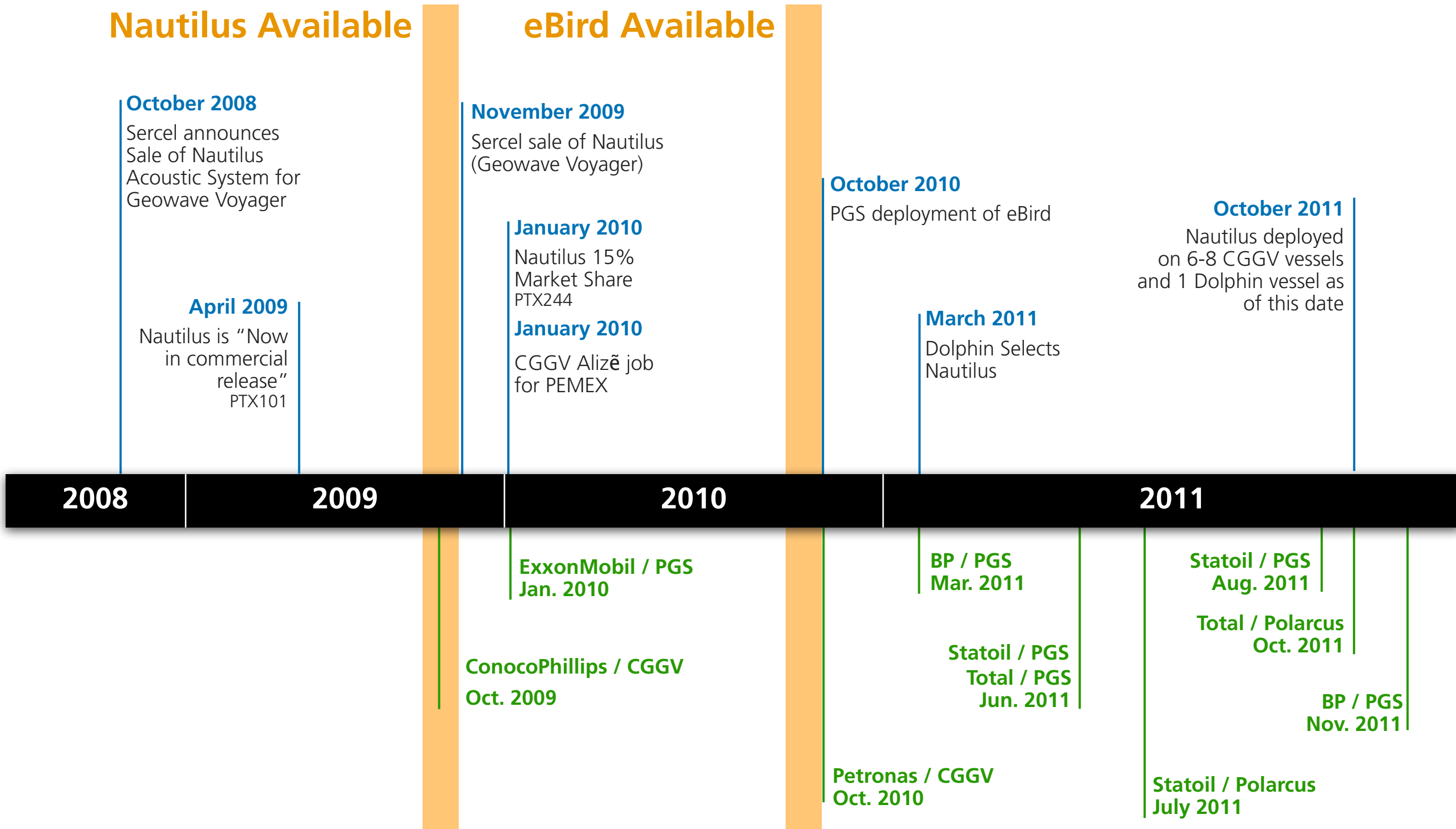
END OF DOCUMENT



# **EXHIBIT 6**



# Alternatives for Lateral Steering Existed



# **EXHIBIT 7**

Slip Copy, 2012 WL 392808 (S.D.Cal.)  
(Cite as: 2012 WL 392808 (S.D.Cal.))

**FIND Request:** 2012 WL 392808, at \*2  
Only the Westlaw citation is currently available.

United States District Court,  
S.D. California,  
CAREFUSION 303, INC., Plaintiff,  
v.  
SIGMA INTERNATIONAL, Defendant.

No. 10cv0442 DMS (WMC).  
Jan. 3, 2012.

John Allcock, John David Kinton, Richard Thomas Mulloy, Thomas Jesse Hindman, DLA Piper LLP, San Diego, CA, for Plaintiff.

Devon C. Beane, Michael J. Abernathy, Sanjay K. Murthy, Matthew S. Dicke, K & L Gates, LLP, Chicago, IL, Michael J. Bettinger, Christy V. La Pierre, Holly Hogan, Irene I. Yang, K & L Gates LLP, San Francisco, CA, Brian D. Gwitt, Randolph C. Oppenheimer, Damon Morey LLP, Buffalo, NY, Bryan Sinclair, Jackson Ho, Jeffrey Ratinoff, Michael Eric Zeligler, K & L Gates LLP, Palo Alto, CA, for Defendant.

**ORDER GRANTING IN PART AND DENYING  
IN PART DEFENDANT'S MOTION FOR SUMMARY  
JUDGMENT ON LOST PROFIT DAMAGES**

DANA M. SABRAW, District Judge.

\*1 This matter comes before the Court on Defendant's motion for summary judgment on lost profit damages. Plaintiff filed an opposition to the motion, and Defendant filed a reply. For the reasons discussed below, the Court grants in part and denies in part Defendant's motion.

**I.  
FACTUAL BACKGROUND**

This case involves a claim for infringement of United States Patent Number 6,347,553 ("the '553 Patent"). The pretrial conference is scheduled for

January 6, 2012, and the trial is scheduled to begin on January 30, 2012. At trial, Plaintiff intends to seek a variety of damages, including lost profits on the sales of its competing infusion pumps, lost sales of related products and services and a reasonable royalty on the remaining sales of Defendant's infringing pumps. (Opp'n to Mot. at 6.) The present motion is directed towards the first two categories of damages.

**II.  
DISCUSSION**

Defendant moves for summary judgment on Plaintiff's use of the entire market value rule in calculating its lost profits, including lost profits on convoyed sales, and Plaintiff's price erosion damages. Defendant argues there is insufficient evidence to warrant presentation of the entire market value rule to the jury, therefore it is entitled to summary judgment on that issue. Defendant also takes issue with the methodology of Plaintiff's damages expert, Robert H. Wallace, in forming his opinions on lost profits and price erosion damages. The latter arguments go to the admissibility of Mr. Wallace's opinion, and are not appropriate for resolution on a motion for summary judgment. Accordingly, the Court will not address those arguments further in this Order. Rather, the Court's discussion is limited to whether Plaintiff has presented sufficient evidence to allow it to present the entire market value rule to the jury.

**A. Summary Judgment**

"Summary judgment is appropriate when no genuine issue of material fact exists and the moving party is entitled to judgment as a matter of law." *IPXL Holdings, L.L.C. v. Amazon.com, Inc.*, 430 F.3d 1377, 1380 (Fed.Cir.2005) (citing Fed.R.Civ.P. 56(c)). "A material issue of fact is one that affects the outcome of the litigation and requires a trial to resolve the parties' differing versions of the truth." *S.E.C. v. Seaboard Corp.*, 677 F.2d 1301, 1306 (9th Cir.1982).

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 (Cite as: 2012 WL 392808 (S.D.Cal.))

The moving party has the initial burden of demonstrating that summary judgment is proper. *Adickes v. S.H. Kress & Co.*, 398 U.S. 144, 157, 90 S.Ct. 1598, 26 L.Ed.2d 142 (1970). To meet this burden, the moving party must identify the pleadings, depositions, affidavits, or other evidence that it “believes demonstrates the absence of a genuine issue of material fact.” *Celotex Corp. v. Catrett*, 477 U.S. 317, 323, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986). If the moving party satisfies this initial burden, then the burden shifts to the opposing party to show that summary judgment is not appropriate. *Id.* at 324. The opposing party's evidence is to be believed, and all justifiable inferences are to be drawn in its favor. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). See also *IPXL*, 430 F.3d at 1380 (quoting *Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus.*, 145 F.3d 1303, 1307 (Fed.Cir.1998)) (stating “ ‘evidence must be viewed in the light most favorable to the party opposing the motion, with doubts resolved in favor of the opponent.’ ”) However, to avoid summary judgment, the opposing party cannot rest solely on conclusory allegations. *Berg v. Kincheloe*, 794 F.2d 457, 459 (9th Cir.1986). Instead, it must designate specific facts showing there is a genuine issue for trial. *Id.* More than a “metaphysical doubt” is required to establish a genuine issue of material fact.” *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 586, 106 S.Ct. 1348, 89 L.Ed.2d 538 (1986).

## B. Entire Market Value Rule

\*2 The first argument in support of Defendant's motion for summary judgment is that there is insufficient evidence to support Plaintiff's use of the entire market value rule in calculating its lost profit damages. The parties disagree about the law concerning the entire market value rule, and also dispute whether the evidence is sufficient for this theory to go to the jury.

“For the entire market value rule to apply, the patentee must prove that ‘the patent-related feature is the ‘basis for customer demand.’ ” *Lucent Techs,*

*Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1336 (Fed.Cir.2009) (quoting *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549 (Fed.Cir.1995) (*en banc*)).

This rule is derived from Supreme Court precedent requiring that “the patentee ... must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative,” or show that “the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature.”

*Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1291, 1318 (Fed.Cir.2011) (quoting *Garretson v. Clark*, 111 U.S. 120, 121, 4 S.Ct. 291, 28 L.Ed. 371 (1884)).

Plaintiff acknowledges the language from *Lucent* that the entire market value rule does not apply unless the patent-related feature is the basis for customer demand, but argues the rule is not as narrow as that language suggests. Instead, Plaintiff asserts the entire market value rule applies if the results of the invention drive customer demand, citing *Funai Electric Co., Ltd. v. Daewoo Electronics Corp.*, 616 F.3d 1357 (Fed.Cir.2010). *Funai*, however, does not so hold. Rather, *Funai* restates the rule as laid out in *Lucent*: The entire market value rule does not apply unless the patented technology is the basis for customer demand. *Id.* at 1375.

Plaintiff asserts this case is replete with evidence that the patented sensor technology contributes to the overall safety of the infusion pump, which drives customer demand, therefore Plaintiff should be allowed to present the entire market value rule to the jury. However, much of the evidence Plaintiff cites does not support its argument. Rather, that evidence demonstrates occlusion sensors generally, not the particular sensor described in the '553 Patent, contribute to the safety of the pump. (See Decl. of Jesse Hindman in Supp. of Opp'n to Mot. (“Hindman Decl.”), Ex. A at 29;

Slip Copy, 2012 WL 392808 (S.D.Cal.)  
 (Cite as: 2012 WL 392808 (S.D.Cal.))

Ex. B at 102–03; Ex. G at 180–81; Ex. L at 212–13.) The other evidence shows the alleged infringing sensor is an “important” or “critical” component of the pump, (Hindman Decl., Ex. C at 129; Ex. J at 205; Ex. K at 206), not that it is essential to patient safety. The only evidence that the patented sensor technology contributes to overall patient safety is found in the testimony of Plaintiff’s former manufacturing manager, Michael Wagner, who stated the downstream occlusion sensor in the Sigma Spectrum pump “is one of the components that maintains the safety and accuracy of the Spectrum pump[.]” (Hindman Decl., Ex. H at 191)

\*3 Evidence that the patented sensor technology contributes to the safety of the infusion pump, however, does not warrant presentation of the entire market value rule to the jury. As stated above, the entire market value rule applies only where the patented technology is the basis for customer demand. Evidence that the patented technology contributes to the safety of the pump does not speak to that ultimate issue.

According to Plaintiff’s argument, it is enough if the patented technology contributes to an intermediary feature that drives customer demand. The logic of this argument, while initially appealing, fails upon closer inspection. As Defendant points out, in this case there is more than one component that contributes to the safety of the pump. (*See* Table of Exs. in Supp. of Mot., Ex. A at 32.) Under Plaintiff’s argument, each component could serve as the basis for customer demand. That result, however, is antithetical to the entire market value rule, which requires that the patented feature be “the ‘basis for customer demand’ ” or that it “ ‘substantially create[s] the value of the component parts.’ ” *Uniloc*, 632 F.3d at 1318 (citations omitted). In this case, Plaintiff has not set forth evidence sufficient to satisfy either formulation of that test. Accordingly, the Court grants Defendant’s motion for summary judgment on the entire market value rule.<sup>FN1</sup>

<sup>FN1</sup>. For the same reasons, the Court

grants Defendant’s motion for summary judgment on the issue of convoyed sales.

### III.

#### CONCLUSION AND ORDER

For these reasons, the Court grants in part and denies in part Defendant’s motion for summary judgment on lost profits damages. Specifically, the Court grants the motion as to application of the entire market value rule and convoyed sales, and denies the motion as to any price erosion damages.

#### IT IS SO ORDERED.

S.D.Cal., 2012.

Carefusion 303, Inc. v. Sigma Intern.

Slip Copy, 2012 WL 392808 (S.D.Cal.)

END OF DOCUMENT

# **EXHIBIT 8**

**From:** Joelle\_Emerson@txs.uscourts.gov [mailto:Joelle\_Emerson@txs.uscourts.gov]  
**Sent:** Tuesday, August 14, 2012 8:04 AM  
**To:** Schmidt, Leslie M.  
**Cc:** Stallings, Jonna N.; Hellinger, Susan K.  
**Subject:** RE: Draft Instructions & Charge

No problem. Both parties are absolutely free to put objections on file if there is any concern they have not been fully preserved.

If there are any other questions, let me know!

Best,

Joelle

Joelle Emerson  
Law Clerk to Judge Keith P. Ellison  
United States District Court  
Southern District of Texas  
Phone: (713) 250-5804  
[joelle\\_emerson@txs.uscourts.gov](mailto:joelle_emerson@txs.uscourts.gov)

From: "Schmidt, Leslie M." <leslie.schmidt@kirkland.com>  
To: "Joelle\_Emerson@txs.uscourts.gov" <Joelle\_Emerson@txs.uscourts.gov>  
Cc: "Stallings, Jonna N." <JStallings@porterhedges.com>, "Hellinger, Susan K." <SHellinger@porterhedges.com>  
Date: 08/14/2012 08:00 AM  
Subject: RE: Draft Instructions & Charge

---

Thanks for clarifying. I just wanted to make sure I understood how to preserve objections we have had/may have. I apologize for missing this before court.

We are reviewing right now and will let you know if anything jumps out. Thanks all the work you've done with us on these instructions.

Leslie



Leslie M. Schmidt

Kirkland & Ellis LLP  
601 Lexington Avenue New York, NY 10022  
Tel +1-212-446-4763 Fax +1-212-446-6460

[leslie.schmidt@kirkland.com](mailto:leslie.schmidt@kirkland.com)

**From:** [Joelle Emerson@txs.uscourts.gov](mailto:Joelle_Emerson@txs.uscourts.gov) [[mailto:Joelle\\_Emerson@txs.uscourts.gov](mailto:Joelle_Emerson@txs.uscourts.gov)]

**Sent:** Tuesday, August 14, 2012 7:52 AM

**To:** Schmidt, Leslie M.

**Cc:** Stallings, Jonna N.; Hellinger, Susan K.

**Subject:** RE: Draft Instructions & Charge

Hi Leslie,

To be clear, we're not sending these out to invite objections. Typically, we do not show the parties the final jury instructions until we are about to give them. The primary goal in sending them now is to ensure that there are no instructions that are no longer relevant with Fugro out of the case. I think that both parties have already made the majority of the objections that they might have to these.

If there are substantive issues in these that you have *not* raised before (so, the request for willfulness to come before invalidity would not be appropriate, nor would the request for further instructions about the Court's findings under (f)(1) and (f)(2)), please submit such objections electronically ASAP. If there are line edits or simple mistakes, email those to me ASAP. You can also feel free to email me as you come across issues; you needn't save them all up for one comprehensive email. If you'd like to reiterate objections that you've already made on the record, of course you can feel free to file something to that effect. We hope to instruct the jury today, depending on how quickly we get through Mr. Gunderson.

Finally, I realize that the instructions and charge will disappoint both parties. I know this has been a bit of a whirlwind and you might worry that we missed some of your arguments. Rest assured, though, that the Court thoroughly considered all of both sides' arguments and, after much deliberation, decided on the language in these drafts.

Best,

Joelle

Joelle Emerson  
Law Clerk to Judge Keith P. Ellison  
United States District Court  
Southern District of Texas  
Phone: (713) 250-5804  
[joelle\\_emerson@txs.uscourts.gov](mailto:joelle_emerson@txs.uscourts.gov)

From: "Schmidt, Leslie M." <[leslie.schmidt@kirkland.com](mailto:leslie.schmidt@kirkland.com)>  
To: "Joelle Emerson@txs.uscourts.gov" <[Joelle\\_Emerson@txs.uscourts.gov](mailto:Joelle_Emerson@txs.uscourts.gov)>, "Stallings, Jonna N." <[JStallings@porterhedges.com](mailto:JStallings@porterhedges.com)>, "Hellinger, Susan K." <[SHellinger@porterhedges.com](mailto:SHellinger@porterhedges.com)>  
Date: 08/14/2012 07:42 AM  
Subject: RE: Draft Instructions & Charge

Joelle--

What form would you like the objections in? And by what time would the Court like them?

Thanks,  
Leslie

**Leslie M. Schmidt**

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601 Lexington Avenue New York, NY 10022  
Tel +1-212-446-4763 Fax +1-212-446-6460

[leslie.schmidt@kirkland.com](mailto:leslie.schmidt@kirkland.com)

**From:** [Joelle Emerson@txs.uscourts.gov](mailto:Joelle_Emerson@txs.uscourts.gov) [[mailto:Joelle Emerson@txs.uscourts.gov](mailto:Joelle_Emerson@txs.uscourts.gov)]  
**Sent:** Tuesday, August 14, 2012 7:35 AM  
**To:** Stallings, Jonna N.; Schmidt, Leslie M.; Hellinger, Susan K.  
**Subject:** Draft Instructions & Charge

Hi all,

Attached are our semi-final instructions and charge (subject to minor changes). Please read these through for errors -- specifically, references to multiple defendants, to method claims, or to anything else that has changed in the past day. We do not anticipate making any substantive changes at this point, but if you see something that seems like it might be a substantive mistake or that you have not gone on the record about, you can feel free to let me know. Additionally, you'll see that in some places we've used language not proposed by either party. If there are any objections to this language, do let me know.

Best,

Joelle

Joelle Emerson  
Law Clerk to Judge Keith P. Ellison  
United States District Court  
Southern District of Texas  
Phone: (713) 250-5804  
[joelle\\_emerson@txs.uscourts.gov](mailto:joelle_emerson@txs.uscourts.gov)

\*\*\*\*\*

IRS Circular 230 Disclosure:

To ensure compliance with requirements imposed by the U.S. Internal Revenue Service, we inform you that any tax advice contained in this communication (including any attachments) was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of (1) avoiding tax-related penalties under the U.S. Internal Revenue Code or (2) promoting, marketing or recommending to another party any tax-related matters addressed herein.

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**IN THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION**

|  |   |                                       |
|--|---|---------------------------------------|
| <b>WESTERNGECO L.L.C.,</b>   | § |                                       |
|  | § |                                       |
| <b>Plaintiff,</b>  | § |                                       |
|  | § |                                       |
| <b>V.</b>  | § | <b>CIVIL ACTION NO. 4:09-cv-01827</b> |
|  | § |                                       |
| <b>ION GEOPHYSICAL CORPORATION,<br/>FUGRO-GEOTEAM, INC., FUGRO-<br/>GEOTEAM AS, FUGRO NORWAY<br/>MARINE SERVICES AS, FUGRO, INC.,<br/>FUGRO (USA), INC. and FUGRO<br/>GEOSERVICES, INC.,</b> | § | <b>Judge Keith P. Ellison</b>         |
|  | § |                                       |
|  | § |                                       |
|  | § |                                       |
| <b>Defendants.</b>   | § | <b>JURY TRIAL DEMANDED</b>            |
|  | § |                                       |

**ORDER GRANTING  
ION’S MOTION FOR JUDGMENT AS A MATTER OF LAW,  
MOTION FOR NEW TRIAL ON DAMAGES, AND  
ALTERNATIVELY, MOTION FOR REMITTITUR**

Before the Court is ION’s Motion for Judgment as a Matter of Law, Motion for New Trial on Damages, and Alternatively, Motion for Remittitur. Having considered the arguments presented therein and the evidence attached, the Court hereby GRANTS ION’s Motion for Judgment as a Matter of Law, Motion for New Trial on Damages, and Alternatively, Motion for Remittitur.

Signed \_\_\_\_\_, 2012.

\_\_\_\_\_  
Keith P. Ellison  
United States District Judge