

2011 WL 9382191 (W.D.Pa.) (Partial Expert Testimony)
United States District Court, W.D. Pennsylvania.

GRANT STREET GROUP, INC., Pennsylvania corporation, Plaintiff,
v.
REALAUCTION.COM, LLC, a Florida limited liability company, Defendant.

No. 09-1407.
November 2, 2011.

(Partial Testimony of Ivan T. Hofmann)

Case Type: Intellectual Property >> Patent

Jurisdiction: W.D.Pa.

Name of Expert: Ivan T. Hofmann, C.P.A.

Area of Expertise: Accounting & Finance >> Accountant

Area of Expertise: Accounting & Finance >> Valuation/Appraisal (Non-Real Estate)

Area of Expertise: Accounting & Finance >> Economics/Economist

Representing: Plaintiff

Appearances.

On behalf of the Plaintiff:

Patrick J. McElhinny, Esquire
K&L Gates, LLP
210 Sixth Avenue
K&L Gates Center
Pittsburgh, Pennsylvania 15222
412.355.6334 patrick.mcelhinny@klgates.com.

On behalf of the Defendant:

David S. Brafman, Esquire
Akerman Senterfitt
222 Lakeview Avenue, Suite 400
West Palm Beach, Florida 33401
561.653.5000 david.brafman@akerman.com.

DEPOSITION OF IVAN T. HOFMANN, a witness, called for examination by the Defendant, pursuant to the Federal Rules of Civil Procedure, by and before Cynthia P. Simonovitch, a Court Reporter and Notary Public in and for the Commonwealth of Pennsylvania, at the law offices of Leech Tishman Fuscaldo & Lampl, 525 William Penn Place, 30th Floor, Pittsburgh, Pennsylvania 15219, on Wednesday, November 2., 2011, commencing at 9:38 a.m.

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PROCEEDINGS

(9:38 o'clock a.m.)

IVAN T. HOFMANN, the deponent, having been first duly sworn, was deposed and testified as follows:

EXAMINATION

BY MR. BRAFMAN:

Q. Mr. Hofmann, what kind of company is Gleason & Associates?

A. It's a specialized consulting firm. It's a certified public accounting firm that specializes in litigation support, intellectual property issues, and forensic accounting.

Q. Are you one of the founders of Gleason & Associates?

A. I am not.

MR. BRAFMAN: I'll ask the court reporter to mark as Defendant's Exhibit 232 your expert report dated August 15, 2011.

(Defendant's Exhibit 232 was marked for identification.)

BY MR. BRAFMAN:

Q. Let's turn to your CV which is I believe in the back. The last tab. It's No. 2.

You began working at Gleason & Associates in 2006?

A. That's correct.

Q. Since that time has your professional practice been devoted exclusively to litigation support?

A. No.

Q. What other things do you do?

A. I work in consultation with companies in issues of valuation, intellectual property matters, licensing issues, evaluation. I also have done forensic accounting work, investigations outside the purview of litigation. I think those are the primary issues outside of litigation support.

Q. Approximately what percentage of your practice in terms of time devoted is litigation support?

A. I believe it varies by year, but I would say on balance maybe half.

Q. Before working at Gleason & Associates, did you provide expert consulting or testifying work in connection with litigation?

A. No, not expert testifying. I had done some forensic and dispute services work, but my testifying primarily began when I was at Gleason & Associates.

Q. Did you receive any particular training in connection with beginning to work in the litigation support area?

[Note: Pages 6-81 missing in original document]

Q. What is the royalty rate at those numbers?

A. At - at current Realauction pricing, it's approximately maybe in the high 40 percent for tax liens and it's similar for deeds and foreclosures assuming that Realauction keeps it at the levels that it's at and doesn't raise prices.

Q. In 2009 what was Realauction's operating profit or loss?

A. When you say "operating profit", what exactly do you mean?

Q. How would you define it?

A. Operating profit to me would be revenues minus SG&A and I guess depreciation and amortization and any other direct selling costs. I guess that would be an SG&A.

Q. Is that a different profit measure than what's reflected in Exhibit K?

A. Exhibit K is overall net profit. I was distinguishing between operating profit and net profit. There are certain expenses that are below operating profit in arriving at net profit.

Q. Which one would you exclude?

A. Typically interest, taxes, other income and expense. Those are the main ones that come to mind.

Q. Under your reasonable royalty analysis, how much would Realauction have to pay Grant Street Group in 2009?

A. Approximately 1.3 million dollars.

Q. [REDACTED]

A. [REDACTED]

Q. [REDACTED]

A. [REDACTED]

Q. Under your reasonable royalty analysis, Realaction would have to pay in 2010 to Grant Street Group about 2.7 million dollars; correct?

A. That's correct. Although I don't know that comparing bottom line net profit is the right comparison. Perhaps incremental profit or cash flow is more appropriate.

Q. RealForeclose and RealTaxLien as we've already discussed are the only revenue-generating products that Realaction had in 2009, 2010; correct?

A. That's correct.

Q. To the extent that it pays Grant Street Group a royalty - well, strike that.

If Realaction is left without a profit on an incremental basis on those products, it has no income for which to offset its other costs; correct?

A. Could you repeat that or read that back?

Q. Why do you say that it would be more appropriate to compare the reasonable royalty costs against incremental profit than net profit?

A. Because the way I'm hearing your question is you're suggesting either the inability to pay or, you know, the fact that there are losses or income that is not as big as the suggested royalty possesses some sort of problem or some reason that Realaction would not agree to this royalty. [REDACTED] Well, if I'm talking about a hypothetical negotiation before the litigation commences, hypothetically Realaction wouldn't have incurred the legal fees in defending this litigation.

So in looking at wherewithal to pay and looking at, you know, the royalty negotiation, I think it's appropriate to look at incremental profit and/or cash flows, and those are just certain examples of why.

Q. From Realaction's perspective, what makes a royalty rate of at least 40 percent reasonable?

A. Well, I think I - I think I laid that out fairly clearly in my report in response to Ms. Rinke turning around and - and I guess agreeing with you that absent the license agreement, they'll go out of business.

It seems to me that there's a great deal of incentive to enter into a license agreement. And while a high 40 percent margin - or high 40 percent royalty rate would take that percentage of revenues, there's still sufficient profit, especially prospectively, that it would make sense for Realaction to agree to the royalty rate.

In addition to Realaction's ability to continue as a going concern, it would also allow Realaction's principals to continue to draw their salaries and benefits and I guess have a place to go to work every day if you will.

So it seems to me that the significance of these -- the accused products to the revenues of Realaction, but Realaction has a situation where they have no other viable option than to agree to a royalty from Grant Street Group or they go out of business.

And from Grant Street Group's perspective, the 48 percent that you're talking about is a much lower percentage of what they could expect to earn from a revenue and profitability perspective.

So it's not even a terribly attractive royalty stream to Grant Street Group, you know, relative to what they could earn directly.

Q. In your analysis did you apportion in any way the value added to Realauction's products from the patent features compared to unpatented features?

A. As I addressed in my report, I analyzed and considered the applicability of the entire market value rule, which is you're basically considering what the -- another way of describing what you're describing is looking at the product with and without the patented feature.

And the admission and acknowledgment by Ms. Rinke with which I agree is you don't have any accused product, you don't have any product without a license to the 063 patent, tells me that the accused products and the Grant Street Group products are - you know, are the entirety royalty base to which you would apply the royalty and that the value - the apportioning of value when you can't offer the product is inappropriate. You look at the entire market value.

Q. You haven't done a patent claimed by patent claimed damage analysis, have you?

A. Explain to me what you mean by that.

Q. You haven't determined -- I'll put it another way. Your damage analysis is intended to apply whether all the claims being asserted by Grant Street Group are valid and infringed or whether only a single one of them is valid and infringed; correct?

A. The analysis is, yes, based on the point that -- you know, with which Ms. Rinke agrees, that absent the license to the 063 patent, you cannot offer the accused products.

Q. For example, should the jury find that Claim 1 is invalid and only one of the remaining claims is valid and infringed, in your opinion the same damages analysis applies; correct?

A. I mean, I --I would want to, you know, relook at the claims. You know, I've -- I've not recently looked at them claim by claim in your hypothetical so -I mean, I think as I said at the outset and it says in my report, that the report assumes the patent's valid and infringed.

Q. If the jury were to find that Claim 1 were invalid and only Claim 2 were valid and infringed, you haven't done any kind of analysis that would enable anyone to apportion value to the features that were in Claim 1 compared to any features added by Claim 2, have you?

A. Well, it would -I mean, it would be attendant on, you know, the ability to offer the accused products absent infringement of the claims which are found to infringe. If there's an inability to offer the accused products. then these damage amounts would apply. And then I guess I think we touched base a little earlier on this whole concept of -- of design-around and that there would be damages that are articulated in here related to the remaining countdown clock, if that's dealt with in one or several of the claims.

Q. Were you aware that there were claims in the parent patent, the 099 patent, that have been previously invalidated by the courts?

A. I am aware of that.

Q. Did that impact your analysis at all?

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