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3 4	McCUTCHEN, DOYLE, BROWN & ENERSER ON 12 1314 J. THOMAS ROSCH ROBERT L. EBE DANIEL M. WALL Three Embarcadero Center San Francisco, CA 94111 Telephone: (415) 393-2000 NEUMAN, WILLIAMS, ANDERSON & OLSON THEODORE W. ANDERSON JAMES T. WILLIAMS 77 West Washington Street Chicago, IL 60602 Telephone: (312) 346-1200 Attorneys for Plaintiffs
9	The Magnavox Company and Sanders Associates, Inc.
10	
11	UNITED STATES DISTRICT COURT
12	FOR THE NORTHERN DISTRICT OF CALIFORNIA
13	
14	THE MAGNAVOX COMPANY, a corporation, ) and SANDERS ASSOCIATES, INC., )
15	a corporation, ) No. C 82 5270 JPV )
16	Plaintiffs, ) PLAINTIFFS' SETTLEMENT ) CONFERENCE STATEMENT
17	v. ) ) Magistrate
18	ACTIVISION, INC., a corporation, ) Frederick J. Woelflen
19	Defendant. ) Date: September 13, 1984 Time: 9:30 a.m.
20	······································
21	The following settlement conference statement is lodged
22	by plaintiffs pursuant to Local Rule 240-1. It is understood that
23	this document will not be filed or otherwise made a part of the
24	file in this case and will not be served on defendant or its
25	counsel.
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PLAINTIFFS' SETTLEMENT CONFERENCE STATEMENT

#### BACKGROUND

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2 This is an action for infringement of U.S. Patent No. 3 28,507 under 35 U.S.C. § 281. The '507 patent relates in general to television games, and resulted from work done at Sanders Asso-4 ciates, Inc., in Nashua, New Hampshire during 1967-68. The patent 5 is owned by the plaintiff Sanders, and is exclusively licensed to 6 plaintiff The Magnavox Company. It is one of a number of patents, 7 8 both U.S. and foreign, relating to television games owned by Sanders and exclusively licensed to Magnavox. 9 10 The '507 patent, its counterpart patents in other 11 countries, and the other Magnavox/Sanders television game patents

12 have been broadly licensed on a worldwide basis. Approximately 13 fifty-five licenses have been granted to manufacturers of tele-14 vision games located in both the U.S. and abroad. Those licenses 15 provide a substantial royalty income to the plaintiffs.

A contemporary television game for use in the home 16 normally includes two separate components. A television game 17 console, the first component, is attached by wires to the antenna 18 terminals of the television, and has a set of hand controllers or 19 "joysticks" connected to it which the players use to play the game. 20 The console typically includes a microprocessor and other electrical 21 circuitry necessary to create the desired images and sounds on the 22 television receiver. The second component is a television game 23 cartridge. The cartridge includes the information required to 24 permit the desired game to be played on the television set using 25 the console. 26

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The defendant, Activision, manufactures and sells
 television game cartridges for use with home television game
 consoles, but not the consoles themselves. Plaintiffs allege that
 the sale of thirteen of Activision's television game cartridge
 models constitute infringement of the '507 patent in suit.

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# PRIOR LITIGATION

7 This is the last filed of fourteen civil actions relating to the validity and infringement of the '507 patent, and the only 8 9 one of those actions still pending. Two of those actions were tried and resulted in District Court judgments that the '507 10 patent is valid and was infringed. The first, The Magnavox Company, 11 et al. v. Chicago Dynamic Industries, et al., 201 U.S.P.Q. 25 (N.D. 12 Ill. 1977), related to coin operated games of the type found in 13 amusement arcades and bars. The second, The Magnavox Company, 14 et al. v. Mattel, Inc., 216 U.S.P.Q. 28 (N.D. Ill. 1982), related 15 to video game consoles and cartridges quite similar to those 16 involved in this action. The court specifically found infringement 17 of the '507 patent by the console and cartridge combinations there 18 involved, and contributory infringement by sale of the cartridges 19 alone. 20

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### THE ISSUES HERE

Two principal issues in this action are whether the Activision games come within the scope of the '507 patent, and the validity of the patent.

25 Plaintiffs bear the burden of proving infringement. The 26 issues in this action are largely identical to those previously

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1 decided in plaintiffs' favor in the Mattel case.

2 A U.S. patent is presumed by statute to be valid. 35 U.S.C. § 282. Defendant bears the burden of proving to the con-3 4 trary. The most common challenge to patent validity is an attempt to show that the patented subject matter is taught or made obvious 5 6 by the prior art. 35 U.S.C. §§ 102 and 103. Activision has 7 identified sixteen items of prior art it will rely upon to establish invalidity of the '507 patent. Fourteen of those items were 8 part of the record leading to the trial of at least one of the 9 10 earlier two cases. Substantially all the prior art Activision relies upon has previously been tested and found wanting when 11 measured against plaintiffs' '507 patent. 12 PROCEEDINGS TO DATE 13 This case has proceeded through the completion of 14 discovery. A status conference is scheduled for September 13, 15 1984 at 10:00 a.m., a pretrial conference is scheduled for 16 September 27, and trial is scheduled to commence on October 8, 17 1984. None of the prior proceedings have significantly narrowed 18 the issues as stated above. 19 ESTIMATES OF COST FOR TRIAL 20 Plaintiffs estimate the cost through completion of trial 21 will be in the range of \$50,000 to \$75,000. 22 AGREED FACTS AND ISSUES 23 Activision initially filed a counterclaim for a declara-24 tory judgment that another of plaintiffs' patents, U.S. Patent 25 3,728,480, was invalid and not infringed by it. It has been 26

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tentatively agreed that this counterclaim will be dropped and
 plaintiffs will agree not to assert that patent against Activision.

Activision also filed a counterclaim for unfair competition based on acts of the plaintiffs in attempting to enforce their patents. Plaintiffs understand that Activision is no longer pursuing that counterclaim.

7 Activision also initially alleged that the '507 patent 8 is invalid because of an alleged failure to inform the Patent and 9 Trademark Office of certain purported items of prior art while the 10 application for that patent was pending. Plaintiffs understand 11 that Activision is no longer asserting that ground for invalidity.

12DISCREET ISSUES13Plaintiffs have no knowledge of any such issue.

## RELIEF SOUGHT

Plaintiffs seek an award of their damages caused by 15 Activision's infringement, which damages shall be not less than a 16 reasonable royalty for use of the patented subject matter, with 17 interest and costs. 35 U.S.C. § 284. The amount so determined 18 should also be trebled in light of the willful nature of Activi-19 sion's infringement, 35 U.S.C. § 284, and plaintiffs should be 20 awarded their attorneys' fees, 35 U.S.C. § 285. Plaintiffs also 21 seek an injunction against further infringement of the '507 patent. 22

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### SETTLEMENT STATUS

24 Prior to the filing of this action, Magnavox offered
25 Activision a license under the '507 patent at its then current
26 royalty rates. Activision did not take a license. Magnavox will

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still consider licensing Activision at its current royalty rate.
 Prior to entering into such a license, the matter of Activision's
 past infringement would have to be resolved.

As of the time this document is being prepared, Acti-4 vision has made no offer to settle this action, and no serious 5 settlement negotiations have occurred. Based on sales information 6 Activision has provided to palintiffs, the lost royalty damages 7 due to past sales by Activision (with interest) is approximately 8 \$4 million, which should be tripled. Plaintiffs would be willing 9 to settle for \$12 million plus their attorneys' fees and an 10 11 injunction against further acts of infringement of the '507 patent. Plaintiffs are also willing to consider resolution of this matter 12 and all future claims based upon this patent by entering into 13 a paid up, nonroyalty bearing license under the '507 patent with 14 Activision. 15

16 17 18 Theodore W. Anderson James T. Williams 19 NEUMAN, WILLIAMS, ANDERSON & OLSON 77 West Washington Street 20 Chicago, Illinois 60602 (312) 346-1200 21 Thomas J. Rosch 22 Robert L. Ebe Daniel M. Wall 23 MCCUTCHEN, DOYLE, BROWN & ENERSEN Three Embarcadero Center 24 San Francisco, CA 94111 Telephone: (415) 393-2000 25 Attorneys for The Magnavox Company 26 and Sanders Associates, Inc.

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