

Copy ① ~~AM~~ ~~FF~~ ~~RK~~ file Activision case
② Wagner R Bolduc R Bazzochi

NEUMAN, WILLIAMS, ANDERSON & OLSON

ATTORNEYS AND COUNSELORS

77 WEST WASHINGTON STREET

CHICAGO, ILLINOIS 60602-2954

312-346-1200
DIRECT DIAL SYSTEM 312-346-0850
CABLE JONAD CHICAGO
TELEX 190462
FACSIMILE 312-346-5419

WASHINGTON OFFICE
CRYSTAL PLAZA ONE-SUITE 903
2001 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VIRGINIA 22202-3603
703-892-8787
FACSIMILE 703-892-8792

ALLENTOWN, PA OFFICE
1929 BROOKHAVEN DRIVE EAST
ALLENTOWN, PENNSYLVANIA 18103
215-434-7915

THEODORE W. ANDERSON
ARTHUR A. OLSON, JR.
DONALD A. PETERSON
WILLIAM J. BIRMINGHAM
JOSEPH P. CALABRESE
GREGORY B. BEGGS
NOEL I. SMITH
JOHN J. CAVANAUGH
HARRY J. ROPER
MICHAEL O. WARNECKE
JAMES T. WILLIAMS
WILLIAM M. WESLEY
J. BRADFORD LEAHEEY
GEORGE S. BOSY
HERBERT D. HART III
NICHOLAS A. POULOS

WILLIAM H. FRANKEL
DONALD W. RUPERT
R. LEWIS GABLE*
JAMES P. NAUGHTON
WILLIAM P. OBERHARDT
TODD P. BLAKELY
ROBERT W. FIESELER
HUGH A. ABRAMS
RAYMOND N. NIMROD
RICHARD A. CEDEROTH
PHILIP T. PETTI
STEVEN R. TRYBUS
DEBORAH SCHAVEY RUFF

RICHARD P. BEEM
THOMAS S. BORECKI
STEVEN P. PETERSEN
JOHN M. AUGUSTYN
STEPHEN G. MICAN
WESLEY O. MUELLER
DANIEL J. KRIEGER
GEORGE WHEELER

SIDNEY NEUMAN
FRED T. WILLIAMS
JAMES R. DOWDALL
COUNSEL

VAN METRE LUND
E. EUGENE INNIS**
ASSOCIATE COUNSEL

*ADMITTED IN D.C. AND VIRGINIA
AND RESIDENT IN WASHINGTON OFFICE

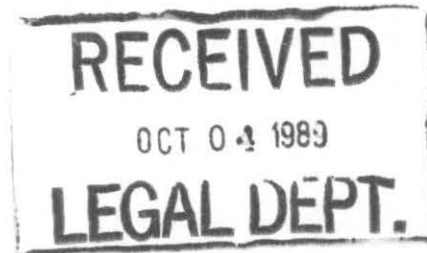
**ADMITTED IN PENNSYLVANIA
AND RESIDENT IN ALLENTOWN OFFICE

October 3, 1989

VIA FEDERAL EXPRESS

Thomas A. Briody, Esq.
North American Philips Corp.
580 White Plains Road
Tarrytown, New York 10591

Re: Magnavox v. Activision
Our File 53137




Dear Tom:

Attached is a copy of the Joint Pretrial Statement which was filed on Monday, October 2, 1989. We would appreciate any comments that you might have.

Sincerely,

NEUMAN, WILLIAMS, ANDERSON & OLSON

By 
Richard A. Cederoth

RAC/rtj
Enclosure

cc: Norman J. Marsh, Jr., Esq.
Theodore W. Anderson, Esq.
James T. Williams, Esq.

1 THEODORE W. ANDERSON
2 JAMES T. WILLIAMS
3 RICHARD A. CEDEROTH
4 NEUMAN, WILLIAMS, ANDERSON & OLSON
5 77 West Washington Street
6 Chicago, IL 60602-2954

7 J. THOMAS ROSCH
8 ROBERT L. EBE
9 McCUTCHEEN, DOYLE, BROWN & ENERSEN
10 Three Embarcadero Center
11 San Francisco, CA 94111
12 Telephone: (415) 393-2000

13 Attorneys for Plaintiffs THE MAGNAVOX COMPANY
14 and SANDERS ASSOCIATES, INC.

15 MARTIN R. GLICK
16 H. JOSEPH ESCHER III
17 M. PATRICIA THAYER
18 HOWARD, RICE, NEMEROVSKI, CANADY,
19 ROBERTSON & FALK
20 A Professional Corporation
21 Three Embarcadero Center, 7th Floor
22 San Francisco, CA 94111
23 Telephone: (415) 434-1600

24 Attorneys for Defendant MEDIAGENIC
25 (formerly Activision, Inc.)

26 UNITED STATES DISTRICT COURT
27 NORTHERN DISTRICT OF CALIFORNIA

28 THE MAGNAVOX COMPANY, a)	No. C 82 5270 CAL
corporation, and SANDERS)	
ASSOCIATES, INC., a)	JOINT PRETRIAL STATEMENT
corporation,)	<u>REGARDING DAMAGES</u>
)	
Plaintiffs,)	Pretrial Conference
)	Date: October 12, 1989
vs.)	Time: 3:30 p.m.
)	
ACTIVISION, INC., a)	
corporation,)	
)	
Defendant.)	

1 C. Substance of the Action.

2 This is the damages phase of an action for patent
3 infringement with respect to certain claims of a single patent, U.S.
4 Patent Re. 28,507 (hereinafter "the '507 patent" or "the Rusch
5 patent"). In December 1985, this Court ruled that Activision had
6 infringed and contributorily infringed the '507 patent owned by
7 Sanders and licensed to Magnavox. The Court also ruled that the
8 infringement was not willful and was in good faith, and denied an
9 injunction. Judgment was entered on March 13, 1986.

10 Activision appealed the rulings on infringement and
11 validity to the Federal Circuit Court of Appeals pursuant to 35
12 U.S.C. §1292(c)(2) and Magnavox cross-appealed on the issues of no
13 willful infringement and denial of the preliminary injunction. The
14 Federal Circuit affirmed this Court's rulings on the liability phase
15 of the trial in their entirety, and the case was remanded. On
16 August 8, 1988, this Court entered a permanent injunction against
17 infringement of the '507 patent. The permanent injunction and the
18 patent term expired on April 25, 1989.

19 The sole remaining issue remaining to be tried in this
20 case is the amount of damages from Activision's past infringement.

21
22 D. Undisputed Facts.

23 1. The present action was filed on September 28, 1982.
24 All issues except for damages were tried to this Court, sitting
25 without a jury, during the summer of 1985. The Court entered 140
26 findings of fact on December 27, 1985. Those findings are
27 incorporated herein by reference.

28 2. In 1986 Sanders became a wholly owned subsidiary of

1 F. Relief Prayed.

2 Plaintiffs seek 10% of total sales per accounting period
3 or a minimum of \$1.00 per infringing cartridge, plus interest at the
4 Chase Manhattan Prime rate from date of infringement.

5 Defendant contends that the reasonable royalty rate should
6 be 1% or less, depending on the extent of use of the patented
7 feature in a cartridge, and that the interest rate should be no more
8 than the coupon issue yield equivalent of the average auction price
9 for 52-week Treasury bills.

10 //
11 //
12 //
13 //
14 //
15 //
16 //
17 //
18 //
19 //
20 //
21 //
22 //
23 //
24 //
25 //
26 //
27 //
28 //

1 the extent of the damages as a matter of just and reasonable
2 inference, although the result be only approximate. Story
3 Parchment Co. v. Paterson Parchment Paper Co., 282 U.S. 555, 563
4 (1931).

5 4. The infringer "is not entitled to complain that they
6 cannot be measured with the exactness and precision that would
7 be possible if the case, which he alone is responsible for
8 making, were otherwise." Story Parchment, 282 U.S. at 563.

9 5. Any doubts or uncertainties regarding the amount of the
10 damages must be resolved against the wrongdoer, Activision.
11 Lam, 718 F.2d at 1065.

12 6. The issue now is the amount of damages adequate to
13 compensate Magnavox for Activision's infringement. 35 U.S.C.
14 Sec. 284; State Industries v. Mor-Flo Industries, No. 89-1032,
15 Slip Opinion at 7 (Fed. Cir. Aug. 31, 1989). That amount is not
16 to be less than a reasonable royalty, together with interest and
17 costs as fixed by the court. Id.

18 7. The calculation of a reasonable royalty is not designed
19 to be a simple accounting procedure but, rather, sets a floor
20 below which a damage award cannot descend. Del Mar Avionics,
21 Inc. v. Quinton Instruments Co., 836 F.2d 1320, 1326 (Fed. Cir.
22 1988).

23 8. To meet the compensatory mandate of the statute that an
24 award of damages be adequate to compensate for the
25 infringement, the court may award damages greater than a

26 / / /

1 13. The determination of a reasonable royalty is based on
2 the royalty to which a hypothetical willing licensor and a
3 hypothetical willing licensee would have agreed at the time the
4 infringement began, if both had been reasonably and voluntarily
5 trying to reach an agreement at arm's length. It is the
6 hypothetical amount which a prudent licensee - who desired, as a
7 business proposition, to obtain a license to manufacture and
8 sell a particular article using the patented invention - would
9 have been willing to pay as a royalty and yet be able to make a
10 reasonable profit and which amount would have been acceptable to
11 a prudent licensor who was willing to grant a license. TWM
12 Manufacturing Co. v. Dura Corp., 789 F.2d 895, 898-900 (Fed.
13 Cir. 1986); Radio Steel & Mfg. Co. v. MTD Products, Inc., 788
14 F.2d 1554, 1557 (Fed. Cir. 1986); Deere & Co. v. International
15 Harvester Co., 710 F.2d 1551, 1557 (Fed. Cir. 1983); Panduit
16 Corp. v. Stahlin Bros., 575 F.2d 1152, 1158 (6th Cir. 1978).

17 14. Facts relevant to any of the following factors
18 generally may be considered in determining a reasonable royalty.

19 (i) The commercial relationship between Magnavox and
20 Activision, such as, the fact that they were competitors in
21 the same territories with related products at the time the
22 infringement began;

23 (ii) The existing value of the invention to Magnavox or
24 Activision as a generator of sales of its non-patented items;
25 and the extent of such derivative or convoyed sales;

26 / / /

1 17. The patent owner and exclusive licensee are entitled
2 to recover compensation for the pecuniary loss suffered from the
3 infringement, without regard to the question whether the
4 infringer has gained or lost by the unlawful acts. Coupe v.
5 Roger, 155 U.S. 565, 582 (1895). There is no rule that the
6 infringer's net profit limits the reasonable royalty award.
7 State Industries, Slip Op. at 17; Radio Steel, 788 F.2d at
8 1557.

9 18. A willing licensor would normally consider any profits
10 which it expected to lose by licensing a competitor. Such
11 anticipated lost profits could result from (i) lost sales of the
12 patented products; (ii) lost sales of collateral products; and
13 (iii) lost profits caused by the infringer's competition. TWM
14 Mfg., 789 F.2d at 899-900.

15 19. A royalty rate or lump sum may be based on an
16 infringer's expected sales and profits, even if those
17 expectations exceed the actual sales or profits of the
18 infringer. A reasonable royalty is not based on an infringer's
19 actual profits, especially when the infringer anticipates
20 profits and sales of other items in conjunction with the sale of
21 the infringing product. Snellman v. Ricoh Co., Ltd., 862 F.2d
22 283, 289-290 (Fed. Cir. 1988); Radio Steel, 788 F.2d at 1557.

23 20. A reasonable royalty need not leave an infringer with
24 any actual net profit. State Industries, Slip Op. at 16-17;
25 Hanson v. Alpine Valley, 718 F.2d 1075, 1081 (Fed. Cir. 1983);
26 Panduit, 575 F.2d at 1164; Radio Steel, 788 F.2d at 1557.

1 That would constitute a fiction that the infringement never
2 happened and that the patentee had not been forced into the
3 time and expense of litigation. This factor may increase the
4 amount of a reasonable royalty. Panduit, 575 F.2d at 1156-59;
5 Stickle v. Hublein, 716 F.2d 1550, 1563 (Fed. Cir. 1983).

6 26. The award of prejudgment interest is the norm in
7 patent cases; no exceptional circumstances are required to
8 support such an award. General Motors v. Devex, 461 U.S. 648,
9 657 (1983); Bio-Rad Labs. v. Nicolet Instrument Co., 807 F.2d
10 964, 967 (Fed. Cir. 1986).

11 27. The normal procedure is to award prejudgment interest
12 from the date of first infringement to the date of payment.
13 Bio-Rad, 807 F.2d at 967. Only such an award will satisfy
14 Congress' overriding purpose of affording patent owners complete
15 compensation. *Id.* (quoting General Motors v. Devex, 461 U.S. at
16 655).

17 28. Prejudgment interest may only be denied when the
18 infringer proves exceptional circumstances that justify
19 withholding prejudgment interest. Nickson, 847 F.2d at 800-01.

20 29. The rate and method of compounding of the prejudgment
21 interest to be awarded is within the discretion of the Court.
22 Bio-Rad, 807 F.2d at 969; Gyromat v. Champion Spark Plug, 735
23 F.2d 549, 557 (Fed. Cir. 1984). The exercise of that discretion,
24 however, must be guided by the purpose of prejudgment interest,
25 which is to ensure that the patent owner is placed in as good a
26 position as he would have been had the infringer entered into a

1 district court can constitute evidence of willful infringement.
2 Bott v. Four Star Corp., 807 F.2d 1567, 1572-74 (Fed. Cir.
3 1988). The same is even more true for continuing to market and
4 sell the infringing products after the district court's decision
5 has been affirmed. Id.

6 34. When willful infringement for any period is found, the
7 trial court has discretion to award up to three times the
8 damages assessed for that period. 35 U.S.C. Sec. 284; Ryco, 857
9 F.2d at 1429; Bott, 807 F.2d at 1574.

10 35. Willful infringement may also be a sufficient basis
11 for finding a case to be exceptional for purposes of awarding
12 attorney fees under 35 U.S.C. Sec. 285. Ryco, 857 F.2d at 1429.
13 If a case is found to be exceptional, the Court may exercise its
14 discretion to award attorney fees. Id.

15 36. Contempt occurs when the infringer sells products
16 within the adjudicated scope of the patent claims. Amstar Corp.
17 v. Envirotech Corp., 823 F.2d 1538, 1548 (Fed. Cir. 1987).

18 37. Willful infringement after a district court's entry of
19 an injunction constitutes contempt of the district court. Paper
20 Converting Machine v. Magna-Graphics Corp., 745 F.2d 11, 20
21 (Fed. Cir. 1984).

1 Patent Office, without fear of a ruinous penalty for asserting a
2 position taken in good faith.""); Velo-Bind, Inc. v. Minnesota
3 Mining & Manufacturing Co., 647 F.2d 965, 972 (9th Cir.), cert.
4 denied, 454 U.S. 1093 (1981) ("As in so much of patent law, we
5 observe here the tension between the law's desire to protect the
6 patentee and its desire to preserve competition."); Union Carbide
7 Corp. v. Graver Tank & Manufacturing Co., 282 F.2d 653, 675 (7th
8 Cir. 1960), cert. denied, 365 U.S. 812 (1961).

9 5. Damages may be measured in one of three ways:
10 (a) the patentee's lost profits (plaintiffs do not seek lost profits
11 in this case); (b) the established royalty in the industry for a
12 license to use the patented invention; or (c) a reasonable royalty
13 based on the value of the invention. Fromson v. Western Litho Plate
14 and Supply Co., 853 F.2d 1568, 1574-76 (Fed. Cir. 1988).

15 6. In general, the reasonable royalty is "the amount
16 which a prudent licensee--who desired, as a business proposition, to
17 obtain a license to manufacture and sell a particular article
18 embodying the patented invention--would have been willing to pay as
19 a royalty and yet be able to make a reasonable profit and which
20 amount would have been acceptable by a prudent patentee who was
21 willing to grant a license." Georgia-Pacific Corp. v. United States
22 Plywood Corp., 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), modified,
23 446 F.2d 295 (2d Cir.), cert. denied, 404 U.S. 870 (1971). See
24 Wallace Business Forms, Inc. v. Uarco Inc., No. 80 C 3397 (N.D. Ill.
25 Sept. 30, 1988) (LEXIS 11191), aff'd in relevant part, ___ F.2d ___
26 (Fed. Cir. Sept. 19, 1989).

27 7. Additional factors which a court may consider in
28 calculating a reasonable royalty include:

1 particular business or in comparable businesses
2 to allow for the use of the invention or
analogous inventions.

3 13. The portion of the realizable profit
4 that should be credited to the invention as
5 distinguished from non-patented elements, the
6 manufacturing process, business risks, or
7 significant features or improvements added by
the infringer.

8 14. The opinion testimony of qualified
9 experts."

10 Georgia-Pacific Corp. v. United States Plywood Corp., *supra*, 318 F.
11 Supp. at 1120.

12 8. The royalty rate a patentee offers the industry after
13 a court has held its patent valid is highly probative of a
14 reasonable royalty. Devex Corp. v. General Motors Corp., 494 F.
15 Supp. 1369 (D. Del. 1980), *aff'd*, 667 F.2d 347 (3d Cir. 1981),
16 *aff'd*, 461 U.S. 648 (1983); Studiengesellschaft Kohle mbH v. Dart
17 Industries, 666 F. Supp. 674, 680 n.6 (D. Del. 1987), *aff'd*, 862
F.2d 1564 (Fed. Cir. 1988); *see also* Calhoun v. United States, 453
F.2d 1385, 1394 (Ct. Cl. 1972).

18 9. An offer to license made by the plaintiff to the
19 defendant after infringement may properly be considered in
20 determining a reasonable royalty. *See* Railroad Dynamics, Inc. v.
21 A. Stucki Co., 727 F.2d 1506 (Fed. Cir.), *cert. denied*, 469 U.S. 871
22 (1984).

23 10. "[T]he true measure of a patentee's general damages
24 must be the value of what was taken." Bandag, Inc. v. Gerrard Tire
25 Co., 704 F.2d 1578, 1582 (Fed. Cir. 1983); Marvel Specialty Co. v.
26 Bell Hosiery Mills, Inc., 386 F.2d 287, 291 (4th Cir. 1967), *cert.*
27 *denied*, 390 U.S. 1030 (1968).

28 11. "A patentee, of course, is only entitled to recover

1 delay in payment of the damages, and not to punish the infringer.
2 Underwater Devices, Inc. v. Morrison-Knudsen Co., 717 F.2d 1380,
3 1389 (Fed. Cir. 1983).

4 17. The district court has substantial discretion to
5 determine the rate of prejudgment interest in patent infringement
6 cases. General Motors Corp. v. Devex Corp., 461 U.S. 648, 657
7 (1983); Gyromat Corp. v. Champion Spark Plug Co., 735 F.2d 549, 556
8 (Fed. Cir. 1984); Railroad Dynamics, Inc. v. Stucki Co., 727 F.2d
9 1506, 1515 (Fed. Cir.), cert. denied, 469 U.S. 871 (1984).

10 18. Plaintiffs' assertion of contempt is untimely, given
11 the facts that (a) defendant notified plaintiffs of its inadvertent
12 violation of the Court's injunction in January 1989 and promised at
13 that time to cease foreign sales, (b) plaintiffs have taken no steps
14 during the intervening ten months to institute contempt proceedings,
15 and (c) the term of the patent and the injunction expired on
16 April 25, 1989. See American Foundry & Manufacturing Co. v. Josam
17 Manufacturing Co., 79 F.2d 116, 124 (8th Cir. 1935).

18 19. Plaintiffs have not followed the correct procedures
19 for instituting contempt proceedings. Plaintiffs had the burden of
20 lodging a motion for contempt, giving adequate notice to defendant
21 of the nature of contempt and the grounds therefor, when they
22 learned of the inadvertent infringing sales in January 1989. See 11
23 Wright & Miller, Federal Practice & Procedure §2960 at 588-89
24 (1973).

25 21. It would be inappropriate to address plaintiffs'
26 newly asserted contempt allegations during trial of damages. The
27 law of contempt, including plaintiffs' heavy burden of proof by
28 clear and convincing evidence and the available remedies, is

1 Defendant's Witnesses

2 Defendant expects to call during its case in chief:

3 Algy Tamoshunas
4 Robert Mayer
5 Thomas Briody
6 Bruce Davis
7 James Levy
8 Jamie Cook
9 Ronald Goldman
10 Brian Dougherty
11 Alan Silverman
12 Gail Conely
13 Smith McKeithen.

14 The parties reserve the right to call rebuttal or other witnesses as
15 necessary and appropriate.

16 J. Exhibits, Schedules and Summaries.

17 The parties will submit separate statements of Exhibits,
18 Schedules and Summaries. Such statements will be served and filed
19 by October 10, 1989. The parties expect that they will be able to
20 reach agreement regarding authenticity of documents. The list of
21 witnesses above, Section I, assumes that the parties will be
22 successful in agreeing on the authenticity of documents.

23 K. Further Discovery or Motions.

24 Other than the completion of several expert and percipient
25 witness depositions, there is no further discovery to be done, nor
26 are there any motions pending. However, there is a dispute
27 concerning witness testimony which will be brought up at the
28 pretrial conference.

1 stipulate to as many facts as reasonably possible and productive.

2

3 P. Bifurcation, Separate Trial of Issues.

4 This action has previously been bifurcated on the issues
5 of liability and damages. The damages phase of the action is now
6 before the Court. Plaintiffs see no need for further bifurcation as
7 to any remaining issues.

8 Defendant contends that trial on the issue of willful
9 infringement with respect to sales occurring after entry of the
10 Court's findings of fact, and any motion for contempt, should
11 proceed after the parties' presentation on the issue of damages.
12 Plaintiffs contend that these issues are part of the damages
13 determination.

14

15 Q. Consent To Trial Before A Magistrate.

16 In view of Judge Legge's conduct of this trial on
17 liability and consideration of the evidence and witnesses presented
18 at that trial, the parties do not believe that reference of all or
19 part of this action or proceeding to a master or magistrate would be
20 feasible and do not agree to such.

21

22 R. Appointment and Limitation of Experts.

23 The appointment of an impartial expert witness by the
24 Court is neither feasible nor desirable. The parties have each
25 engaged experts to testify at trial. No limit on the number of
26 experts is necessary as each party has engaged a reasonable number
27 of experts (four for Activision and two for Magnavox), given the
28 complexity of the damages analysis.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

V. Miscellaneous

None.

Dated: October 2, 1989.

THEODORE W. ANDERSON
JAMES. T. WILLIAMS
RICHARD A. CEDEROTH
NEUMAN, WILLIAMS, ANDERSON & OLSON

By Theodore W. Anderson
Theodore W. Anderson

Attorneys for Plaintiffs THE MAGNAVOX
COMPANY and SANDERS ASSOCIATES, INC.

MARTIN R. GLICK
H. JOSEPH ESCHER III
M. PATRICIA THAYER
HOWARD, RICE, NEMEROVSKI, CANADY
ROBERTSON & FALK
A Professional Corporation

By Martin R. Glick
Martin R. Glick

Attorneys for Defendant MEDIAGENIC
(formerly Activision, Inc.)

J. Thomas Rosch
1 Robert L. Ebe
McCutchen, Doyle, Brown & Enersen
2 Three Embarcadero Center
San Francisco, CA 94111
3

4 I declare under penalty of perjury that the foregoing is
5 true and correct. Executed at San Francisco, California on
6 October 2, 1989.

7
8 
9 Donnalita E. Jones
10
11

12 HOWARD
13 RICE
14 NEMEROVSKI
CANADY
ROBERTSON
& FALK

A Professional Corporation