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October 3, 1989

VIA FEDERAL EXPRESS

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LEGAL DEPT.

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.
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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

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

C. Substance of the Action.

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

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

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

D. Undisputed Facts.

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

2. In 1986 Sanders became a wholly owned subsidiary of

F. Relief Prayed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. The opinion testimony of qualified experts."

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

8. The royalty rate a patentee offers the industry after a court has held its patent valid is highly probative of a reasonable royalty. Devex Corp. v. General Motors Corp., 494 F. Supp. 1369 (D. Del. 1980), aff'd, 667 F.2d 347 (3d Cir. 1981), aff'd, 461 U.S. 648 (1983); Studiengesellschaft Kohle mbH v. Dart 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).

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

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

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

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

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

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

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

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

Defendant's Witnesses

Defendant expects to call during its case in chief:

Algy Tamoshunas
Robert Mayer
Thomas Briody
Bruce Davis
James Levy
Jamie Cook
Ronald Goldman
Brian Dougherty
Alan Silverman
Gail Conely
Smith McKeithen.

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

J. Exhibits, Schedules and Summaries.

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

K. Further Discovery or Motions.

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

stipulate to as many facts as reasonably possible and productive.

P. Bifurcation, Separate Trial of Issues.

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

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

Q. Consent To Trial Before A Magistrate.

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

R. Appointment and Limitation of Experts.

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

V. Miscellanous

None.

Dated: October 2, 1989.

THEODORE W. ANDERSON
JAMES. T. WILLIAMS
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NEUMAN, WILLIAMS, ANDERSON & OLSON

By _____
Theodore W. Anderson

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

Donnalita E. Jones

Donnalita E. Jones

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