

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE**

HELIOS SOFTWARE, LLC and PEARL
SOFTWARE, INC.,

Plaintiffs,

v.

SPECTORSOFT CORPORATION,

Defendant.

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Civil Action No. 12-81-LPS



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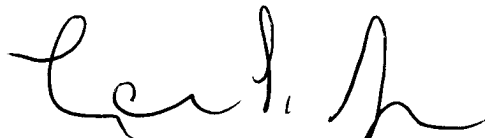
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MEMORANDUM OPINION

June 5, 2015
Wilmington, Delaware



STARK, U.S. District Judge:

Pending before the Court are:

1. Defendant SpectorSoft Corporation's ("SpectorSoft" or "Defendant") Motion for Clarification and Reconsideration of the Court's September 18 Memorandum Opinion and Order (D.I. 458);
2. Defendant's Motion for Costs and Expenses Related to Addressing the Expert Testimony of Scott Weingust on Damages (D.I. 478);
3. Defendant's Motion to Exclude Supplemental Report, Opinions and Proposed Expert Testimony of Scott Weingust on Damages (D.I. 548);
4. Plaintiffs Helios Software, LLC and Pearl Software, Inc.'s (collectively, "Helios" or "Plaintiffs") Motion to Dismiss Based upon Defendant's Defenses and Counterclaims Regarding U.S. Patent No. 7,634,571 ("the '571 patent") and U.S. Patent No. 7,958,237 (D.I. 553);
5. Plaintiffs' Motion to Bifurcate and Consolidate Patent Validity Issues for Trial (D.I. 555); and
6. Defendant's Cross Motion to Dismiss Based upon Plaintiffs' Claims Regarding U.S. Patent No. 7,634,571 and U.S. Patent No. 7,958,237 (D.I. 557).¹

The Court heard oral argument on these motions on May 26, 2015. (Pretrial Conference Transcript) ("Tr.") (D.I. 581) On May 29, the Court issued an oral order resolving the motions and indicating that this opinion would be issued in due course. (D.I. 573)

¹Also pending is Plaintiffs' Motion for Sanctions (D.I. 500), which is addressed in a separate opinion.

I. Defendant's Motion for Clarification and Reconsideration (D.I. 458)

Defendant moves for Clarification and Reconsideration of the Court's September 18 Memorandum Opinion ("the Memorandum Opinion") (D.I. 453) and Order (D.I. 454) on three bases. The Court considers each basis in turn.

Pursuant to Local Rule 7.1.5, a motion for reconsideration should be granted only "sparingly." The decision to grant such a motion lies squarely within the discretion of the district court. *See Dentsply Int'l, Inc. v. Kerr Mfg. Co.*, 42 F. Supp. 2d 385, 419 (D. Del. 1999). These types of motions may be granted if the Court has patently misunderstood a party, made a decision outside the adversarial issues presented by the parties, or made an error not of reasoning but of apprehension. *See Schering Corp. v. Amgen, Inc.*, 25 F. Supp. 2d 293, 295 (D. Del. 1998). However, in no instance should reconsideration be granted if it would not result in amendment of an order. *See id.* "A motion for reconsideration is not properly grounded on a request that a court rethink a decision already made." *Smith v. Meyers*, 2009 WL 5195928, at *1 (D. Del. Dec. 30, 2009).

First, SpectorSoft seeks clarification of whether the Memorandum Opinion precludes damages based on sales outside the United States, relief requested in Defendant's Motion for Partial Summary Judgment Regarding Limitations on Damages ("Defendant's Damages SJ Motion"). (D.I. 337) The Court did not address this portion of Defendant's Damages SJ Motion. (*See* D.I. at 453 at 25-28; D.I. 454) Helios has represented that sales outside of the United States are excluded from its damages analysis. (Tr. at 53-54) ("[W]e just excluded the extraterritorial sales as the best approximation of infringing sales.") Accordingly, Defendant's Motion for Clarification and Reconsideration is GRANTED to the extent it relates to Defendant's Damages

SJ Motion. Helios may not seek to recover damages based on sales of accused products outside the United States.

Second, SpectorSoft seeks clarification that willfulness is out of the case. The Memorandum Opinion only discussed a subset of the accused products, although the Order granted Defendant's Motion for Partial Summary Judgment of No Willfulness ("Defendant's Willfulness SJ Motion") (D.I. 339) in its entirety. Helios responds that there is no need for clarification as Helios withdrew its claims of willfulness. (Tr. at 54) The Court agrees with SpectorSoft that clarity will be helpful. Accordingly, Defendants' Motion for Clarification and Reconsideration is GRANTED to the extent that the Court clarifies that willfulness is out of the case for *all* accused products.

Third, SpectorSoft seeks reconsideration of the Court's denial of its Motion for Partial Summary Judgment of Non-Infringement of U.S. Patent No. 6,978,304 ("Defendant's '304 SJ Motion") (D.I. 331) on the basis that the Court misapprehended the scope of the infringement theory disclosed by Plaintiffs in discovery. SpectorSoft argues that the Court's denial of Defendant's '304 Summary Judgment Motion relied on Plaintiffs' "Profile Update" theory – whereby infringement occurs each time there is a profile update, regardless of whether or not there is a new or changed Data Vault address. However, in Defendant's view, this Profile Update theory was not disclosed in Plaintiffs' infringement contentions (*see, e.g.*, D.I. 381-1, Ex. J-1 at 85) ("When a *new* Data Vault server at a *new* IP address . . . is added, the Spector 360 Recorder . . . is updated by using Recorder profiles at the Control Center.") (emphasis added), or interrogatory responses (*see* D.I. 320-33 at SS02223) ("If the Data Vault's location has *changed*, the server . . . sends the updated address and port number of the *new* location to the user

computer.”) (emphasis added). According to SpectorSoft, the Profile Update theory Plaintiffs argued to defeat summary judgment does not require a new or changed Data Vault address, even though Helios’ expert, Dr. Nettles, confirmed several times at his deposition that “a new or changed address for the Data Vault” was required for infringement. (See D.I. 320-21 at SS01410-11)²

Helios’ April 2013 infringement contentions do not specify whether or not a new or changed Data Vault address must be transmitted during a profile update for infringement to occur. (See D.I. 571-1 at 30) (“When a computer profile changes, the CCS allows computers where the profile is installed to retrieve the new settings. Recorders automatically ‘check in’ with the CCS to receive profile and version updates.”) Moreover, the paragraphs of Dr. Nettles’ reports Helios identifies as purportedly elaborating the Profile Update theory do not appear to do so. (See D.I. 320-2 at SS00127 (“The client Recorder gets IP address of the *new* Data Vault server when it checks-in with the Control Center server for the Recorder profile settings.”) (emphasis added), SS00134-35 (“Changes in the static IP addresses such as addition of a *new* Data Vault server are communicated to the client computer by Control Center by pushing the new Recorder profile settings.”) (emphasis added); D.I. 320-20 at SS01361 (“SpectorSoft customers perform the steps . . . of the asserted claims by *moving* data vaults, [and] *readdressing*.”) (emphasis added))

This conclusion, however, does not mean the Court misapprehended the record or that the relief SpectorSoft seeks is warranted. The record demonstrates genuine disputes of material fact

²Although SpectorSoft appears to acknowledge that Plaintiffs at least “hinted” at the Profile Update theory during the deposition of SpectorSoft’s expert. (See D.I. 458 at 3; *see also* D.I. 465 at 6-7 (Plaintiffs discussing deposition testimony))

as to whether the Data Vault address might be transmitted in other circumstances, such as in response to an error (*see* D.I. 320-21 at SS01420) (Dr. Nettles: “The patent doesn’t require that the address change. The patent only requires that it’s conveyed to the client. So in particular, one scenario that would seem to be potentially significant is, if – if that address somehow got corrupted, then the client would need to – even though it hadn’t changed, the – the client would need to obtain that address again because it had been corrupted.”), or whenever “the default profile . . . is pushed down to the client” (*see* D.I. 571-1 at 34) (quoting Mr. Chesley’s deposition testimony). There is a further genuine dispute as to how often these circumstances occur. (*See, e.g.,* D.I. 380-9, Ex. F at 4, 23, 47-91; D.I. 380-10, Ex. F at 92-337; D.I. 320, Ex. 20 at 6-7; *see also* D.I. 381-5 at 9, 13 (Defendant’s expert Dr. Hick testifying that client software checks for profile updates every five minutes, and that any time profile update is sent it includes Data Vault address))

Accordingly, Defendant’s Motion for Clarification and Reconsideration is DENIED to the extent it relates to reconsideration of the Court’s denial of Defendant’s ’304 SJ Motion.

B. Defendant’s Motion for Sanctions

Pursuant to Federal Rule of Civil Procedure 37(c), SpectorSoft seeks to recover its costs and expenses related to addressing the expert testimony of Helios’ damages expert, Mr. Weingust, for failure to disclose how he arrived at his proposed royalty rates, in violation of Federal Rule of Civil Procedure 26(a)(2)(B). (D.I. 478) The Court is not persuaded that the case relied on by Defendant, *Pell v. E.I. Dupont De Nemours & Co., Inc.*, 231 F.R.D. 186, 192-94 (D. Del. 2005), addresses a similar circumstance, as the failure to disclose there was not limited to the methodology used but also to the expert’s qualifications. Moreover, Mr. Weingust’s original

report was stricken for his failure to satisfy the entire market value rule pursuant to *LaserDynamics, Inc. v. Qanta Computer, Inc.*, 694 F.3d 51 (Fed. Cir. 2012), and failure to apportion damages as required by *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011). (See D.I. 454; D.I. 453 at 13) The Court agrees with Helios that there was no Rule 37 discovery violation but, instead, a misapprehension or misapplication of the relevant legal standards. The Court assessed the impact of those errors, determined it was appropriate to allow a supplemental report, and was not asked (during the pendency of the motion to strike) to shift costs. Accordingly, there is no basis for the relief now sought by SpectorSoft, and its Motion for Costs and Expenses Related to Addressing Expert Testimony of Scott Weingust on Damages is DENIED.

C. Defendant's Renewed Motion to Exclude

SpectorSoft seeks to strike Mr. Weingust's Supplemental Expert Report because its calculation of reasonable royalties does not satisfy the requirements for the entire market value rule or apportion damages to the value of the features covered by the '304 patent. Plaintiffs have abandoned their previous intention to present Mr. Weingust's entire market value theory at trial. They maintain, however, that Mr. Weingust performed an admissible apportionment analysis. Under Federal Rule of Civil Procedure 702, expert testimony is admissible only if "the testimony is based on sufficient facts or data," "the testimony is the product of reliable principles and methods," and "the expert has reliably applied the principles and methods to the facts of the case."

Plaintiffs explain that Mr. Weingust's Supplemental Expert Report apportions twice: first, "Mr. Weingust accounted for non-patented features by calculating the price differential

between the Accused Products and Spector Pro, a product that is similar to the Accused Products except that it does not incorporate the patented technology;" second, he "calculated the profit margin per unit to account for any feature not found in Spector Pro" and "[t]hen, to determine what portion of the profit margin relates only to the patented technology, Mr. Weingust calculated an 'apportionment factor.'" (See D.I. 556 at 18) (referring to D.I. 556-1, Ex. A at ¶¶ 73-80)

SpectorSoft argues that the second apportionment does adequately not account for the remaining non-patented features because it involves multiplying the "incremental expected operating margin per unit" [REDACTED] by the "apportionment factor" (calculated as the [REDACTED] royalty rate divided by the [REDACTED] operating margin), and not only are none of these inputs adequately tied to the value of the '304 patent, but the apportionment factor is effectively neutralized by the use of the [REDACTED] operating margin in both the numerator and the denominator. (See D.I. 549 at 9-12) SpectorSoft further contends that this second apportionment step is critical to a reliable analysis because Mr. Weingust must apportion to exclude the value of features previously alleged to be covered by the '237 and '571 patents – "remotely-administered web blocking/filtering features" and "real-time features," respectively – as these features are not accounted for in the first apportionment, and SpectorSoft has been determined not to infringe these two patents since the time Mr. Weingust conducted his original analysis. (See D.I. 559 at 7)

Plaintiffs respond that Mr. Weingust "go[es] into great detail in his supplemental opinion about what his understanding is [about] what is covered by the '304 patent and only the '304 patent. When he did his *Georgia-Pacific* analysis, he valued each patent independently." (Tr. at 40) According to Plaintiffs, Mr. Weingust's second apportionment – one input of which is the

■ royalty rate stemming from his *Georgia-Pacific* analysis – takes into account his consideration of non-patented features in his analysis of *Georgia-Pacific* factor 13. (See D.I. 556 at 9, 18-19) (referring to D.I. 321-1 at DA00055-58) Additionally, Plaintiffs argue that Mr. Weingust’s use of the operating margin serves a different purpose in the numerator and the denominator. (See D.I. 556 at 14; see also D.I. 556-1, Ex. A at ¶ 79) Plaintiffs also emphasize their view that, conceptually, the apportionment analysis Mr. Weingust undertook is the same as that performed by SpectorSoft’s expert. (See, e.g., D.I. 556 at 1-2, 17)

Under the circumstances, the Court agrees with Plaintiffs that SpectorSoft’s criticisms of the adequacy of Mr. Weingust’s new apportionment analysis – including the extent to which his *Georgia-Pacific* analysis fully accounts for non-patented features, including those which were previously accused of infringing the ’571 and ’237 patents, and any contradictions with his previous opinions – go to the weight rather than the admissibility of his analysis. These criticisms can be addressed by Defendant through cross-examination. (See Tr. at 40-41) (Plaintiffs agreeing it will be appropriate for Mr. Weingust to be cross-examined on what he previously said about his *Georgia-Pacific* analysis)

Accordingly, SpectorSoft’s motion to exclude Mr. Weingust’s Supplemental Expert Report is DENIED, including its request to recover fees and costs associated with addressing the Supplemental Expert Report.

D. Motions to Dismiss

Plaintiffs move to dismiss *with prejudice* Defendant’s defenses and counterclaims regarding invalidity of the ’571 and ’237 patents due to Plaintiffs’ recent offer of a covenant not to sue (“Covenant”) on these patents (D.I. 553-1, Ex. B) and submit a proposed order to this

effect (D.I. 553-3). SpectorSoft responds that its own defenses and counterclaims regarding invalidity of the '571 and '237 patents should be dismissed **without prejudice** (D.I. 558 at 8-10) and cross-moves to dismiss **with prejudice** Plaintiffs' infringement claims for the '571 and '237 patents (D.I. 557). SpectorSoft submits its own proposed order to accomplish the dismissals on these terms, and further to recite details of relevant events leading to this outcome and to bar Plaintiffs from pursuing recovery of costs and fees related to litigating the '571 and '237 patents. (D.I. 557-3)

For reasons including that the Covenant was unilaterally provided to SpectorSoft, without any request or invitation from SpectorSoft for such a covenant, and was done so more than three years after this litigation was initiated and less than two months before trial, it is appropriate for Defendant's '571 and '237 invalidity counterclaims and defenses to be dismissed **without prejudice**. See generally *Liquid Dynamics v. Vaughan Co., Inc.*, 355 F.3d 1361, 1371 (Fed. Cir. 2004) ("A district court judge faced with an invalidity counterclaim challenging a patent that it concludes was not infringed may either hear the claim or dismiss it without prejudice . . ."). Under the circumstances, Plaintiffs' infringement claims must be dismissed **with prejudice**. See *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1342 (Fed. Cir. 2001) (upholding district court's dismissal with prejudice of plaintiffs' complaint in view of plaintiffs providing to defendant a statement of non-liability).³

Regarding the parties' rights to seek to recover costs and fees, the Court is not persuaded there is any reason at this time to preclude either side from seeking to do so. In so holding, the

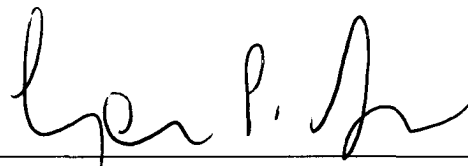
³The Covenant does not strip this Court of jurisdiction over Defendant's inequitable conduct counterclaim. See *Fort James Corp. v. Solo Cup Co.*, 412 F.3d 1340, 1348-49 (Fed. Cir. 2005). The Court has set trial on this counterclaim to occur later this year. (See D.I. 568)

Court does not by any means suggest that it will (or will not) grant any such motion if made.

Consistent with the analysis set forth above, the Court will sign SpectorSoft's proposed form of order (D.I. 558-3), modifying it to make clear that both sides may seek to recover costs and fees.

E. Motion to Bifurcate and Consolidate

At the Pretrial Conference, the parties agreed that Plaintiffs' Motion to Bifurcate and Consolidate Validity Issues for Trial (D.I. 555) is no longer in dispute. Accordingly, Plaintiffs' motion is DENIED AS MOOT, as the Court has already decided that the upcoming trial will address infringement *and* invalidity of the '304 patent. (See D.I. 568 at 1) The Court did so after finding this would serve the interests of judicial economy and prevent the unfair prejudice to SpectorSoft that would have resulted from requiring SpectorSoft to try infringement and validity of the same patent at separate trials.

A handwritten signature in black ink, appearing to read "Leonard P. Stark", written over a horizontal line.

HON. LEONARD P. STARK
U.S. DISTRICT JUDGE