IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

TOUCHSTREAM TECHNOLOGIES, INC., *Plaintiff*, *v.* **CHARTER COMMUNICATIONS, INC. et al.,** *Defendants*.	
TOUCHSTREAM TECHNOLOGIES, INC., *Plaintiff*, *v.* **COMCAST CABLE COMMUNICATIONS, LLC, D/B/A XFINITY, et al.,** *Defendants*.	**Lead Case No. 2:23-cv-00059-JRG** Member Case No. 2:23-cv-00062-JRG

TOUCHSTREAM'S RESPONSE TO CHARTER'S OBJECTION TO ORDER DENYING DEFENDANTS' MOTION TO EXCLUDE AND STRIKE DR. RUSSELL W. MANGUM III'S OPINIONS

Touchstream respectfully submits this response to the Charter Defendants' Objection (Dkt. 257) to Magistrate Judge Payne's Order Denying Defendants' Motion to Exclude and Strike Dr. Russell W. Mangum III's Opinions (Dkt. 245).[1] Although Charter may disagree with Judge Payne's Order, Charter falls far short of showing the Order is "clearly erroneous" and "contrary to law." Fed. R. Civ. P. 72(a). As explained below, Judge Payne thoroughly analyzed and rejected both of the arguments that Charter raises in its Objection: (1) Dr. Mangum's opinions regarding a reasonable royalty in this method case, and (2) his apportionment of a comparable agreement (the Quadriga Agreement) to the patents asserted in this case. *See* Dkt. 239 at 3-6. For the reasons discussed below, the Court should deny Charter's Objection.

First, Charter continues to argue that Dr. Mangum's royalty rate of $0.48 per set-top box per month—which is based on a comparable agreement Touchstream entered with Quadriga—is improper in this method patents case and that the royalty base must be limited to a numerical input of actual use. *See* Dkt. 239 at 3 (arguing Dr. Mangum should have used "Charter's actual usage data"). Charter is incorrect: Dr. Mangum's $0.48 per month royalty rate *does* consider expectations of use. Under the terms of the Quadriga Agreement, Touchstream was paid this monthly royalty for every hotel room in which its technology was available—regardless of whether a guest ever used the patented functionality. Dkt. 126 at 3; Dkt. 126-2 ¶ 104. Relying on the Quadriga Agreement, Dr. Mangum opines that a reasonable royalty in this case would likewise be $0.48 per month for each Charter set-top box that has the ability to practice the infringing methods. Dkt. 126-2 at ¶¶ 161-65. Dr. Mangum's opinions are consistent with the Federal Circuit's guidance that the hypothetical negotiation ought to reflect what parties do in real-world licensing negotiations

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[1] This Order denied Charter's motion "for the reasons provided in Dkt. 239." *See* Dkt. 245. Thus, Touchstream cites the analysis set forth in the Memorandum Order on Comcast's Motion to Strike Dr. Mangum's Opinions (Dkt. 239).

because "[t]he hypothetical negotiation tries, as best as possible, to recreate the *ex ante* licensing negotiation scenario and to describe the resulting agreement." *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1325 (Fed. Cir. 2009).[2] After considering these arguments, Judge Payne concluded that "Dr. Mangum adequately explains how the Quadriga Agreement is an appropriate proxy for use," and cited Touchstream's argument that the royalty rate in the Quadriga Agreement reflected expectations for the counterparty's use of the technology (so that if the royalty base was more narrowly defined, the royalty rate would increase).[3]

Second, the Court should reject Charter's criticism that Judge Payne's Order "does not even mention, much less address, any Federal Circuit cases." Dkt. 257 at 2; *see also id.* ("Ignoring controlling precedent . . ."). A close review of Judge Payne's Order confirms that it is fully consistent with Federal Circuit precedent. The Federal Circuit has recognized that damages in method cases should track "real-world licensing negotiations," and rejected the "rigid requirement"—advanced by Charter here—that such damages be limited to actual use. *See Lucent*, 580 F.3d at 1334. Judge Payne's Order is also consistent with the Federal Circuit's decision in *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075 (Fed. Cir. 1983), in which the court affirmed a flat royalty where only method claims were infringed and rejected the defendant's plea to set aside the damages award because it "acquired the [snowmaking] machines for experimental

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[2] Charter makes much of Dr. Mangum's statement that a damages model based on actual usage is "inappropriate," Dkt. 257 at 1, but as Dr. Mangum clarified at his deposition, what he meant was that on the facts presented here, a flat rate that accounts for use is appropriate whereas a rate that uses each instance of use as a mathematical input is not. *See* Dkt. 126-4 at 68:9–69:25.

[3] Dr. Mangum explained why Touchstream and Charter would agree to a $0.48 running royalty rate, including because (i) Quadriga agreed to this royalty structure and rate in similar circumstances, and (ii) this aligns with Charter's need for the technology and how Charter charges video customers. *See* Dkt. 126-2 ¶¶ 106-09, 114. He also explained that if he artificially changed the base, such as by applying the $0.48 rate only to customers who actually used the technology in a given month, he would need to *increase* the rate. *See* Dkt. 126-4, Mangum Tr. at 68:9-69.

purposes and did not use them much," and that the royalty therefore "should have been based upon actual use." *Id.* at 1080. The Federal Circuit found the damages award "fully supported by the record," which included testimony that the plaintiff "would have refused to grant a license based on actual use or other criteria relating to the situation of the particular licensee." *Id.* at 1079-80. Twenty-five years later, the Federal Circuit in *Lucent* reaffirmed *Hanson*'s reasoning in rejecting a defendant's argument that precedent "requires that [method patent infringement] damages be limited to the proven number of instances of actual infringing use." 580 F.3d at 1323-34 ("[W]e have never laid down any rigid requirement that damages in all circumstances be limited to specific instances of infringement proven with direct evidence."). *Lucent* recognized that in some circumstances "value is added simply by having the patented invention available for use . . . . Thus, potential licensors and licensees routinely agree to royalty payments" regardless of how often consumers use the invention. *Id.* Simply put, Judge Payne's decision to reject Charter's challenge to Dr. Mangum's opinions follows Federal Circuit precedent.

Third, the Court should reject Charter's argument that the Federal Circuit's decision in *Niazi Licensing Corp. v. St. Jude Medical S.C., Inc.*, 30 F.4th 1339 (Fed. Cir. 2022) represents a sea change in how the Federal Circuit treats damages for method patents and somehow this panel decision *sub silentio* overruled all prior precedent on this issue. It did not.[4] But Charter nevertheless attempts to create a false dichotomy between "pre-*Niazi*" and "post-*Niazi*" law, Dkt. 257 at 2, in an attempt ignore the decades of on-point Federal Circuit precedent that is consistent

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[4] *See, e.g.*, Fed. Cir. R. 40(a)(4); *Deckers Corp. v. U.S.*, 752 F.3d 949, 964 (Fed. Cir. 2014) ("We have also adopted the rule that a panel of this court—which normally sits in panels of three, and not *en banc*—is bound by the precedential decisions of prior panels unless and until overruled by an intervening Supreme Court or *en banc* decision."); *In re Morris*, 127 F.3d 1048, 1054 (Fed. Cir. 1997) (rejecting invitation to "overrule, *sub silentio,* decades old case law," reasoning that "[h]ad either of the cases cited by appellants intended to make the dramatic shift in our jurisprudence suggested by appellants one can safely assume they would have done so explicitly").

with Judge Payne's decision. And, in any event, *Niazi* is factually dissimilar insofar as the Federal Circuit affirmed the exclusion of a "conclusory" damages opinion in which the expert provided "no explanation of how (or even whether) he apportioned to account for unpatented uses when selecting the minimum royalty rate of 14.6%." 30 F.4th at 1342, 1358. Similarly, Charter relies heavily on *Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc.*, 576 F.3d 1348 (Fed. Cir. 2009), but fails to acknowledge that a month after this decision the Federal Circuit favorably cited *Hanson* in its *Lucent* decision. *See Lucent*, 580 F.3d at 1334.[5]

Fourth, Judge Payne carefully analyzed Charter's argument that Dr. Mangum failed to adjust the rate of the Quadriga Agreement to apportion to the patents at issue in this case. *See* Dkt. 239 at 5-6. Judge Payne rejected this argument and found that "Dr. Mangum adequately adjusts the terms of the Quadriga Agreement," including by "excluding certain payments Quadriga made to Plaintiff to develop the technology at issue in the Quadriga Agreement." *Id.* at 6. While acknowledging that there may be "several credible disputes," Judge Payne concluded that such disputes "are best addressed with vigorous cross examination." *Id.* This decision is well-supported by the evidence: Dr. Mangum subtracted out several payments in the Quadriga Agreement, including "development fees" and "integration" fees, and explained why the remaining $0.48 per month rate is appropriate in this case once an appropriate royalty base was selected and adjusted for consistency. Dkt. 126-2 ¶¶ 102-19, 161, 163; *see also* Dkt. No. 126 at 10–13.[6]

Fifth, Charter failed to address several arguments that Judge Payne relied on in denying Charter's motion, and those arguments are independently sufficient to uphold Judge Payne's ruling

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[5] It is also notable that the Federal Circuit in *Cardiac Pacemakers* took up some issues *en banc*, but not the "actual usage" issue. *See* 576 F.3d at 1358-59.

[6] Charter insists that the Quadriga Agreement is inapt because it also includes device claims. Dkt. 257 at 3 & 5. But Dr. Mangum points to evidence that Charter would pay a flat rate for a license to all of Touchstream's patents, as Quadriga did. Dkt. 126 at 10-11; *see also* Dkt. 182 at 5 n.5.

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