Case 3:19-cv-03371-EMC Document 90-1 Filed 07/24/20 Page 1 of 15

EXHIBIT A

Dolby Exhibit 1040 Dolby Labs., Inc. v. InterTrust Techns. Corp. IPR2020-00660 Page 00001

	Case 3:19-cv-03371-EMC Document 90-1	Filed 07/24/20 Page 2 of 15	
	CONTAINS INFORMATION DESIGNATED F EYES ONLY PURSUANT TO		
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11	NORTHERN DISTRIC	T OF CALIFORNIA	
12	SAN FRANCISCO DIVISION		
13			
14	DOLBY LABORATORIES, INC.,	Case No. 3:19-cv-03371-EMC	
15	Plaintiff and Counterclaim-Defendant,	INTERTRUST TECHNOLOGIES	
16	V.	CORPORATION'S PRELIMINARY DAMAGES DISCLOSURE	
17	INTERTRUST TECHNOLOGIES	[PATENT LOCAL RULE 3-8]	
18	CORPORATION,	CONTAINS INFORMATION	
19 20	Defendant and Counterclaim-Plaintiff.	DESIGNATED HIGHLY CONFIDENTIAL – ATTORNEYS' EYES ONLY PURSUANT TO	
21		PROTECTIVE ORDER	
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		Case No. 3:19-cv-03371-EMC	
	INTERTRUST'S PRELIMINARY DAMAGES DISCLOSURE [PATENT L.R. 3-8]		

Case 3:19-cv-03371-EMC Document 90-1 Filed 07/24/20 Page 3 of 15

CONTAINS INFORMATION DESIGNATED HIGHLY CONFIDENTIAL – ATTORNEYS' EYES ONLY PURSUANT TO PROTECTIVE ORDER

1 I. Introduction

2 Counterclaim Plaintiff Intertrust Technologies Corporation ("Intertrust") serves these preliminary damages contentions pursuant to Patent L.R. 3-8 and the Court's Case Management and 3 4 Pretrial Order for Claim Construction (Dkt. No. 73) in the above-captioned matter. This disclosure 5 is based upon the very limited information produced by Dolby to date and information Intertrust has 6 been able to obtain publicly, together with Intertrust's good faith beliefs regarding the accused 7 instrumentalities in this case. The damages theories contained herein are preliminary only and are 8 not intended to be binding, exclusive, or exhaustive. Intertrust's investigation is ongoing. It reserves 9 the right to supplement, amend, or modify these disclosures based on its continuing review of 10 information produced by Dolby and publicly-available information, additional pertinent information 11 obtained through formal discovery or otherwise, and/or for any other permissible reasons under the 12 Local Rules and Patent Local Rules of this Court or the Federal Rules of Civil Procedure and as the 13 Court may permit.

These contentions address only those patent claims and accused instrumentalities identified in Intertrust's Patent Local Rule 3-1 infringement contention disclosures. Intertrust expressly reserves all objections regarding the use of this preliminary disclosure, for any purpose, and does not waive any applicable privileges.

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II. Intertrust Seeks Damages in at Least the Form of a Reasonable Royalty

Pursuant to Patent Local Rule 3-8(a), Intertrust discloses that it seeks patent infringement
damages in the form of a reasonable royalty and, to the extent Dolby is not enjoined, ongoing future
royalties for any future infringement.

<u>Theories of Recovery and Factual Support.</u> "Damages is the amount of loss to a patentee," *SmithKline Diagnostics, Inc. v. Helena Labs. Corp.*, 926 F.2d 1161, 1164 (Fed. Cir. 1991) (citing *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505 (1964)), and shall "in no event
[be] less than a reasonable royalty for the use made of the invention by the infringer, together with
interest and costs as fixed by the court." 35 U.S.C. § 284.

Intertrust contends that a reasonable royalty should be adduced by considering a hypothetical
negotiation between a willing licensor and willing licensee, as described in *Georgia-Pacific Corp.*

-2- Case No. 3:19-cv-03371-EMC INTERTRUST'S PRELIMINARY DAMAGES DISCLOSURE [PATENT L.R. 3-8]

Case 3:19-cv-03371-EMC Document 90-1 Filed 07/24/20 Page 4 of 15

CONTAINS INFORMATION DESIGNATED HIGHLY CONFIDENTIAL – ATTORNEYS' EYES ONLY PURSUANT TO PROTECTIVE ORDER

v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), modified sub nom. Georgia Pacific Corp. v. U.S. Plywood-Champion Papers, Inc., 446 F.2d 295 (2d Cir. 1971), which attempts
 to ascertain the royalty upon which the parties would have agreed had they successfully negotiated
 an agreement just before infringement began. See, e.g., Lucent Techs., Inc. v. Gateway, Inc., 580
 F.3d 1301, 1324 (Fed. Cir. 2009).

6 When the hypothetical negotiation is used to arrive at a reasonable royalty, the negotiation 7 is hypothesized as of the time infringement began. See Georgia-Pacific, 318 F. Supp. at 1123. 8 Dolby has yet to produce sufficient information in discovery to determine the date of first 9 infringement in this case. Dolby's infringement of the asserted patents commenced at least by the 10 time Dolby or Doremi first began to make and test products or equipment compliant with the Digital 11 Cinema Initiative ("DCI") Specification, and Dolby's infringement has continued since, including 12 to the present day for those patents that have not yet expired. To the extent permitted by law, Intertrust claims damages from the point of first infringement through at least the present day. 13

The fifteen *Georgia-Pacific* factors, *see* 318 F. Supp. at 1120, are discussed below (in a preliminary, non-exhaustive manner and subject to revision in light of additional discovery and analysis, including expert analysis) in the context of this case:

Factor 1: The royalties received by the patentee for the licensing of the patent in suit,
proving or tending to prove an established royalty. Intertrust has not entered into any comparable
licenses that would tend to prove an established royalty.

Factor 2: The rates paid by the licensee for the use of other patents comparable to the patent in suit. To date Dolby has not produced any comparable licenses.

Factor 3: The nature and scope of the license, as exclusive or non-exclusive; or as restricted
or non-restricted in terms of territory; or with respect to whom the manufactured product may be
sold. The license to Dolby would have been non-exclusive for use in the cinema industry in the
United States with no restrictions as to customers.

Factor 4: The licensor's established policy and marketing program to maintain its patent
monopoly by not licensing others to use the invention or by granting licenses under special

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-3- Case No. 3:19-cv-03371-EMC INTERTRUST'S PRELIMINARY DAMAGES DISCLOSURE [PATENT L.R. 3-8]

conditions designed to preserve that monopoly. Intertrust does license its patent to others who are
 not direct competitors of its core businesses.

Factor 5: The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter. The cinema products and services offered by Dolby are not in direct competition
with products and services offered by Intertrust.

Factor 6: The effect of selling the patented specialty in promoting sales of other products
of the licensee; the existing value of the invention to the licensor as a generator of sales of its nonpatented items; and the extent of such derivative or convoyed sales. Dolby has yet to produce
discovery sufficient to determine whether the infringing products promote or generate sales of nonpatented items, but to the extent that discovery supports a conclusion that Dolby has sold other
products as a result of selling infringing products, Intertrust's reasonable royalty would be based in
part on such other sales.

Factor 7: The duration of the patent and the term of the license. The term of the license
would extend from the date of first infringement to January 20, 2023, the expiration date of the lastto-expire patent of the patents-in-suit (the '603 patent).

Factor 8: The established profitability of the product made under the patent; its commercial success; and its current popularity. Through the implementation of the DCI Specification, of which
the practice of Intertrust's patented security technology is a crucial component, the cinema studios
(movie producers), equipment suppliers and exhibitors (movie theaters) have been able to realize
substantial profits arising from film cost and distribution savings, accelerated equipment
replacement, increased theater ticket prices, higher theater concession spends, and retained/higher
theater attendance levels. Discovery may reveal additional benefits to the cinema industry.

Factor 9: The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results. Intertrust's preliminary understanding, subject to refinement through further discovery and analysis, is that, after the transition to digital cinema from film-based media, the studios realized significant cost savings by reducing a reported historical estimated spend of approximately \$1,500-\$2,500 per print to print and deliver film prints

> -4- Case No. 3:19-cv-03371-EMC INTERTRUST'S PRELIMINARY DAMAGES DISCLOSURE [PATENT L.R. 3-8]

to theaters to a presently estimated spend of approximately \$50 to \$125 per digital copy. These 1 savings were in part redistributed and converted into Virtual Print Fees ("VPFs") paid to the 2 exhibitors directly or indirectly (e.g., through integrators and/or financing entities) to offset the cost 3 of purchasing the required digital equipment which included new projectors and media blocks. 4 5 VPFs have publicly been reported as approximately \$900 per digital copy. The projector 6 manufacturers increased their revenues and profits because of the replacement of analog projection 7 equipment. The DCI Specification requirements created a previously non-existent market for image 8 media blocks and other equipment needed to facilitate the secure delivery, access, and accountability 9 of the content that previously was handled by other means. Exhibitors were able to show new 10 formats and higher quality images creating an improved experience for patrons over traditional film thereby adding to demand and incrementing attendance, average ticket prices, concession spend, 11 12 and profits. In addition, exhibitors realized increased scheduling flexibility and enhanced facility utilization, which also added to profitability. It is believed that at least some exhibitors also realized 13 14 significant financial gains from VPFs which exceeded their cost of the new digital equipment. In 15 addition, the studios benefited from their share of retained/increased exhibitor ticket revenues. Further discovery and analysis may reveal additional advantages of the patented technology enjoyed 16 17 by the cinema industry.

18 Factor 10: The nature of the patented invention; the character of the commercial 19 embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention. The patented invention enables the secure distribution of digital content. The accused 20 instrumentalities provide content protection and digital rights management for the content that is 21 shown in commercial movie theaters. As referenced in the discussion of Factor 8 and Factor 9 22 23 above, the benefits to those who have used the invention are wide-ranging and include at least benefits arising from cost savings, equipment sales, increased theater ticket prices, higher theater 24 25 concession spends, and incremental theater attendance levels.

Factor 11: The extent to which the infringer has made use of the invention, and any evidence
probative of the value of that use. Dolby and Doremi are estimated to have supplied approximately
46% of the image media blocks to exhibitors in the United States. The media blocks have facilitated

-5- Case No. 3:19-cv-03371-EMC INTERTRUST'S PRELIMINARY DAMAGES DISCLOSURE [PATENT L.R. 3-8]

the realization of the benefits outlined above. Dolby practiced the methods of the patents through
 its use of these image media blocks, including in testing and development. Dolby indirectly
 infringed the patents by inducing and contributing to direct infringement by the exhibitors.

4 Factor 12: The portion of the profit or of the selling price that may be customary in the 5 particular business or in comparable businesses to allow for the use of the invention or analogous 6 inventions. The transition to digital content in theaters was a unique business event. To date no 7 evidence has been produced by Dolby or otherwise found that reveals a customary apportionment 8 for the invention or analogous inventions. However, it is customary for a royalty to be set so as to 9 share profits from the use of the patented technology between the owner of the patented technology 10 and the infringers.

Factor 13: The portion of the realizable profit that should be credited to the invention as 11 12 distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer. Discovery is ongoing and the figures relevant to 13 14 this analysis are preliminary and tentative estimates subject to revision based on further discovery 15 and analysis. Studios are estimated to realize approximately \$5.3 billion in net cost savings and therefore profits from the transition to digital cinema. It is preliminarily believed that 50% of these 16 17 profits, or approximately \$2.65 billion are attributable to the patented inventions of Intertrust. 18 Exhibitors are preliminarily estimated to realize approximately \$1 billion from incremental 19 admission profits (before sharing with the studios) attributable to the digital transition and patented 20 inventions of Intertrust. Exhibitors are also preliminarily estimated to realize approximately \$1 21 billion from incremental concession profits attributable to the digital transition and patented inventions of Intertrust. Equipment producers are preliminarily estimated to realize increased profits 22 23 of approximately \$700 million from the transition to digital. In addition, it is believed that the 24 exhibitors will realize gains from VPFs of approximately \$600 million from the transition to digital. 25 It is preliminarily believed that 50% of the equipment and VPF profits, or approximately \$650 million, are attributable to the patented inventions of Intertrust. Intertrust anticipates that further 26 27 discovery and analysis may warrant adjustment, including upward adjustment, of these figures and 28 percentages.

> -6- Case No. 3:19-cv-03371-EMC INTERTRUST'S PRELIMINARY DAMAGES DISCLOSURE [PATENT L.R. 3-8]

Factor 14: The opinion testimony of qualified experts. The opinion testimony of qualified
 experts will be addressed at the time for expert disclosures in this case.

3 Factor 15: The amount that a licensor (such as the patentee) and a licensee (such as the 4 infringer) would have agreed upon (at the time the infringement began) if both had been reasonably 5 and voluntarily trying to reach an agreement; that is, the amount that a prudent licensee—who 6 desired, as a business proposition, to obtain a license to manufacture and sell a particular article 7 embodying the patented invention—would have been willing to pay as a royalty and yet be able to 8 make a reasonable profit and which amount would have been acceptable by a prudent patentee who 9 was willing to grant a license. Intertrust's analysis is preliminary and ongoing and subject to revision, refinement, and supplementation based on additional discovery and analysis. It is believed 10 that the cost to implement acceptable non-infringing alternatives would exceed the estimated 11 12 benefits of \$5.3 billion attributable to the patented inventions described above. It is further preliminarily believed that Intertrust and the industry participants (including at least the studios, 13 14 equipment suppliers and exhibitors) would have a negotiated a digital print fee analogous to the 15 VPF to compensate Intertrust for the use of its patents. Intertrust estimates that this fee would have been approximately \$1,060 per digital print (based on a preliminary estimate of 5 million digital 16 17 prints) and that the parties would have incorporated payments to Intertrust equivalent to this value 18 into their business arrangements to facilitate the digital transition.

19 Computation of Damages. As set forth in Section III, *infra*, discovery in this case is at a 20 nascent stage, and Dolby has yet to produce many documents requested by Intertrust's discovery 21 requests and/or called for by Patent Local Rule 3-4, making it impossible for Intertrust to provide a complete computation of its damages. At this preliminary stage, and subject to revision and 22 23 refinement based on the production and identification of relevant discovery and further analysis, 24 Intertrust anticipates its past royalty-based damages in this case may total approximately \$2 billion. 25 This amount is based on the estimated number of digital prints created through May 31, 2020 that 26 use Dolby or Doremi image media blocks.

27 <u>Additional Categories of Damages and Monetary Relief.</u> Based on the limited discovery
28 Dolby has produced to date, Intertrust cannot yet determine if it will seek damages for any convoyed

-7- Case No. 3:19-cv-03371-EMC INTERTRUST'S PRELIMINARY DAMAGES DISCLOSURE [PATENT L.R. 3-8]

or collateral sales. Intertrust seeks trebling of its damages based on Dolby's willful infringement
 pursuant to 35 U.S.C. § 284;¹ pre-judgment and post-judgment interest; its reasonable attorneys'
 fees pursuant to 35 U.S.C. § 285; and its costs and expenses, in addition to any other additional
 relief the Court deems just and proper.

<u>Supplementation.</u> Intertrust reserves the right to update and amend its damages estimates.
Discovery in this case is underway. Intertrust anticipates that additional document production, nonparty discovery, and depositions in this case will provide additional information regarding the
grounds for and extent of Intertrust's damages and Dolby's liability. Moreover, Dolby's infringement
is ongoing, and the amount of Intertrust's damages is therefore increasing.

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III. Additional Information Is Required to Provide a More Detailed Damages Disclosure

Pursuant to Patent Local Rule 3-8(b), Intertrust states that a more detailed damages
disclosure requires additional information that has not yet been obtained in discovery in this case or
which, because of Dolby's delays regarding the protective order in this case (discussed below),
Intertrust and its damages experts have not yet been able to analyze fully.

Additional Discovery Required. Although Intertrust has diligently pursued discovery in this
case, Dolby has yet to produce much of the information necessary to provide a more detailed
damages disclosure. Once produced, the following categories of discovery, among others, will
enable Intertrust to refine and provide additional factual support for its patent infringement damages
theories in this case:

Additional discovery regarding the technical design, operation, and use of the accused instrumentalities and their infringing features, including source code² (to date, Dolby has not made *any* source code available for inspection);

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<sup>As set forth in Intertrust's Patent Local Rule 3-1(i) disclosures, Intertrust directly brought
Dolby's infringement of the asserted patents to Dolby's attention at least by October 2018 and, on
information and belief, others including Dolby's customers had brought the asserted patents and
factual details of Dolby's infringement to Dolby's attention even earlier.</sup> *See, e.g.*, Dkt. No. 61-3 at
27.

 ^{27 2} See, e.g., Intertrust Technologies Corporation's First Set of Requests for Production of Documents to Dolby Laboratories, Inc. (Request Nos. 1-41), served Mar. 20, 2020 ("RFPs") No. 1 (seeking documents that "constitute, refer to or relate to any software computer code, programs, or

Case 3:19-cv-03371-EMC Document 90-1 Filed 07/24/20 Page 10 of 15

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- Intellectual property license agreements relating to the accused instrumentalities to which Dolby is a party;³
- Dolby's supporting evidence (if any) concerning alleged non-infringement and the existence of
 commercially acceptable or practical alternatives to the patents-in-suit, and information
 concerning the commercial acceptability, manufacturability, or other practical considerations
 regarding employing any such alternatives;⁴
- Analyses and information related to the sales, revenue, profits, and pricing of the accused instrumentalities, the accused features, and competing products and features, including discovery that Dolby has not yet provided in this case;⁵
- Market analyses, market projections, financial projections, and market forecasts performed by
 or on behalf of Dolby, regarding the accused features as well as the extent to which Dolby's
 infringement drives or assists Dolby in the sale of non-patented products, features, and services,
 including discovery that Dolby has not yet provided in this case;⁶
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-9- Case No. 3:19-cv-03371-EMC INTERTRUST'S PRELIMINARY DAMAGES DISCLOSURE [PATENT L.R. 3-8]

hardware used to operate, enable, or implement any Accused Functionalities of the Accused Products"); RFP No. 2 (seeking "[a]ll Source Code for all software used in or by, and/or incorporated

in the Accused Functionalities of the Accused Products").

See, e.g., RFP No. 21 (seeking, for each accused product, *inter alia*, "any license agreements involving technology employed by the Accused Products"). Dolby produced only a limited number of licenses with its Patent Local Rule 3-4 production.

 ⁴ See, e.g., RFP No. 30 (seeking "[a]ll Documents and Things concerning the infringement or non-infringement of the Asserted Patents"); RFP No. 35 (seeking "[a]ll Documents and Things relating to each allegedly non-infringing alternative that Your contend can be used as an alternative to each Asserted Patent").

See, e.g., RFP No. 12 (seeking, for each accused product, documents sufficient to show, *inter alia*, units sold, sale price, pricing policies guidelines and documents related to establishing prices, first and last sale dates, cost information, and all revenues, payments, and profits received in connection with the licensing, sale, or use of the products).

⁶ See, e.g., RFP No. 15 (seeking "[b]udgets, forecasts, strategic plans, financial plans, business
plans or management reports related to the research, development, testing, financing, marketing, sale, lease, or license of any Accused Products").

Case 3:19-cv-03371-EMC Document 90-1 Filed 07/24/20 Page 11 of 15

CONTAINS INFORMATION DESIGNATED HIGHLY CONFIDENTIAL – ATTORNEYS' EYES ONLY PURSUANT TO PROTECTIVE ORDER

Market research, surveys, business analytics, projections, and metrics concerning the accused instrumentalities and the accused features, as well as competing products and features, in Dolby's possession, including discovery that Dolby has not yet provided in this case;⁷

Information regarding the research and development, manufacturing, operations, sales, and marketing of the accused features, including discovery that Dolby has not yet provided in this case;⁸

7 Dolby's sales and marketing practices, including discovery that Dolby has not yet provided in this case.⁹

9 Additionally, Intertrust anticipates that discovery from various third parties will inform
10 Intertrust's damages contentions. Intertrust has served subpoenas on several third parties in its
11 pending litigation against three exhibitor defendants for documents that will also be relevant to
12 Intertrust's damages analysis in this litigation and is in the process of negotiating and/or moving to
13 compel those third parties' document productions. Intertrust anticipates serving subpoenas for the
14 same documents in this action once those productions are complete in the exhibitor litigation.

Intertrust also expects to depose witnesses with information relevant to the determination of damages at an appropriate time after Dolby and third parties have produced sufficient additional relevant discovery to inform and prepare for those depositions. Moreover, the absence of certain relevant evidence may also be relevant to Intertrust's damages analysis once it becomes clear whether that evidence exists but has not been produced or does not exist at all. Accordingly, Intertrust may also rely upon the absence of factual evidence established after the end of fact discovery in support of its damages computations.

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⁹ See, e.g., RFP No. 16 (seeking "[p]roduct information sheets, catalogues, price lists, training materials, or marketing materials or brochures related to the Accused Products").

-10- Case No. 3:19-cv-03371-EMC INTERTRUST'S PRELIMINARY DAMAGES DISCLOSURE [PATENT L.R. 3-8]

 ⁷ See, e.g., RFP No. 19 (seeking "[c]ustomer surveys that refer or relate to the Accused
 Products."); RFP No. 20 (seeking "[m]arket studies, reports, forecasts or analyses, including reports on competitors and competing products, market segments, and customer demand for the Accused
 Products.").

See, e.g., RFP No. 15 (seeking "[b]udgets, forecasts, strategic plans, financial plans, business plans or management reports related to the research, development, testing, financing, marketing, sale, lease, or license of any Accused Products").

Case 3:19-cv-03371-EMC Document 90-1 Filed 07/24/20 Page 12 of 15

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1 Dolby's Delay Relating to the Protective Order. Dolby preemptively filed this declaratory judgment action on June 13, 2019. See Dkt. No. 1. Upon the filing of this suit, it was immediately 2 3 governed by the Patent Local Rule 2-2 Model Protective Order. See, e.g., N.D. Cal. P.L.R. 2-2; U.S. Dist. Court for the N. Dist. of Cal., "Model Protective Orders," available at 4 5 https://www.cand.uscourts.gov/forms/model-protective-orders/ (last accessed May 28, 2020). On 6 February 6, 2020, the parties filed their Joint Case Management Conference Statement which, among other things, included sections regarding (i) "[a]ny proposed limitations or modifications of 7 the discovery rules"; and (ii) "[p]roposed modification of the obligations or deadlines set forth in 8 9 the [] Patent Local Rules to ensure that they are suitable for the circumstances of the particular case." 10 Dolby did not contend that the Patent Local Rule 2-2 Model Protective Order was insufficient for 11 the needs of this case. On April 1, 2020, more than nine months after filing this case, Dolby first 12 contended that the Patent Local Rule 2-2 Model Protective Order was insufficient for its needs in 13 this case. Indeed, Dolby only indicated it deemed the Patent Local Rule 2-2 Model Protective Order 14 inadequate two weeks after Intertrust asked Dolby to confirm, among other things, its understanding 15 that, consistent with common practice, the Patent Local Rule 2-2 Model Protective Order did not 16 require the separate disclosure of testifying experts' support staff. Dolby stated that it disputed 17 Intertrust's interpretation of the Patent Local Rule 2-2 Model Protective Order and would "provide 18 shortly a proposed draft [protective order] for entry in the [Dolby] case," which, when Dolby 19 provided it on April 7, 2020, included an express requirement that all experts' non-administrative 20 support staff be separately disclosed.

21 In light of Dolby's statement that it disagreed that disclosure of an expert under the Patent Local Rule 2-2 Model Protective Order (two full weeks after Intertrust sought confirmation of its 22 23 position), Intertrust disclosed the support staff of its previously-disclosed damages expert, David Yurkerwich, to Dolby on April 27, 2020 pursuant to the terms of the Patent Local Rule 2-2 Model 24 Protective Order. Just one day before the end of the two-week period for objections, Dolby 25 requested supplemental disclosures for all of Mr. Yurkerwich's support staff. Specifically, Dolby 26 27 requested the identification of each client, party or entity which engaged Mr. Yurkerwich's support 28 staff members, despite the fact that these engagements were designated "confidential" pursuant to

> -11- Case No. 3:19-cv-03371-EMC INTERTRUST'S PRELIMINARY DAMAGES DISCLOSURE [PATENT L.R. 3-8]

Case 3:19-cv-03371-EMC Document 90-1 Filed 07/24/20 Page 13 of 15

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confidentiality obligations that Ankura Consulting Group (Mr. Yurkerwich's expert consulting firm) 1 had entered into with third parties. Notably, although Dolby demanded this supplemental 2 information for Mr. Yurkerwich's support staff, it had not requested any additional information 3 regarding Mr. Yurkerwich himself, whose disclosure materials listed some of the same confidential 4 5 engagements, calling into question the legitimacy of Dolby's new-found concern regarding prior 6 engagements by Mr. Yurkerwich's support staff. Nevertheless, Intertrust provided any additional 7 information Mr. Yurkerwich's support staff could disclose regarding their other engagements on 8 May 27, 2020. Despite Intertrust's repeated reminders that Dolby's delayed and protracted expert 9 challenges were prejudicing Intertrust's ability to prepare its case, Dolby did not withdraw its 10 objections to Mr. Yurkerwich's entire support staff, leaving them unable to assist in the review of Dolby's "Highly Confidential - Attorneys' Eyes Only" documents (which include most documents 11 12 relevant to Intertrust's damages analysis) for both substance and sufficiency, until a mere two business days before this disclosure was due. Moreover, by delaying the negotiation of the terms 13 14 of a new protective order by more than nine months, Dolby has severely hampered or completely 15 precluded Intertrust's outside and inhouse counsel's ability to review Dolby's relevant document production while terms regarding the prosecution bar and inhouse counsel's access to information 16 17 under the protective order are negotiated and finalized. Intertrust's ability to provide a more detailed 18 damages disclosure is thus also dependent not only on obtaining additional discovery, as described 19 above, from Dolby and third parties but also on being able to review and analyze it under any protective order that is ultimately finalized and entered by the Court. 20

21 22 23 24 25 26 27 28 -12- Case No. 3:19-ev-03371-EMC INTERTRUST'S PRELIMINARY DAMAGES DISCLOSURE [PATENT L.R. 3-8]

	Case 3:19-cv-03371-EMC D	ocument 90-1 Filed 07/24/20 Page 14 of 15		
	CONTAINS INFORMATION DESIGNATED HIGHLY CONFIDENTIAL – ATTORNEYS' EYES ONLY PURSUANT TO PROTECTIVE ORDER			
1	DATED: June 2, 2020	QUINN EMANUEL URQUHART & SULLIVAN, LLP		
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6		Tigran Guledjian Valerie Roddy		
7		Jordan B. Kaericher		
8		Attorneys for Intertrust Technologies Corp.		
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Case 3:19-cv-03371-EMC Doc	ument 90-1 Filed 07/24/20 Page 15 of 15	
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CE	RTIFICATE OF SERVICE	
I hereby certify that on June 2, 2020, I served a true and correct copy of the foregoing		
document upon counsel of record for Dolby.		
Dated: June 2, 2020	/s/ Valerie Roddy Valerie Roddy	
	valene Koddy	
	Case No. 3:19-cv-03371-EMC CERTIFICATE OF SERVICE	
	CONTAINS INFORMATION DE EYES ONLY F CE I hereby certify that on Jun document upon counsel of record fo	