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VIA ELECTRONIC FILING

Honorable Leonard P. Stark
United States District Court Judge
U.S. District Court
844 North King St.
Unit 26, Room 6124
Wilmington, DE 19801-3555

Re: *One-Blue, LLC, et al. v. Imation Corp.*, Case 1:13-cv-00917-LPS

Dear Judge Stark:

On behalf of Defendant Imation Corp., we propose the enclosed outline of how FRAND issues in this case may be handled prior to liability issues.[1] In order to highlight the issues in dispute, this proposed schedule does not repeat the terms of the prior Proposed Scheduling Order as to which the parties had previously agreed. Given the parties' prior success in working out those terms, we expect that, once the basic bifurcation issue is resolved, a proposed scheduling order including all such terms can be submitted promptly. In particular, if Plaintiffs believe that more or less time is appropriate for determination of the issues within either component of this case, Imation expects that such adjustments can be readily agreed upon. Similarly, Imation could stipulate for purposes of the FRAND phase that the patents-in-suit were valid and infringed and standards-essential, so as to avoid injecting unnecessary liability- and technology-related issues into the issue of rate determination.

The principal objection raised by Plaintiffs to Imation's proposal thus far has been the argument that it is not practical to distinguish between liability and FRAND issues, because technology issues are also be relevant to FRAND issues. Of course Plaintiffs are correct that some evidence will relevant to both sets of issues, and such dual-purpose evidence must be available for discovery from the commencement of the case. But such core patent litigation issues as patent validity, infringement by accused Imation products, the claim construction issues relevant to both those determinations, and debates over whether the patents-in-suit are truly standards-essential clearly need not be discovered or resolved during a FRAND determination phase. Those are huge issues to which parties sometimes devote months of discovery, many

[1] The conference transcript reveals that the Court requested the filing of this letter on Friday rather than today. The parties are submitting a Stipulation to Extend Time relating to this submission and to Plaintiffs', a week from today.

days of trial, and hundreds of thousands or even millions of dollars, and they need not be litigated in this case.

The Court, along with Plaintiffs, raised the issue of whether a FRAND determination is truly likely to permit the Court and the parties to avoid continued litigation of liability issues after a FRAND determination. Imation submits that economic factors virtually force resolution after such a determination. A consideration of FRAND issues first will produce one of three results:

(1) The Court will conclude that Plaintiffs have forfeited their right to demand royalties because they have breached their FRAND obligations;

(2) The Court will determine a FRAND rate in line with the rate Imation offered before this litigation began, or a comparable rate that permits Imation to stay in the Blu-ray disc market; or

(3) The Court will accept Plaintiffs' proposed rate or otherwise determine a rate that Imation concludes will require exit from the Blu-ray disc market.

Result (1) would resolve this case independent of any further liability determinations. Result (2) would resolve this case, for reasons described in the next paragraph. Result (3) is only slightly less certain to resolve the case, also for the reasons described in the next paragraph.

These are the economic considerations that virtually compel resolution of the case independent of liability issues on the specific patents-in-suit. For 2012, the last full year for which the information has been generated, Imation's total U.S. net revenues – not net or gross profits, net *revenues* - from Blu-ray sales is well under $2 million. The patents-in-suit are a tiny fraction of all standards-essential patents relating to Blu-ray discs. It has been universally held by Courts resolving FRAND issues that the *total* level of royalties paid on all standards-essential patents must be a FRAND rate, a rate that does not force parties adopting the standards out of the market:

> [T]he RAND obligation is to prevent "royalty stacking." This concern arises because most standards implicate hundreds, if not thousands, of patents, and the cumulative royal payments … can quickly become excessive and discourage adoption of the standard. Therefore, the determination of a RAND royalty must "address the risk of royalty stacking by considering the aggregate royalties that would apply if other [standards-essential patent] holders made royalty demands of the implementer."

Microsoft v. Motorola, No. C10-1823JLR, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013), Order at 17 (citation omitted). Plaintiffs probably have more information than Imation at this point of the total numbers of Blu-ray standards-essential patents, but the number likely exceeds 200. That means that the total royalties attributable to the patents-in-suit likely will not exceed 3% of an overall FRAND rate (that is, 6 divided by 200). Thus, if Plaintiffs were to obtain a judgment in this case, the damage award will likely be based on only a 3% share of some percentage royalty rate applied to revenues being earned at a rate under $2 million per year. Whether it were to win or lose on validity and infringement issues for the six patents-in-suit, Imation cannot re-litigate such issues for nearly 200 additional patents, whatever royalty rate is determined. In short, result (3) *or* a requirement that Imation litigate validity and infringement issues for some 200 patents would be equally effective in forcing Imation out of the Blu-ray disc market. It may make sound business sense for Plaintiffs to apply such economic forces to remove potential competitors from the market, but such an approach is not consistent with FRAND obligations.

Imation respectfully submits that it is some version of that logic that has persuaded all federal courts who have previously determined FRAND rates that resolving those issues before validity, infringement, and claim construction issues is the most efficient means of handling such cases. *See Motorola* and *In re Innovatio*, No. 11C9308 (N.D. Ill. Sept. 27, 2013).

Plaintiffs have already observed that both of those cases were litigated intensely, with discussion of many technical issues, large numbers of expert and lay witnesses, and multiple trial days. But those cases were extraordinary cases, much more complicated on multiple grounds than in this case and involving far greater financial stakes. The *Innovatio* case involved 23 patents and 5 manufacturers. There were over 168 patent claims about which the parties had disputes as to whether they were standards-essential. Order at 3. In addition to the manufacturers, multiple end users were also parties to that complex MDL proceeding. The *Motorola* case involved two completely distinct standards, one involving 16 patents and the other involving 24 patents, thus requiring consideration of 40 patents in total. Order at 54, 105. Those parties litigated the technical issue of whether the patents truly were standards-essential patents, an issue Imation is proposing to avoid in the first phase of proceedings. This case obviously does not involve stakes as substantial as those apparently at issue in those cases, and, equally obviously, not all litigants have the resources to pursue every possible issue with the enthusiasm of Microsoft and Google, the litigants in *Motorola*.

In short, both cases in which FRAND issues have been resolved are instructive for their conclusions as to how FRAND issues may be resolved most efficiently. Neither case, however, establishes the volume or complexity of litigation necessary to accomplish those results, because both cases were extraordinarily heavily litigated.

For those reasons, Imation respectfully submits that its proposal for bifurcating FRAND issues from liability issues is the most efficient means of resolving this case fairly.

Respectfully submitted,

/s/ Robert W. Mallard

Robert W. Mallard (DE No. 4279)

PML:dbr
Enclosure

cc: Peter M. Lancaster
Kenneth E. Levitt
Michael A. Lindsay
Karen E. Keller
Jeffrey T. Castellano
Frank A. Decosta, III
Joyce Craig

UNITED STATES DISTRICT COURT
DISTRICT OF DELAWARE

ONE-BLUE, LLC, KONINKLIJKE PHILIPS N.V., PANASONIC CORPORATION, PIONEER CORPORATION, and SONY CORPORATION, Plaintiffs, v. IMATION CORP., Defendant.	C.A. No. 1:13-cv-00917 (LPS) **DEFENDANT'S PROPOSED BIFURCATION OF DISCOVERY AND TRIAL**

The Court having determined after written submissions by the parties and telephonic presentation of arguments that this patent case can be most efficiently resolved by first resolving issues relating to a determination of a fair, reasonable, and non-discriminatory royalty ("FRAND") rate, discovery, dispositive motion practice, and trial shall be bifurcated into separate FRAND Issues and Liability Issues, as more specifically described in this Order.

IT IS ORDERED that:

1. FRAND Issues shall include the following topics:

    a. License terms previously granted by Plaintiffs, including grant-back or rebate terms;

    b. Patent pool membership and criteria, and associated commitments made in connection with creation of standards for Blu-ray discs;

    c. Prior determinations by Plaintiffs as to essentiality of patents-in-suit;

    d. Total numbers of Blu-ray essential patents;

    e. Information from the Blu-ray Disc Association relating to FRAND rates for

the patents-in-suit;

f. Other facts relating to determination of a reasonable royalty or licensing rate for the patents-in-suit, including but not limited to such rates for CDs or DVDs; and

g. A tutorial on Blu-ray disc technology, if the parties or the Court conclude that such a submission would be useful.

2. Liability Issues shall include all remaining topics, including:

a. Claim construction of the patents-in-suit;

b. Whether the patents-in-suit are valid and enforceable;

c. Whether Defendant infringes the patents-in-suit; and

d. Specific products offered or sold by Defendants to which a FRAND licensing rate applies.

3. Discovery Cut Off Dates. All fact discovery relating to FRAND issues shall be completed on or before June 30, 2014, and expert discovery relating to FRAND issues shall be completed on or before July 31, 2014. Liability Fact discovery relevant to the remaining issues in this litigation, including validity and infringement, shall be completed on or before January 31, 2015; and expert discovery shall be completed on or before February 27, 2015.

4. Other issues relating to the conduct of discovery shall be as determined by the Court pursuant to the parties' previously submitted Proposed Scheduling Order.

SO ORDERED this ____ day of _____, 2013.

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Honorable Leonard P. Stark
United States District Court Judge