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BY CM/ECF & HAND DELIVERY
The Honorable Leonard P. Stark
United States District Court Judge
U.S. District Court
844 North King Street
Unit 26, Room 6124
Wilmington, DE 19801-3555

Re: ***One-Blue, LLC et al. v. Imation Corp.,*** **C.A. No. 13-917-LPS - Bifurcation of FRAND Issues**

Dear Judge Stark:

I write on behalf of Plaintiffs to address Defendant Imation's letter and proposed order of November 18, 2013 regarding early FRAND discovery in the above-captioned matter. D.I. 24. Because Imation has not shown that an early decision on its defense will avoid prejudice, conserve judicial resources, and enhance juror comprehension, the Court should decline to bifurcate FRAND issues. In addition, the schedule that Imation proposes is insufficient to allow the Court to decide the FRAND issues.

A FRAND Royalty Rate Determination Is Needed Before the Question of Breach Can Be Reached

By way of background, in the counterclaims set forth in its Answer, Imation seeks:

(a) a declaration that Plaintiffs' promises to BDA and their respective members and affiliates constitute contractual obligations that are binding on Plaintiffs and enforceable by Imation;

(b) a declaration that Plaintiffs have breached these obligations by demanding excessive and discriminatory royalties from Imation and refusing to negotiate or provide information supporting its demands before instituting this action, thus barring them from pursuing their claims in this action;

(c) alternatively, a declaration of what constitutes a FRAND royalty rate consistent with Plaintiffs' promises for Blu-ray patents identified as essential by Plaintiffs;

(d) an injunction barring further demands to Imation relating to standards-essential Blu-ray patents; and

> (e) a judicial determination of and compensation to Imation for Plaintiffs' breach of their FRAND obligations.

D.I. 11 at 10.

By requesting a determination of a FRAND rate as an alternative to a declaration of breach of contract, Imation suggests that this Court can decide whether a FRAND obligation has been breached without first determining what an appropriate FRAND royalty rate is. That is incorrect. In *Microsoft v. Motorola*, No. C10-1823JLR, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013), the case on which Imation relied in support of its request for an early FRAND determination, the court determined the FRAND rate *before* the jury considered the breach of contract question. Indeed, the *Microsoft* court observed, "Without a clear understanding of what RAND means, it would be difficult or impossible to figure out if Motorola breached its obligation to license its patents on RAND terms." *Id*. at *1. Accordingly, the court held a bench trial to determine both "a RAND licensing rate and a RAND royalty range for Motorola's patents," *id*., before submitting the breach of contract issue to a jury.

Determination of a FRAND Royalty Rate Is Not Appropriate for Summary Judgment

Imation proposed a schedule that seeks phased discovery and determination of a FRAND royalty rate on summary judgment, not in a separate trial. D.I. 22, 24 at 6. As other courts have recognized, however, FRAND royalty rate determination is not appropriate for summary judgment. In *Microsoft* and *In re Innovatio*, No. 11C9308 2013 WL 5593609 (N.D. Ill. Sept. 27, 2013), the courts applied a modified version of the *Georgia-Pacific* factors to determine a FRAND rate. As the *Microsoft* court explained, "the RAND royalty rate is a heavily disputed, fact-sensitive issue that much be resolved by a finder of fact." 2013 WL 2111217 at *3. The Federal Circuit agrees that a determination of damages is highly fact dependent. *See, e.g., Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359, 1366-1367 (Fed. Cir. 2008) ("The correct measure of damages is a highly case-specific and fact-specific analysis"); *see also Hebert v. Lisle Corp*., 99 F.3d 1109, 1119 (Fed. Cir. 1996) ("The adequacy of the damages measure depends on the circumstances of each case.").

Because there are bound to be genuine issues of material fact, summary judgment will not be an appropriate way for the Court to decide the FRAND issues. Thus, Imation's proposed schedule is inadequate to address the FRAND issues and, if adopted, will likely require later modification. Because a separate trial will be needed to address FRAND issues, a decision on the merits of Plaintiffs' claims may be delayed, causing further prejudice to Plaintiffs.

Imation's List of FRAND Issues Is Insufficient to Allow Decision on Imation's FRAND Claim

Imation's list of FRAND issues is incomplete and insufficient to allow the Court to decide the FRAND-related issues raised by Imation's breach of contract claim. The *Microsoft* court's FRAND rate analysis proceeded in three steps: (1) determine the importance of the patent portfolio to the standard; (2) determine the importance of the patent portfolio as a whole to the alleged infringer's accused products; and (3) examine other licenses for comparable patents to determine a FRAND rate to license the patent portfolio. *Innovatio*, 2013 WL 5593609 at *6 (citing *Microsoft*, 2013 WL 2111217 at *20). The *Innovatio* court relied on the framework from *Microsoft* and noted that it applies to "any court attempting to determine a FRAND licensing rate for a given patent portfolio." *Id*. Imation has not proposed that this Court employ a different analytical framework.

Yet, Imation's proposed list of FRAND issues does not take into account the extensive technical discovery needed to determine a FRAND royalty rate. For example, it does not account for discovery related to the technical aspects of the Blu-ray Disc standard, the One-Blue patent portfolio, Imation's accused products, and alternative technologies in the marketplace at the time the Blu-ray Disc standard was adopted. Such discovery is needed because, in setting a FRAND rate, this Court should determine the contribution of each patent in the portfolio to the technical capabilities of the standard, as well as the contribution of those technological capabilities to Imation's products. *Microsoft*, 2013 WL 2111217 at *18 (*Georgia-Pacific* Factors 6 and 8), *19 (Factors 10, 11, 13), *20 (¶ 112). The Court should also consider the utility and advantages of each patent over older technology that had been used to obtain similar results. *Id*. at *19 (Factor 9). Such analysis looks at alternatives that could have been written into the standard instead of the patented technology. *Id*. Each of these issues will require extensive fact and expert discovery that, as discussed below, overlaps significantly with the fact and expert discovery needed to determine infringement, validity, and damages. Yet, Imation's discovery proposal ignores such discovery.

Plaintiffs also disagree with the three main points Imation made in its cover letter: (1) core patent litigation issues need not be discovered or resolved during the FRAND determination phase; (2) economic factors will "virtually force" resolution of the case after FRAND determination; and (3) *Microsoft* and *Innovatio* should not serve as a benchmark for the effort involved in determining a FRAND rate because they were "extraordinary," "more complicated," and involved "far greater financial stakes." D.I. 24.

<u>To Conserve Judicial Resources, Imation Would Need to Stipulate That the Asserted Patents Are Valid, Enforceable and Infringed, and Not Just for the FRAND Phase</u>

First, Imation's theory that core patent litigation issues need not be discovered or resolved in the first phase rings hollow at least because Imation is willing to stipulate *only for purposes of the FRAND phase* that the asserted patents are valid, infringed, and

standards-essential. D.I. 24 at 1. For bifurcation to have the savings that Imation seeks, Imation would have to stipulate that the asserted patents are valid, enforceable and infringed, not just for the FRAND phase, but as a settled issue in the case. This complete stipulation would close the door to arguments during the FRAND phase that Imation's products do not use the asserted patents and it would eliminate challenges to the patents' enforceability—both are substantial issues to litigate. And after the FRAND phase does not go Imation's way, this complete stipulation would also eliminate Imation's ability to decide that it wants to challenge the patents on all available grounds, dragging the parties and the Court through the very exercise it is supposedly trading for bifurcation. A complete stipulation is the only way that the overlap or duplication of discovery addressed below would be avoided and the "results" that Imation predicts would actually drive outcomes that would conclude the litigation and not simply take us to a stage where Imation can decide among an array of choices that suits it without any benefit to Plaintiffs.

Plaintiffs note that Imation did not indicate it is willing to stipulate that the patents are enforceable. And, even though Imation stated that it would stipulate to the essentiality of the patents-in-suit for the FRAND phase, it included "[p]rior determinations by Plaintiffs as to essentiality of patents-in-suit" in its list of FRAND issues. *Id*. at 5. Thus, Imation's proposed stipulation would be worthless because there would still be discovery to address the disputed issue of essentiality.

Should Imation contest essentiality after the FRAND phase, which it is free to do, the Court may have to redo its royalty determination. As the *Innovatio* court noted, in the infringement context, "the licensing rate should be increased for patents of doubtful essentiality, on the ground that the infringement damages for such a patent would not be limited to a RAND rate, and that the patent owner could therefore seek typical patent damages for that patent." *Innovatio*, 2013 WL 5593609 at *6. Imation is also free to contest infringement and validity once the FRAND phase has concluded. Because these issues will still need to be decided later, Imation has not shown that deciding FRAND issues early will conserve judicial resources. To the contrary, it will likely result in duplication of effort.

As touched on above, there is significant overlap between the discovery required for the Court to make a FRAND determination and to resolve the patent issues. The FRAND proceedings in *Innovatio* make this clear. In *Innovatio*, the parties first presented the court with a basic technical background of the relevant standard. *Id*. at *18. Such background information will also be needed for a jury in the patent phase. The parties next presented testimony about "the utility and advantages of the patented property over alternatives that could have been written into the standard instead of the patented technology in the period before the standard was adopted." *Id*. at *19 (citing *Microsoft*, 2013 WL 2111217 at *19 (*Georgia Pacific* Factor 9)). Such inquiry at least overlaps with

a determination of what constitutes prior art for the purposes of invalidity analysis. *Id*. at *20. The *Innovatio* court then evaluated the importance of each patent family in Innovatio's portfolio to the standard. This required a claim-by-claim analysis of the sort required for infringement analysis, *id*. at *21 n.15, *24 n.21, *27 n.25, a determination of what is novel in each of the patent families, *id*. at *22 n.17, the extent the patented inventions were used in the industry at the time the standard was adopted, *id*. at *22-*23, and an exploration of alternatives in the art, *id*. at *23-*24, which overlaps with invalidity analysis. Next, the court looked at comparable license agreements. *Id*. at *30-*36. Finding none, the court relied on testimony of damages experts to select a methodology for computing a royalty rate, *id*. at *37-*39, and then computed a RAND rate based on an economic analysis of the relevant market, *id*. at *39-*44. The same type of expert damages testimony will be needed to calculate damages in the patent liability phase of this case, especially if Imation contests the essentiality of the patents in the later phase.

Imation's Purported "Results" Are Not Commitments That Provide Benefit to the Court or Plaintiffs

Second, in an attempt to give the Court comfort that the case will not proceed after the FRAND phase, Imation claims that it faces "economic considerations that virtually compel resolution of the case independent of liability issues on the specific patents-in-suit." D.I. 24 at 2. The Court should give absolutely no weight to Imation's assertion regarding its financial position. Its claims are not supported by evidence, nor have Plaintiffs had an opportunity to explore and challenge Imation's claims. Moreover, if Imation's claims of financial hardship are true and it really will not litigate validity, enforceability, and infringement after a FRAND phase, giving up its right to do so would sacrifice little and provide the parties and the Court with the comfort that bifurcation of the FRAND issues would finally dispose of the case. Imation's assertion of certainty that the litigation will end after the FRAND phase because it will voluntarily decide a course of action that will end it should not satisfy the Court; it certainly does not satisfy the Plaintiffs.

Moreover, without a stipulation that the patents are valid, enforceable, and infringed, the three possible "results" that provide the foundation of Imation's argument in support of bifurcation (D.I. 24 at 2) are not definite outcomes, but instead they are really only options to be exercised by Imation if it so chooses. As such, they are not a guarantee that any effort in this case will be avoided. Imation's request is potentially a one-sided accommodation and provides little or no reliable benefit to the Court or the plaintiffs. This falls substantially short of meeting Imation's burden of demonstrating that bifurcation is warranted.

Imation's assertion that economic factors will "virtually force" resolution of the case should also be given no weight by the Court at least because Imation's statement of the possible outcomes of the FRAND analysis is incorrect. Imation again asserts that the

Court can conclude that Plaintiffs have breached their FRAND obligations without first determining a FRAND rate. D.I. 24 at 2. As explained above, in *Microsoft*, the court found it necessary to determine a FRAND rate so that the finder of fact could then use the rate to decide whether a breach of a FRAND obligation occurred.

Also, in Imation's third alternative, should Imation conclude it needs to "exit from the Blu-ray disc market," Imation may still be liable for damages for past infringement beginning at the latest in June 2012, when it received actual notice of the patents. Thus, litigation of the patent issues would still be required. Further, Imation's discussion of any need to litigate another 200 patents is simply misplaced. *Id*. at 2-3. Under the analytical framework set forth in *Microsoft* and *Innovatio*, the Court would determine a FRAND rate for the One-Blue patent pool as a whole, not just for the six asserted patents.

This Case Is No Less Important or Complicated Than the *Microsoft* and *Innovatio* Cases

Third, Imation's attempts to distinguish the *Microsoft* and *Innovatio* cases as "extraordinary," "more complicated," and involving "far greater financial stakes" than this case are not persuasive. Plaintiffs certainly do not consider this case any less important than the *Microsoft* and *Innovatio* cases. Nor do Plaintiffs agree that this case is less complicated—this case involves a pool of patents owned by various companies, not just the patent portfolio of a given company, so additional analysis will be required. Regardless, the amount in controversy, number of standards, and number of patents do not change the analytical framework that the Court employs to determine a FRAND rate. Indeed, Imation has repeatedly relied on the *Microsoft* and *Innovatio* cases in asking this Court to bifurcate FRAND issues for early discovery. Imation cannot have it both ways.

For these reasons, Plaintiffs maintain their objection to bifurcating FRAND issues for early discovery and decision. Plaintiffs respectfully request that the Court enter the schedule that Plaintiffs proposed on October 23, 2013. D.I. 22.

Respectfully,

/s/ Jeffrey T. Castellano

Jeffrey T. Castellano (No. 4837)

cc: Clerk of the Court (by hand delivery)
Counsel of record (by e-mail)