IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

FUJITSU LIMITED, Plaintiff, v. TELLABS OPERATIONS, INC., TELLABS INC, AND TELLABS NORTH AMERICA, INC., Defendants.	Civil Action No. 1:09-CV-4530 Civil Action No. 1:12-CV-3229 JUDGE HOLDERMAN MAGISTRATE JUDGE COLE JURY TRIAL DEMANDED

FUJITSU LIMITED'S REPLY IN SUPPORT OF ITS MOTIONS *IN LIMINE* #4

I. Introduction

In its Motion *in Limine* No. 4 Fujitsu Limited ("Fujitsu") argued that Illinois does not recognize an action for a willful breach of contract. While acknowledging that the RAND dispute between the parties is, at its core, a contract issue, Tellabs fails to respond to Fujitsu's argument that because a willful breach of contract is not supported by Illinois law, testimony related to Fujitsu's alleged willfulness must be excluded. Rather than identify authority supporting a willful breach of contract, Tellabs frames the question as whether Fujitsu's alleged breach of conduct warrants equitable relief. Tellabs' argument fails: contract damages are the available remedy for a breach of contract, and equitable relief is only (and rarely) available where contract damages are insufficient. Further, the availability of equitable relief depends upon the adequacy of contract damages, not the severity or intent of allegedly willful acts.

II. TELLABS FAILS TO IDENTIFY LEGAL AUTHORITY IN SUPPORT OF ITS CLAIM FOR A WILLFUL BREACH OF CONTRACT.

Tellabs opted not to respond to the arguments in Fujitsu's Motion *in Limine* No. 4 that a willful breach of contract is not recognized under Illinois law and therefore, as a matter of law, should not be an element in the July 2014 trial. Fujitsu's identification of the issues that may define, in the broadest sense, the scope of the July trial in other motions was done for the purpose of demonstrating to the Court why certain evidence is irrelevant no matter how broad the trial is allowed to become. The fact remains that a willful breach of contract is not a recognized basis for recovery.

III. EQUITABLE RELIEF IS NOT AVAILABLE WHERE THERE ARE ADEQUATE CONTRACT DAMAGES.

Tellabs frames the question as whether Fujitsu's breach of contract warrants equitable relief. However, a party cannot seek equitable relief when it has an adequate remedy at law: the

availability of equitable relief is not related to the intent of a party. *See, e.g. Fulton-Carroll Ctr., Inc. v. Indus. Council of Nw. Chicago, Inc.*, 256 Ill. App. 3d 821, 824, 628 N.E.2d 1121, 1124 (4th Div. 1993) (striking a prayer for injunctive relief where contract damages were available).

Tellabs' affirmative defense is essentially a request that the Court enforce a RAND obligation and limit Fujitsu's damages for infringement to a RAND royalty rate. A RAND obligation is a contractual commitment: the defendant, as the accused infringer, bears the burden of demonstrating the existence of a RAND obligation that limits the defendant's damages if it is found to infringe. *In Re Innovatio IP Ventures, LLC Patent Litigation*, 956 F. Supp. 2d 925, 936 (N.D. Ill. 2013).

Tellabs' argument that Fujitsu's conduct may warrant equitable relief rather than contract damages is unsupported. A RAND commitment is a promise to offer to license a patent on a RAND rate. *In Re Innovatio IP Ventures, LLC Patent Litigation*, 956 F. Supp. 2d 925, 936 (N.D. Ill. 2013). As this Court held in *Innovatio*:

> Of course, even though a RAND obligation does not act as an express license, it may nonetheless have some effect on the remedies available to a patent holder in an infringement action by providing defenses based on implied license, patent misuse, or equitable estoppels. The parties have not cited, however, and the court has not found, any cases suggesting that the existence of a RAND commitment provides a ***complete*** defense against an infringement lawsuit. Instead, most cases merely limit a patent holder's remedy to collecting a RAND royalty, thus precluding injunctive relief.

In Re Innovatio IP Ventures, LLC Patent Litigation, 921 F. Supp. 2d 903, 915-16 (N.D. Ill. 2013).

A measure of contract damages is what an injured party anticipated gaining from performance by both sides to the contract. Where the contract is for the patent holder to license the patent on RAND terms, the potential gain is the right to pay only a RAND rate and receive a

license to the patent. Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Cal. L. Rev. 1889, 1916 (2002).

As noted by this Court, commentators have argued that a RAND commitment does not constitute waiver or otherwise preclude a patentee from enforcing the patent: it is only the terms of the enforcement which are impacted by a RAND commitment. *Innovatio IP Ventures*, 921 F. Supp. 2d at p. 916 n.10; *see also* Doug Lichtman, *Understanding the Rand Commitment*, 47 Hous. L. Rev. 1023, 1043 (2010) (suggesting that estoppels under a RAND commitment would limit the patent holder's damages to a RAND licensing rate); Suzanne Michel, *Bargaining for Rand Royalties in the Shadow of Patent Remedies Law*, 77 Antitrust L.J. 889, 893 (2011) (noting that if the patent-holder and accused infringer do not agree on a RAND rate, the accused infringer can ask that the court enforce the RAND contract while the patent-holder can claim infringement and seek damages, including injunctive relief).

Illinois does not recognize a cause of action for willful breach of contract. Enforcement of a RAND royalty rate is the appropriate contract remedy and, if a RAND obligation exists, provides Tellabs the full benefit of the contract it alleges exists. The availability of an equitable remedy is not related to Fujitsu's conduct, and is only available where the contract remedy would be inadequate. The RAND obligation, if it exists, should be enforced as the contract right that it is.

Dated: June 30, 2014

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on June 30, 2014, I provided service to all counsel by causing a true and correct copy of **FUJITSU LIMITED'S REPLY IN SUPPORT OF ITS MOTION *IN LIMINE* #4** to be served on all counsel of record by electronic mail and/or as agreed to by the parties.

Dated: June 30, 2014

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