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15 UNITED STATES DISTRICT COURT  
16 NORTHERN DISTRICT OF CALIFORNIA  
17 SAN JOSE DIVISION

18 REALTEK SEMICONDUCTOR  
19 CORPORATION,

20 Plaintiff,

21 vs.

22 LSI CORPORATION  
23 and AGERE SYSTEMS LLC

24 Defendants.

25 AND RELATED COUNTERCLAIMS.

Case No. 5:12-cv-03451 RMW

**PLAINTIFF REALTEK  
SEMICONDUCTOR CORPORATION'S  
TRIAL BRIEF**

Trial Date: November 4, 2013  
Judge: Honorable Ronald M. Whyte  
Location: Courtroom 4, 6<sup>th</sup> Floor

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1 **I. INTRODUCTION**

2 This Court has already determined that Defendants are liable for breach of contract.  
 3 Specifically, despite promising to license their allegedly standard essential patents, including the  
 4 '958 and '867 patents, on reasonable and non-discriminatory ("RAND") terms, Defendants instead  
 5 initiated an action for infringement of the '958 and '867 patents in the International Trade  
 6 Commission ("ITC") seeking an exclusion order against Realtek. By initiating the ITC proceeding  
 7 without first making *any* offer to license the '958 and '867 patents, this Court found that Defendants'  
 8 breached their RAND obligations to the IEEE and Realtek.

9 Since obtaining summary judgment of Defendants' breach, the ITC ruled that Realtek does  
 10 *not* infringe the '958 and '867 patents. Assuming this ruling is upheld, Realtek would have no  
 11 obligation whatsoever to license the '958 and '867 patents.

12 At trial, two issues remain. First, the jury will determine the amount of damages to which  
 13 Realtek is entitled as a result of Defendants' breach of contract. Realtek will introduce evidence of  
 14 such damages in the amount of attorneys' fees and costs it was forced to incur defending itself in the  
 15 ITC action as a result of Defendants' established breach. Notably, Defendants' own expert has  
 16 already conceded such fees and costs are a reasonable measure of Realtek's damages.

17 Second, the proper RAND royalty rate for the '958 and '867 patents will be determined. To  
 18 this end, Realtek will prove that the '958 and '867 patents were of little or no value to the 802.11  
 19 standard and Realtek's products. As such, Realtek will show that the proper RAND royalty rate for  
 20 those two patents is *de minimis*.

21 Finally, Realtek is entitled to a permanent injunction barring Defendants from enforcing any  
 22 exclusion order or injunction they might obtain from the ITC proceeding until this Court makes a  
 23 determination of Defendants' RAND obligations, and Defendants offer a RAND license to Realtek  
 24 based on the Court's determination.

25 **II. BACKGROUND**

26 **A. The Parties**

27 Realtek is a Taiwanese fabless integrated circuit design house that was established in 1987.  
 28 At present, Realtek employs over 2,000 people, of which more than 1,500 have research and

1 development expertise. One of Realtek's product lines is integrated circuits for wireless local area  
2 networks ("WLAN").

3 Defendant Agere was incorporated in 2000 as a result of a reorganization of Lucent  
4 Technologies, Inc. ("Lucent"), in which Lucent spun off its optoelectronic components and  
5 microelectronic businesses into Agere. Agere obtained the '956 and '867 patents at issue in this case  
6 from Lucent. Defendant LSI then acquired Agere in 2007, and Agere is now a wholly-owned  
7 subsidiary of LSI.

### 8 **B. Standards Setting Organizations**

9 Standards-setting organizations ("SSOs") have come to play an increasingly important role in  
10 our economy. Interoperability standards have helped to move many important innovations into the  
11 marketplace, including the complex communication networks and sophisticated mobile computing  
12 devices that are hallmarks of the modern age. These standards, whether mechanical, electrical,  
13 computer-related or communications-related, have incorporated important technical advances that  
14 are fundamental to the interoperability of many of the products on which consumers have come to  
15 rely.

16 However, standard setting does not come without some risks. When a standard incorporates  
17 patented technology, and the standard becomes established, it may be prohibitively difficult and  
18 expensive to switch to a different technology. As a result, the owner of that patented technology  
19 may gain market power and potentially take advantage of it by engaging in patent "hold-up," which  
20 entails asserting the patent to exclude a competitor from a market or obtain a higher price for its use  
21 than would have been possible before the standard was set. To reduce such opportunistic conduct,  
22 some SSOs have relied on licensing commitments by patent holders, including commitments to  
23 license the patents they own that are essential to the standard on RAND terms.

### 24 **C. The IEEE 802.11 Standards**

#### 25 **1. IEEE 802.11 standards and patent policy**

26 This case involves IEEE standards for wireless local area networks known as "WLAN," "Wi-  
27 Fi" or "802.11." The IEEE began standardizing the 802.11 wireless networking standard beginning  
28 in the early 1990s. The IEEE-SA is the standards-setting arm of the IEEE. The IEEE-SA relies on

1 licensing commitments from the owners of patents that relate to its technical standards, including the  
 2 802.11 standard. The IEEE-SA has specific policies that apply where a participant in the standards-  
 3 setting efforts owns a patent or patent application deemed “essential” to the standard.

4 At all relevant times during the drafting of the 802.11 protocols, the IEEE-SA maintained a  
 5 policy that required Letters of Assurance from patents holders which owned “essential” patents or  
 6 patent applications. Specifically, the IEEE-SA Standard Board Bylaws require that a Letter of  
 7 Assurance shall be either:

- 8 a. A general disclaimer to the effect that the Submitter without conditions will  
 9 not enforce any present or future Essential Patent Claims against any person  
 10 or entity making, using, selling, offering to sell, importing, distributing, or  
 11 implementing a compliant implementation of the standard; or  
 12 b. statement that a license for a compliant implementation of the standard will be  
 13 made available to an unrestricted number of applicants on a worldwide basis  
 14 without compensation or under reasonable rates, with reasonable terms and  
 15 conditions that are demonstrably free of any unfair discrimination.

16 According the IEEE’s policies, Letters of Assurance, once provided, are irrevocable and shall  
 17 be in force at least until the standard’s withdrawal.

## 18 **2. Development of 802.11 standard**

19 Development of the 802.11 standard by the IEEE began in the early 1990s and the original  
 20 802.11 standard was first ratified in 1997. Development of the 802.11 standard and its various  
 21 versions has been accomplished by task groups working under the 802.11 Working Group, a group  
 22 of IEEE members responsible for developing the 802.11 standards.

23 A task group’s process for forming a draft specification may include, among other things,  
 24 setting requirements and soliciting proposals, followed by presenting, debating and analyzing and  
 25 voting on proposals. A proposal requires seventy-five percent (75%) of the votes cast in order to be  
 26 selected as the draft specification.<sup>1</sup> The IEEE standards process also allows members to consider  
 27 not just technical, but also market-based and other non-technical factors in the process of developing  
 28 a standard.

The 802.11 standard is amended from time to time. IEEE 802.11a, IEEE 802.11b, IEEE

<sup>1</sup> IEEE-SA Standards Board Bylaws ¶ 5.1 [Dkt. 67-4].

1 802.11e, IEEE 802.11g, and IEEE 802.11n refer to amendments to the IEEE 802.11 standard. The  
2 most recent commercial version of 802.11 is 802.11n, but companies have already been selling  
3 products implementing the new 802.11ac standard, which should become widespread within the next  
4 year or two.

5 The various 802.11 specifications incorporate hundreds of features, each of which comprises  
6 hundreds and possibly thousands of technologies. Preparation of the 802.11 standards occurred over  
7 the course of many years, including typically a number of years between amendments, during which  
8 the 802.11 Task Group would meet and discuss these myriad technologies.

9 **a. 802.11b**

10 802.11a and 802.11b standardization occurred from 1997 to 1999. The IEEE had many  
11 technology alternatives when standardizing 802.11a and 802.11b. For example, the IEEE 802.11b  
12 standardization activity had proposals from at least Alantro Communications, Harris, Micrilor,  
13 Lucent and Raytheon. The IEEE 802.11a standardization activity had, for instance, competing  
14 proposals from at least Lucent, Breezecom and RadioLAN.

15 For its modulation technology, the IEEE 802.11b standard ultimately included a technology  
16 called complementary code keying (“CCK”). LSI/Agere assert that CCK, as used in the 802.11  
17 standard, incorporates the alleged invention of the ‘958 patent. However, during standardization, the  
18 IEEE 802.11b Task Group (“Task Group B”) considered multiple technology alternatives to CCK.  
19 Indeed, five different alternate technologies were proposed before CCK. First, Alantro  
20 Communications, which was acquired by Texas Instruments, proposed an alternative known as  
21 Packet Binary Convolutional Coding (“PBCC”). This technique was based on convolutional coding,  
22 which was also being used in products such as cable modems and cellular phones at the time.  
23 Notably, the 802.11b standard includes PBCC, an alternative technology to CCK, as a high  
24 performance option. Second, Harris, an early leader in the development of wireless LAN  
25 technology, proposed a M-ary Bi-Orthogonal Keying (“MBOK”) for 802.11b. Third, Lucent  
26 proposed a technology known as Barker Code Position Modulation (“BCPM”) for which they  
27 submitted a letter of assurance. Fourth, Raytheon proposed a technology known as Offset  
28 Quadrature Bi-Orthogonal Keying. And, fifth, Micrilor proposed a technology known as 16-ary

1 DBOK.<sup>2</sup>

2 None of the original 802.11b modulation scheme proposals, including the Lucent proposal,  
 3 was able to reach the 75% voting criterion at the May 1998 meeting. At the July 1998 meeting,  
 4 Harris and Lucent formed a compromise proposal based on CCK modulation. Because Task Group  
 5 B had so many technologies to choose from, it had to compromise to reach the 75% voting threshold  
 6 required to approve the amendment. In fact, Lucent and Harris themselves characterized their  
 7 proposal as a compromise. CCK was approved as a modulation mode for 802.11b not because it  
 8 was the superior technology, but because of other factors, including practical considerations  
 9 regarding a faster time to market for the CCK solution as opposed to other proposed solutions.  
 10 Indeed, the Task Group also adopted PBCC as a higher performance optional mode.

11 **b. 802.11g**

12 After the IEEE 802.11b specification was ratified, work began on IEEE 802.11g. 802.11g  
 13 standardization occurred from 1999 to 2003. The objective of IEEE 802.11g was to extend the IEEE  
 14 802.11 standard to even higher data rates. Task Group G achieved this by moving away from single  
 15 tone modulations like CCK and toward orthogonal frequency division multiplexing (OFDM). The  
 16 802.11g task group also considered multiple alternative modulation technologies. The 802.11g  
 17 standardization had, for example, proposals from at least Texas Instruments, Supergold  
 18 Communications, 3COM and Intersil. The 802.11g Task Group considered both single-tone and  
 19 OFDM modulation technologies, but neither approach could receive the required 75% for  
 20 ratification. The compromise adopted the OFDM modulations from the IEEE 802.11a standard for  
 21 use in the 2.4 GHz ISM band. This compromise was a move away from CCK, which remained only  
 22 as a vestige by virtue of the fact that 802.11g was backwards-compatible with 802.11b.

23 **c. 802.11n**

24 IEEE 802.11n standardization occurred from 2003 to 2009. One goal of 802.11n was to  
 25 combine and improve upon various features from the previous standards, including its signal

26 \_\_\_\_\_  
 27 <sup>2</sup> QAM modulation with binary convolutional codes was another alternative technology to CCK readily available to  
 28 Task Group B. In fact, this type of modulation was incorporated into the 802.11a specification developed  
 contemporaneously with that of IEEE 802.11b.

1 modulation features.

2 The 802.11n amendment was formally ratified in September 2009. Unlike previous  
3 amendments, which mainly added a new physical protocol layer, 802.11n incorporated numerous  
4 enhancements to increase throughput and range while creating more robust connections. 802.11n  
5 supports multiple antennas or MIMO to enhance communication by leveraging multipath, a  
6 phenomenon in wireless transmissions in which the signal reflects from walls and objects, such as  
7 furniture. While previous amendments operated on 20 MHz channels, the 802.11n amendment also  
8 defines the use of 40 MHz channels that are capable of encoding and transmitting more data than the  
9 20 MHz channels. Another enhancement is the Short Guard Interval (“SGI”) which also improves  
10 data rate by shortening the gap between symbols. The 802.11n standard also supports channel  
11 coding, which improves the reliability of transmissions.

12 The 802.11n Task Group had multiple modulation technologies to select from to achieve its  
13 objective of higher throughput. IEEE 802.11n considered proposals such as the World-Wide  
14 Spectrum Efficiency (“WWISE”) proposal, which advocated the use of multiple input multiple  
15 output (“MIMO”) technology, as well as the TGn Sync proposal, which advocated use of wider  
16 spacing. As frequently occurs in IEEE 802.11 standardization, no proposal could reach the super  
17 majority voting level of 75% for standard adoption. Thus, compromises had to be made.  
18 Ultimately, these two proposals merged to form the basis of the 802.11n specification.

19 The 802.11n protocol specifies OFDM modulation, can operate in either the 2.4 or 5 GHz  
20 bands, provides data rates of up to 600 Mbps, and is also backwards compatible with 802.11a, b and  
21 g. As with the 802.11g standard, the modulation functionality in 802.11n was a further move away  
22 from the lower performing CCK, which remained as part of the standard only due to backwards  
23 compatibility with 802.11b.

#### 24 **D. Defendants’ Patents**

##### 25 **1. The ‘958 patent**

26 The ‘958 patent relates in general to code selection in a digital modulation scheme.  
27 Defendants assert the claims of the ‘958 patent against the CCK modulation technique of the IEEE  
28 802.11b specification. The ‘958 patent issued on September 17, 2002, from an application filed

1 April 22, 1998. The '958 patent purports to address the problem of increasing data rate in a digital  
 2 data modulation system. This was not a new problem, and a number of solutions to this problem  
 3 already existed in the art. Before the filing date of the '958 patent, multiple parties had already  
 4 submitted proposals to the 802.11b Task Group for alternate modulation technologies. As discussed  
 5 below, there existed at the time multiple substitutes to the approach claimed in the '958 patent.

6 **2. The '867 patent**

7 The '867 patent generally relates to power saving technology. The '867 patent discloses an  
 8 apparatus that has "improved synchronization between the transmitters and the receivers" in a  
 9 network. In particular, this system allows for the "synchronization between the signals transmitted  
 10 from one station and the activation of the power-consumption state of the receiver station." This  
 11 means that a receiver in the system may switch its power consumption mode synchronously with  
 12 signals from a transmitter station, so that the receiver "wakes up" in time to receive a scheduled  
 13 message intended for that receiver. As with the '958 patent, there existed multiple substitutes to the  
 14 '867 patented approach, and in any event, the accused functionality in the standard is optional.

15 **E. Many Patents Cover The 802.11 Standard**

16 As Judge Robart found in *Microsoft v. Motorola*, there are numerous, possibly thousands, of  
 17 essential patents to the 802.11 standard. Ninety-two entities have submitted letters of assurance for  
 18 the various 802.11 amendments. Companies may also provide "blanket" LOAs to the IEEE, which  
 19 do not identify specific patents. Many large companies have submitted such blanket LOAs. A  
 20 conservative assumption suggests at least 203 declared standard essential patents and 56 patent  
 21 applications for the 802.11 standard. Realtek's technical expert, Matthew Shoemake, Ph.D.,  
 22 estimates based on research reports [REDACTED]

23 [REDACTED] Given the large number of patents related to the 802.11 standards, the value of Defendants'  
 24 '958 and '867 patents would necessarily comprise only a very small fraction of the overall value of  
 25 the Wi-Fi standard.

26 **F. Defendants' Letters of Assurance To The IEEE**

27 Defendants and Lucent Technologies ("Lucent"), Agere's predecessor in interest for the '958  
 28 and '867 patents, have submitted LOAs for the 802.11 standard.

1 Lucent submitted a letter of assurance to the IEEE on April 29, 1998. Lucent declared that  
 2 “if Lucent’s proposals are adopted by the IEEE, it will license its issued and pending patents and  
 3 technology essential to the practice of the 802.11a standard, in accordance with IEEE patent Policy.”  
 4 Lucent also submitted an identically worded letter of assurance for the 802.11b standard.

5 Agere submitted LOAs for the 802.11 standard in January and September of 2003 and  
 6 September 2004.<sup>3</sup> Agere’s January and September 2003 LOAs identified the ‘958 and ‘867 patents  
 7 (the latter by its application number, U.S. Application No. 10/092,295) as including “one or more  
 8 claims that may be required to practice” the 802.11e and 802.11g standards. Further, Agere noted  
 9 that:

10 Agere owns a large portfolio of patents, including a large number of patents in  
 11 the Wireless Local Area Network space, and there may be other patents and  
 12 patent applications in our patent portfolio that are required to meet the  
 802.11g standard in addition to the ones listed below.

13 The LOAs also stated that Agere was “prepared to grant a license to an unrestricted number  
 14 of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions to  
 15 comply with the [Proposed] IEEE Standard.” Agere’s September 2004 LOA, in connection with the  
 16 802.11n standard, made similar statements, but did not identify specific patents, stating only that  
 17 they were “unknown.”

18 On the basis of these written commitments, this Court found that “[D]efendants are  
 19 contractually obligated under their Letters of Assurance to the IEEE to license the ‘958 and ‘867  
 20 patents on RAND terms and Realtek is a third-party beneficiary to that contract (this is not  
 21 disputed).”

22 **G. Defendants’ Breached Their RAND Obligations To The IEEE and Realtek**

23 On October 22, 2002, Agere first contacted Realtek suggesting that Realtek take a license to  
 24 certain Agere patents, including the ‘958 patent, allegedly essential to the IEEE 802.11b standard.  
 25 Agere's letter stated that Agere was "willing to offer Realtek a license to essential claims of Agere  
 26 patents for implementing the 802.11b standard at a royalty rate of 5.00% on all 802.11b products

27 <sup>3</sup> See Order Granting Partial Summary Judgment at 2; see also Letters of Assurance dated September 4, 2003, January  
 28 24, 2003, and September 13, 2004 [Dkt. No. 67-6].

1 sold by Realtek." On January 24, 2003, Realtek replied, seeking more specific information  
 2 regarding Agere's infringement contentions. Agere's response of February 5, 2003 suggested a  
 3 conference call with its patent counsel "to highlight some of the particular claims of the previously  
 4 referenced Agere patents that [it] believe[d] [we]re relevant to the 802.11b standard." On March 31,  
 5 2003, Agere again contacted Realtek to ask "the status of Realtek's analysis and response to Agere's  
 6 offer to license essential claims relating to the 802.11b standard." The correspondences between the  
 7 parties apparently ceased after this last communication, and Realtek never took a license.

8 On March 7, 2012 LSI sent Realtek a letter asserting that certain Realtek products  
 9 incorporated into third-party devices infringed certain patents, including the '958 and '867 patents,  
 10 and demanding that Realtek immediately cease and desist from the allegedly infringing activities.  
 11 This letter did not contain any offer or proposal to license the patents. On March 12, 2012, the  
 12 Defendants filed a complaint before the International Trade Commission ("ITC") alleging patent  
 13 infringement and seeking injunctive relief against Realtek.

14 This Court has held that Defendants, "by instigating an ITC Section 337 action naming  
 15 Realtek as a respondent prior to offering a RAND license to Realtek, violated their contractual  
 16 obligations to the IEEE and to Realtek to license their standard-essential patents under RAND  
 17 terms." Moreover, "the act of seeking injunctive relief (here, at the ITC before proposing a RAND  
 18 license to Realtek) is inherently inconsistent and a breach of defendants' promise to license the  
 19 patents on RAND terms." Such conduct was "a clear attempt to gain leverage in future licensing  
 20 negotiations and is improper."

21 The Court's holding was based on finding that none of Defendants' letters to Realtek prior to  
 22 instituting the ITC action constituted RAND offers. Specifically, the Court found that "[t]he 2002  
 23 and 2003 correspondences regarding the IEEE 802.11b standard do not amount to a RAND offer for  
 24 a variety of reasons, including that: (1) the 802.11b standard is neither the standard at issue in the  
 25 ITC litigation nor is it the subject of the RAND commitments in Agere's Letters of Assurance to the  
 26 IEEE in the record before the court; (2) the parties ceased communications before any specific offer  
 27 was ever actually made; and (3) Realtek continued to sell its Wi-Fi/802.11 component parts for  
 28 almost nine years thereafter without hearing from defendants, implying that defendants were no

1 longer seeking to license their declared standard-essential patents to Realtek.” Defendant LSI's  
 2 March 7, 2012 letter also did not include any offer or proposal to license the patents, but instead  
 3 demanded Realtek to immediately cease and desist, and Defendants filed the ITC action less than a  
 4 week later without even waiting for a response.

5 Following the filing of the ITC complaint, Defendants sent Realtek a license proposal on  
 6 June 20, 2012. The Court has not addressed the reasonableness of this post-litigation license  
 7 proposal, finding breach in the failure to offer a RAND license prior to filing the ITC action.  
 8 Although it is Realtek’s position that the June 2012 proposal also violates Defendants’ RAND  
 9 obligations [REDACTED]

10 [REDACTED] Realtek has agreed not to pursue this alternate theory of breach in light of the  
 11 Court’s Order granting summary judgment.

### 12 III. ARGUMENT

#### 13 A. The RAND Rate Proposed By Realtek For The ‘958 and ‘867 Patents Should Be 14 Adopted

15 The main purpose of the RAND requirement “is to confine the patentee’s royalty demand to  
 16 the value conferred by the patent itself as distinct from the additional value – the hold-up value –  
 17 conferred by the patent’s being designated as standards-essential.” *Apple, Inc. v. Motorola, Inc.*,  
 18 869 F. Supp. 2d 901, 913 (N.D. Ill. 2012). The RAND requirement also avoids the so-called  
 19 “royalty stacking” problem, which results when a cumulative royalty for all patents essential to a  
 20 standard is so high that the standard cannot succeed in the market.

21 The Court should be guided by sound, comparable, market-based evidence that addresses  
 22 both the “hold up” and “royalty stacking” problems and that therefore provides a reliable foundation  
 23 for determination of a RAND royalty. Realtek’s evidence will do so. In contrast, Defendants’  
 24 position rests entirely on incomparable licenses, and amounts to a hold-up royalty that bears no  
 25 relationship to any proper apportionment of the value of Defendants’ patents.

#### 26 1. The Proper Framework For Determining RAND Royalties Requires Avoiding 27 Hold Up And Stacking Errors

28 The proper framework for determining a RAND royalty rate takes both patent hold-up and

1 royalty stacking problems into account. Judge Robart articulated such a framework in the *Microsoft*  
 2 *v. Motorola* case by adopting a modified list of *Georgia-Pacific*<sup>4</sup> factors that a standard-essential  
 3 patent owner and standard-implementer would consider during a hypothetical negotiation over a  
 4 reasonable royalty rate to be paid for patents obligated to a RAND commitment. That list of  
 5 considerations is as follows:

6 1. The royalties received by the patentee for the licensing of the patents, where the  
 7 parties clearly understood the RAND obligation, proving or tending to prove an established royalty.

8 2. The rates paid by the licensee for the use of other patents comparable to the  
 9 defendants patents.

10 3. The nature and scope of the hypothetical license.

11 4. The contribution of the patents to the technical capabilities of the standard and the  
 12 contribution of those relevant technical capabilities to the implementer and the implementer's  
 13 products.

14 5. The duration of the patent and term of the license.

15 6. Alternatives to the patented technology that could have been written into the standard  
 16 instead of the patented technology, focusing on the period before the standard was adopted and  
 17 implemented.

18 7. The extent to which the licensee has made use of the invention.

19 8. The portion of the profit or of the selling price that may be customary in the particular  
 20 business or in comparable businesses licensing RAND-committed patents to allow for the use of the  
 21 invention or analogous inventions.

22 9. The opinion testimony of qualified experts.

23 10. The amount that a licensor would have agreed upon (at the time of adopting the  
 24 standard) if both had been reasonably and voluntarily trying to reach agreement and considered the  
 25 RAND commitment and its purposes in their efforts to reach a license agreement to ensure  
 26 widespread adoption of the standard while avoiding holdup and stacking.

27 \_\_\_\_\_  
 28 <sup>4</sup> *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970).

1 *Microsoft v. Motorola*, No. 10-1823JLR, 2013 WL 2111217, at \*16-20 (W.D. Wash. Apr. 25, 2013).

2 Additional factors Judge Robart considered relevant in determining a RAND rate include the  
3 following:

4 11. A proper RAND royalty rate should be set at a level consistent with the IEEE’s goal  
5 of promoting widespread adoption of its standards.

6 12. A proper RAND royalty rate should seek to reduce the risk of patent “hold-up,”  
7 which is the ability of a standard essential patent owner to demand more than the value of its  
8 patented technology for that patent.

9 13. A proper RAND royalty rate should address the risk of “royalty stacking,” which is  
10 the payment of excessive royalties to many different standard essential patent owners.

11 14. A proper RAND royalty rate should induce the creation of valuable standards by  
12 ensuring that owners of valuable patents will receive reasonable royalties for their patents.

13 15. A proper RAND royalty rate should be limited to the economic value of the patented  
14 technology itself, apart from the value associated with incorporation of the patented technology into  
15 the standard.

16 16. A proper RAND royalty rate should be demonstrably free of any unfair  
17 discrimination towards the party being offered a license.

18 *Microsoft*, 2013 WL 2111217, at \*10-12.

19 Applying these factors here, a RAND royalty rate for the ‘867 and ‘958 patents is minimal, at  
20 0.059 cents per semiconductor device for the two patents, or 0.0295 cents for each of them.

21 **2. A RAND Royalty For The ‘867 and ‘958 Patents Should Be Minimal Because**  
22 **The Ex-Ante And Aggregate Value Of These Patents, Free From Holdup, Is**  
23 **Close To Zero**

24 The value of patented technology in a standard cannot be greater than its relative  
25 contribution. Given that the overall value of the 802.11 standard must be divided among all standard  
26 essential patent holders, the value of the *average* standard essential patent is necessarily low. This  
27 has important implications for the determination of a RAND royalty rate. Unless it is shown that a  
28 patented technology made significant technical contributions that had no reasonable or viable  
alternatives, the presumption should be that the value of that patent is low.

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1           a.     **The ex-ante value of the '958 and '867 patents is at best minimal because**  
 2                   **good or better alternatives to these technologies existed and the inventive**  
 3                   **contribution was minimal**

4           A royalty that reflects the *ex ante* value of the patents, and is therefore consistent with  
 5 Defendants' RAND obligation, should be based on the incremental value added by use of the  
 6 technology relative to alternative technologies that could have been adopted.. Such an incremental-  
 7 value approach, along with a modified *Georgia-Pacific analysis*, was recently used by Judge Robart  
 8 in *Microsoft Corporation v. Motorola, Inc.* Judge Robart noted that, while certain practical issues  
 9 arise in its application, an "*ex ante* examination of the incremental contribution of the patented  
 10 technology to the standard can be helpful in determining a RAND rate in the context of a dispute  
 11 over a RAND royalty rate." *Microsoft*, at \*13. In particular, Judge Robart found that:

12                   [A] reasonable royalty rate for an SEP committed to a RAND obligation must  
 13                   value the patented technology itself, which necessarily requires considering  
 14                   the importance and contribution of the patent to the standard. If alternatives  
 15                   available to the patented technology would have provided the same or similar  
 16                   technical contribution to the standard, the actual value provided by the  
 17                   patented technology is its incremental contribution. Thus, comparison of the  
 18                   patented technology to the alternatives that the SSO could have written into  
 19                   the standard is a consideration in determining a RAND royalty. *Id.*

20           The economic assessment of the *ex-ante* value of a patent requires two steps. It first requires  
 21 evaluating the technical benefits brought by the patented technology to the standard, if any, over  
 22 non-infringing alternatives. The second step of the assessment requires translating the technical  
 23 benefits, if any, of the '867 and '958 patents into the incremental economic value, if any, that was  
 24 created by their purported inclusion into the 802.11 standard.

25           Here, as a threshold matter, a quantitative analysis shows that the '958 and '867 patents  
 26 necessarily comprise, at best, a small fraction of the overall value of the 802.11 standard. As noted,  
 27 there are estimated to be over 3,000 patents related to the 802.11 standard. Moreover, the IEEE  
 28 802.11–2012 specification (the first complete version of the standard to incorporate the IEEE  
 802.11n amendment, which includes the backwards-compatible sections on CCK and power save  
 technologies that Defendants claim are covered by the '958 and '867 patents, respectively) includes  
 very little discussion of either of those technologies.<sup>5</sup> Finally, based on the number of LOAs

<sup>5</sup> Indeed, even assuming that all aspects of CCK functionality are attributable to the '958 patent, only 2.1 of 2,793 pages

1 submitted to the IEEE for the 802.11 standard, a conservative estimate is that there are at least 203  
 2 declared standard essential patents and 46 patent applications for the 802.11 standard. Thus, at best,  
 3 Defendants' patents represent only a tiny fraction of the 802.11 standard essential patents and do not  
 4 represent a significant portion of the overall value of the 802.11 standard.

5 More importantly, a more detailed analysis of the technologies in the '958 and '867 patents  
 6 shows they should be accorded *lower* than average value as compared to the hundreds of other  
 7 technologies essential to the 802.11 standard. Specifically, for both the '867 and '958 patents,  
 8 multiple alternatives to the patented technologies were available at the time of standards adoption.  
 9 Thus, the claimed inventions of the asserted patents represent minor, incremental contributions, if  
 10 any, to the standard and should be accorded little or no value.

11 **i. The ex-ante value of the '958 patent is low because many**  
 12 **alternatives, including at least one with better performance, were**  
 13 **available at the time 802.11b was being developed**

14 Defendants have accused implementation of the CCK modulation technique as infringing the  
 15 '958 patent. However, as noted, the CCK modulation technique was adopted in the 802.11b  
 16 specification only as a compromise, over five alternative technologies, for market-related reasons.  
 17 Alternative technologies not only existed, but they were the subject of specific proposals to the  
 18 IEEE. Had the 802.11 Working Group known that Defendants would threaten adopters of infringing  
 19 with injunctions, excessive royalty demands and discriminatory preferences in licenses practices, it  
 20 could have adopted alternative technologies to the alleged invention of the '958 patent.

21 Each of these other technologies would be non-infringing alternatives, including because  
 22 they were not based on grouping information bits and/or did not use complimentary codes.<sup>6</sup> QAM  
 23 modulation, with its binary convolutional codes, and which was included in the 802.11a  
 24 specification, also does not practice the '958 patent.

25 Moreover, CCK was not the highest performance technology adopted into the IEEE 802.11b  
 26 (or 0.075 percent) of the specification include any discussion of CCK functionality. Further, assuming that all  
 27 synchronization functionality (broadly speaking, the aspect of power save technology purportedly related to the '867  
 28 patent) is attributable to the '867 patent, only 2.7 of 2,793 pages (or 0.10 percent) of the specification actually includes  
 discussion of that functionality.

<sup>6</sup> The binary convolutional coding of PBCC does not use complimentary codes and is not based on the grouping of  
 information bits that appear to be required by the '958 patent. The other techniques did not use complimentary codes.

1 specification. A commenter in March 1999 proposed making PBCC a mandatory modulation mode  
 2 because “CCK modulation is inherently very weak by today’s communications standards.” Instead,  
 3 the 802.11b task group adopted PBCC as a high performance option for the 802.11b specification.  
 4 QAM modulation was also considered a more advanced technology.

5 Even when considering the accused CCK functionality, there are numerous technologies that  
 6 contribute to CCK. For example, bit mapping, bias suppression, differential coding, symbol  
 7 mapping, modulation indication, rate indication, and packet size (MPDU) calculation are all  
 8 technologies that contribute to CCK. The ‘958 patent relates to a claimed method of code selection,  
 9 which, at most, is only one aspect of CCK technology.

10 Additionally, it should be noted that implementing a receiver for CCK requires an equalizer.  
 11 Such an equalizer is difficult to build, but is key to the performance of CCK. The equalizer must be  
 12 present to deal with the negative effects of multipath in the channel. Given the elementary nature of  
 13 CCK as a modulation technique, it is likely that development of channel equalizers independently by  
 14 each Wi-Fi chip manufacturer to correct for multipath was a more important contributor to the  
 15 performance of CCK than the CCK technology itself.

16 **ii. The ex-ante value of the ‘867 patent is low because alternatives**  
 17 **existed at the time 802.11b was being developed and it related to**  
 18 **an optional feature relevant only to certain Wi-Fi products**

19 Like the ‘958 patent, the value of the ‘867 patent is low because alternatives could have been  
 20 implemented in its place. The ‘867 patent relates to power saving technology, and centers around  
 21 the synchronization of the receiver and a transmitter so as to save power. As a preliminary matter,  
 22 the value of the ‘867 patent is low because it relates to a peripheral feature that would be relevant to  
 23 only a subset of devices. The importance of power saving features is limited to devices with small  
 24 batteries such as mobile phones.

25 Power savings features are not core functionalities. Power savings mode in the 802.11  
 26 standard is in fact optional, in that the implementer is not mandated to include them. Weighed  
 27 against core functionalities of the 802.11 standard, power saving features are inherently of lesser  
 28 value and in some cases of no value at all.

1 In addition, based on alternative non-infringing technologies that could have been adopted,  
 2 the technical benefits associated with the '867 patent are low. All of the asserted independent claims  
 3 of the '867 patent require "a timestamp having a value  $m$  for synchronizing a timer with a transmit  
 4 timer." The power saving mechanism of the '867 patent is dependent upon synchronization of the  
 5 receiver with the transmitter and on the receiver "waking up" at specific times to receive traffic  
 6 indication messages (TIM). Therefore, one non-infringing alternative could be achieved by allowing  
 7 the power saving device to determine its own time to wake. Upon waking, the device could poll the  
 8 access point to determine if traffic is available.

9 Another non-infringing alternative that achieves power savings is to use a time division  
 10 multiple access (TDMA) MAC protocol. TDMA technology was well-known at the time of  
 11 development of the 802.11 standard, e.g., widely used in cellular networks. By using TDMA, the  
 12 device could sleep during time periods that are not allocated to it. TDMA avoids the use a TIM,  
 13 thereby avoiding infringement of the '867 patent.

14 Finally, another non-infringing alternative is to not use power save mode at all, because  
 15 power save mode is not necessary for communication between 802.11-compatible products.

16 The 802.11 Working Group could have adopted any of these alternative technologies to the  
 17 alleged invention of the '867 patent, had it known that Defendants would threaten injunctions,  
 18 excessive royalty demands and discriminatory license practices based upon a purely optional feature.

19 Moreover, various other technologies contribute to the power save mode, aside from what is  
 20 allegedly claimed by the '867 patent. For example, the standard itself contains beacon structure,  
 21 network topology and scanning technologies that are key to power saving and synchronization but  
 22 are not topics of the '867 patent. Further, the standard is silent on certain power saving related  
 23 technologies that in practice are more important than the synchronization technology of the '867  
 24 patent and the 802.11 standard itself. Namely, achieving low power operation is left to the  
 25 implementer. Thus, companies such as Realtek must develop or use low power CMOS, clocking  
 26 architectures, oscillator and crystal, data buffering and queuing, power amplifier and regulator  
 27 technologies to enable their Wi-Fi chips to actually consume little power while in low power states,  
 28 as the 802.11 standard is silent on the topic. The '867 patent relates to a claimed method of

1 improved synchronization which, at most, is only one aspect of power saving and synchronization  
2 technology as used in the 802.11 products.

3           **3.     The [REDACTED] Provides The Most Reliable Benchmark For A**  
4           **RAND Royalty For The '958 And '867 Patents.**

5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED]  
20 [REDACTED]  
21 [REDACTED]  
22 [REDACTED]  
23 [REDACTED]

24           Defendants' damages expert, Gregory Leonard, Ph.D., [REDACTED]

25 [REDACTED]  
26 [REDACTED]  
27 [REDACTED]  
28 [REDACTED]

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1 Dr. Leonard [REDACTED]  
 2 [REDACTED]  
 3 [REDACTED]  
 4 [REDACTED]  
 5 [REDACTED]  
 6 [REDACTED]  
 7 [REDACTED]  
 8 [REDACTED]  
 9 [REDACTED]  
 10 [REDACTED]  
 11 [REDACTED]  
 12 [REDACTED]  
 13 [REDACTED]

14 A RAND royalty at this level is further supported by Judge Robart’s RAND findings in  
 15 *Microsoft v. Motorola.* [REDACTED]

16 [REDACTED]  
 17 [REDACTED] The  
 18 evidence in this case is consistent with the use of the lower rate set by Judge Robart.

19 Consideration of the *Georgia-Pacific* factors indicates that the outcome of the hypothetical  
 20 negotiation would have been pushed toward the lower end of the bargaining range. In particular,  
 21 neither the ’867 nor the ’958 patent represented significant technical contributions to the 802.11  
 22 standard, and alternative technologies were considered at the time the 802.11b standard was being  
 23 developed. The availability of such alternatives means that the *ex-ante* value of the ’867 and ’958  
 24 patents was low and that a licensee would not pay more than a nominal amount for these patents.

25 **4. Defendants’ Proposed [REDACTED] For The ‘958**  
 26 **and ‘867 Patents Is Not A RAND Royalty**

27 Defendants’ damages expert, Dr. Anne Layne-Farrar, has opined [REDACTED]

28 [REDACTED]

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[REDACTED]

However, Defendants' and Dr. Layne-Farrar's [REDACTED]

[REDACTED]

a. The [REDACTED]

A [REDACTED]

b. Defendants' Damages Expert [REDACTED]

In the *Microsoft* case, Judge Robart's opinion setting a RAND rate discussed numerous flaws inherent in the Via Pool. Via Licensing formed its 802.11-essential patent pool between 2003 and 2005. *See Microsoft*, 2013 WL 2111217, at \*87. Participation in the pool is substantially lower than other patent pools, as it includes only five licensors and 35 worldwide patents allegedly essential to

1 the 802.11 standard. *Id.* The Via Pool has rates that vary from \$0.05 to \$0.55 per unit, depending on  
2 volume. *Id.* at \*88.

3 Among other things, Judge Robart emphasized that the Via Pool had not been very  
4 successful in attracting licensors or licensees. *Id.*, at \*89. The vast majority of companies that own  
5 SEPs for the 802.11 standard, such as Motorola and Microsoft, have not joined the Via Pool as  
6 licensors. *Id.* Given the poor participation in the pool, it has not achieved a primary purpose of  
7 RAND commitments – to encourage widespread adoption of the 802.11 standard – and thus has  
8 lower relevance as an indicator of a RAND rate. *Id.* Thus, as Dr. Layne-Farrar acknowledged in her  
9 report, [REDACTED]

10 [REDACTED]

11 Dr. Layne-Farrar engages in a three-part analysis to rely on the Via Pool. Each step of the  
12 analysis is flawed, and the overall methodology is unsound and unreliable.<sup>7</sup> [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 Second, [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]

24 [REDACTED]

25 Third, [REDACTED]

26 [REDACTED]

27 <sup>7</sup> By separate *Daubert* motion, Plaintiff Realtek seeks to exclude Dr. Layne-Ferrar’s testimony concerning the Via Pool.  
28

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1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED]

6 In sum, Dr. Layne-Farrar mixes and matches inconsistent methodologies, and thereby  
7 accomplishes inaccurate and unreliable results. [REDACTED]  
8 [REDACTED]

9 [REDACTED] In short, the Via Pool is a poor benchmark made worse by Dr.  
10 Layne-Farrar's flawed methodology.

11 **B. Realtek Should Be Awarded All Of Its Attorney's Fees And Costs Associated With The**  
12 **ITC Action Filed By Defendants In Breach Of Their RAND Obligations**

13 The Court has already determined that Defendants breached their contractual obligation to  
14 the IEEE and to Realtek as a third-party beneficiary of that contract by seeking injunctive relief  
15 against Realtek in the ITC before offering Realtek a license. [See Dkt. No. 102, at 11.] Realtek is  
16 claiming its attorneys' fees and costs incurred in the ITC action as its damages proximately caused  
17 by this breach. Realtek produced portions of invoices through July 8, 2013 that showed the amount  
18 of Realtek's attorneys' fees and costs incurred through May 31, 2013 in the ITC action,<sup>8</sup> and  
19 Realtek's damages expert, Dr. Greg Leonard, opined that such amounts, [REDACTED]  
20 were suffered as damages by Realtek. Recently, Realtek produced further invoices, bringing the  
21 total fees and costs incurred by Realtek in the ITC action to date to [REDACTED]

22 **1. Defendants' Expert** [REDACTED]  
23 Notably, Dr. Layne-Farrar, [REDACTED]  
24 [REDACTED]  
25 [REDACTED]  
26 [REDACTED]

27 \_\_\_\_\_  
28 <sup>8</sup> A March 10, 2013 was inadvertently omitted but has now been produced to Defendants.

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1           **2. Defendants’ “Mitigation” Defense Is Legally And Factually Unsound**

2           On the eve of pretrial preparations, Defendants advanced a new “theory” that Defendants’  
3 June 2012 proposal created a duty on Realtek to respond in some undefined manner or else be found  
4 to have failed to mitigate its damages. This theory is legally and factually unsound, and Realtek has  
5 moved to exclude it at trial.

6           First, and fundamentally, the June 2012 proposal is not relevant to Defendants’ purported  
7 mitigation defense, because Realtek’s response to the proposal (or alleged lack thereof) could not  
8 evidence a failure to mitigate as a matter of law and common sense. The Court has already decided  
9 that Defendants breached their agreement to license on RAND terms by filing the ITC action before  
10 making any licensing offer to Realtek. [Dkt. No. 102, at 11.] The Court also found that by filing the  
11 ITC action, Defendants created undue leverage and placed Realtek at a bargaining disadvantage,  
12 because Realtek would have been forced to negotiate with the threat of an injunction hanging over  
13 its head. [*Id.*, at 10-11, 13.] As a result, a fair negotiation could not have taken place unless and  
14 until Defendants withdrew their ITC investigation against Realtek.

15           Because Defendants did not withdraw (and still have not withdrawn) the ITC action and  
16 corresponding threat of an injunction, Defendants’ breach was a continuing breach that continued to  
17 create an *inherently unfair* negotiating environment. Realtek cannot be said to have “failed to  
18 mitigate” by refusing to negotiate an inherently unfair proposal under the duress of an injunctive  
19 threat. Put simply, refusing to do something unfair or unreasonable does *not* constitute a failure to  
20 mitigate. *See Valle de Oro Bank*, 26 Cal. App. 4th 1686, 1691 (1994) (duty to mitigate damages  
21 does not require an injured party to do “what is unreasonable or impracticable,” or to “sacrifice and  
22 surrender important and valuable rights”). Likewise, no duty to mitigate would require Realtek to  
23 relinquish its right to defend itself in the ITC – particularly against an action that was wrongfully  
24 brought in the first instance. *See id.* In short, Realtek’s response to June 2012 proposal is not  
25 relevant to the issue of mitigation. *See Fed. R. Evid.* 401- 402.

26           Second, none of Defendants’ experts [REDACTED]  
27 [REDACTED]  
28 [REDACTED]

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1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]

5 Finally, Defendants’ own discovery conduct should preclude them from relying on the June  
6 2012 proposal for their mitigation defense. During discovery, Defendants did not identify any fact  
7 witnesses in their Initial Disclosures with knowledge of this new theory that the June 2012 proposal  
8 somehow mitigated the damages resulting from their breach of contract, nor did they make any such  
9 fact witnesses known to Realtek during the discovery process or in writing, such that Realtek could  
10 have pursued these issues during discovery. See Fed. R. Civ. Proc. 26(e). To the contrary,  
11 Defendants steadfastly denied breaching their RAND obligations in the first instance, and thus never  
12 proffered (until now) their alternate theory that the June 2012 proposal somehow mitigated (or  
13 cured) that breach. Having failed to provide discovery on these issues, Defendants should be  
14 precluded from pursuing the issues at trial. Fed. R. Civ. Proc. 37(c) (“If a party fails to provide  
15 information . . . as required by Rule 26(a) or (e), the party is not allowed to use that information . . .  
16 at a trial, unless the failure was substantially justified or was harmless.”)

17 In any event, even if the June 2012 proposal were somehow relevant given the current  
18 posture of this case, [REDACTED]  
19 [REDACTED]  
20 [REDACTED]

21 **C. Realtek Is Entitled To A Permanent Injunction**

22 In connection with its summary judgment ruling, this Court imposed a preliminary injunction  
23 barring Defendants from enforcing, or seeking to enforce, any exclusion order or injunction that  
24 Defendants might obtain with respect to the alleged standard-essential patents until this Court  
25 determines Defendant’s RAND obligations and Defendants have made a RAND offer to Realtek  
26 consistent with the Court’s determination. [See Dkt. No. 102 at 11, 14.] The Court found that  
27 Realtek was suffering irreparable harm to its customer relationships and reputation, and that  
28 irreparable harm is ongoing. The same facts supporting imposing the preliminary injunction on

1 Defendants thus support a permanent injunction barring Defendants from enforcing, or seeking to  
 2 enforce, any exclusion order or injunction that Defendants might obtain with regard to the '958 and  
 3 '856 patents until Defendants have made a RAND offer to Realtek consistent with the RAND  
 4 royalty determined at trial.

5 A patent holder is entitled to a permanent injunction if it establishes that: (1) it has suffered  
 6 an irreparable injury; (2) remedies available at law are inadequate to compensate for that injury; (3)  
 7 considering the balance of hardships between the plaintiff and defendant, a remedy in equity is  
 8 warranted; and (4) the public interest would not be disserved by a permanent injunction. *eBay Inc.*  
 9 *v. MercExchange, L.L.C.*, 547 U.S. 388, 391, (2006); *see also Douglas Dynamics, LLC v. Buyers*  
 10 *Products Co.*, 717 F.3d 1336, 1344-1345 (Fed. Cir. 2013). Realtek meets all of these elements.

#### 11 **1. Likelihood of Irreparable Harm**

12 This Court has already found that the threat of an exclusion order has harmed Realtek's  
 13 reputation and posed an imminent threat of customer and revenue loss. This threat has not  
 14 dissipated, and thus the likelihood of irreparable harm likewise remains the same.

#### 15 **2. Remedies At Law Are Inadequate**

16 An award of additional damages would be inadequate to compensate Realtek for the harm to  
 17 its reputation, and customer and revenue loss. Because damages will not compensate the harm  
 18 suffered by Realtek due to loss of market share, a permanent injunction is appropriate.

#### 19 **3. Balancing of Equities**

20 The balancing of equities also weighs in favor of a permanent injunction. The continuing  
 21 threat of enforcement of an exclusion order would result in Realtek (1) losing its customers who sell,  
 22 use, or import Realtek's component parts into the United States, and/or (2) being forced to negotiate  
 23 a license in the disadvantaged position of having an exclusion order hanging over its head. [See Dkt.  
 24 No. 102 at 13.] By contrast, Defendants would suffer no harm from a permanent injunction that  
 25 merely required them to satisfy their RAND obligations by making a RAND offer, pursuant to the  
 26 royalty determined at trial in this action, prior to enforcing any exclusion order.

#### 27 **4. Public Interest**

28 A permanent injunction also serves the public interest by "mak[ing] clear that commitments

