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2009-1460, -1461, -1462, -1465

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

SPANSION, INC. and SPANSION, LLC,
Appellants,

and

FREESCALE SEMICONDUCTOR, INC.,
Appellant,

and

ATI TECHNOLOGIES, ULC,
Appellant,

and

STMICROELECTRONICS N.V.,
Appellant,

and

QUALCOMM INCORPORATED,
Appellant,

v.

INTERNATIONAL TRADE COMMISSION,
Appellee,

and

TESSERA, INC.,
Intervenor.

FILED
**U.S. COURT OF APPEALS FOR
THE FEDERAL CIRCUIT**

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**JAN HORBALY
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**On Appeal from the United States International Trade Commission
in Investigation No. 337-TA-605**

**NONCONFIDENTIAL REPLY BRIEF OF
APPELLANTS SPANSION, INC. AND SPANSION, LLC**

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ARGUMENT

I. THERE IS NO RELIABLE EVIDENCE, MUCH LESS SUBSTANTIAL EVIDENCE, OF INFRINGEMENT

By now, the unreliability of the convoluted, made-for-litigation methodology used by Tessera's expert should be manifest. There is no dispute that the baseline-driven methodology is used by no one other than Tessera's expert Dr. Qu, and for no purpose other than litigation. [[

]] There is likewise no dispute that in this very investigation, the International Trade Commission ("Commission") found the methodology unreliable for purposes of one of Dr. Qu's two tests. And even more remarkably, in another, materially similar investigation, the Commission recently found Dr. Qu's other test unreliable—when used by the same expert, for the same party, in an attempt to prove infringement of the same claim limitation. Under settled law, experts' methodologies must be scientifically reliable. And all of the objective evidence shows this methodology to be manifestly *unreliable*.

A. Appellants Preserved This Issue Before The Commission

The Commission and Tessera principally respond that Spansion forfeited its challenge to the reliability of Dr. Qu's methodology by not raising it below. Tess. Br. 47; ITC Br. 58. That is incorrect. Appellants repeatedly challenged the

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reliability of Dr. Qu's methodology before the ALJ and the Commission, and the Commission expressly decided that the methodology was sufficiently reliable.

[[

]] In response to Appellants' objections, the ALJ determined that "flaws in Dr. Qu's modeling" were fatal to Tessera's attempt to prove infringement. JA0000193.

When the Commission noticed its intent to review the ALJ's initial determination, Appellants again preserved their challenge to the reliability of Dr. Qu's methodology. [[

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The Commission itself squarely addressed the validity of Dr. Qu's methodology. As the Commission concedes, it "found Qu's . . . modeling to be 'scientifically valid and [capable of being] applied to the facts in issue' as required by *Daubert*." ITC Br. 59 (quoting *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 593 (1993)). Indeed, the Commission held that "Dr. Qu's methodology in creating baseline packages was correct," and the Commission therefore reversed the ALJ for "reject[ing] the hypothetical baseline packages." JA0000015.

It makes little sense for the Commission to assert that an issue was both forfeited and resolved. The issue was raised, which is precisely why the Commission decided it. And given that the Commission has passed upon the issue, there is no reason for this Court to refuse to do so. *See, e.g., United States v. Williams*, 504 U.S. 36, 41-45 (1992).

The Commission's argument appears to be that Appellants did not preserve their challenge to the reliability of Dr. Qu's methodology because they did not use the word *Daubert* or cite that case to the Commission. As this Court has explained, however, the requirement that an issue be preserved for appeal "does not demand the incantation of particular words." *Consolidation Coal Co. v. United States*, 351 F.3d 1374, 1378 (Fed. Cir. 2003) (quoting *Nelson v. Adams USA, Inc.*, 529 U.S. 460, 469 (2000)). Instead, it requires only "that the lower court [or agency] be fairly put on notice as to the substance of the issue." *Id.*

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(same). Appellants easily satisfied that requirement by arguing that Dr. Qu's baseline-driven methodology was unreliable—the same issue that Spansion has raised on appeal. And the ITC was certainly on notice of the substance of the issue, as it actually addressed it. Thus, Spansion is entitled to raise the issue on appeal, and to develop it by citing additional authorities and making additional arguments in support of the same issue. *See Yee v. City of Escondido*, 503 U.S. 519, 534 (1992); *Israel Bio-Eng'g Project v. Amgen Inc.*, 475 F.3d 1256, 1265 (Fed. Cir. 2007).

Indeed, another circuit has correctly held that “the word *Daubert* is not talismanic; it simply means that prior to admitting expert testimony, the court must insure the testimony ‘is not only relevant, but reliable.’” *Smith v. Ingersoll-Rand Co.*, 214 F.3d 1235, 1245 (10th Cir. 2006) (citing *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 147 (1999)). There is no reason for this Court to split from that decision and ordinary preservation principles.

B. The ITC's Arguments Only Confirm The Unreliability Of Dr. Qu's Methodology

On the merits, Tessera argues only that Dr. Qu is “qualified to be an expert.” Tess. Br. 47. That is irrelevant because Spansion has challenged the methodology that Dr. Qu devised for this case, not his qualifications to be an expert. Sp. Br. 20-25. Thus, Tessera has “responded” only to a straw man of its own devising.

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The ITC's response actually supports Spansion's challenge. According to the Commission, the key point is that "Qu's baseline methodology was specifically formulated" for this litigation. ITC Br. 59. Because "Qu's baseline methodology was only relevant in the context of the claim construction of this investigation," the Commission contends that "it does not strictly fall under the concept of 'scientific [or technical] knowledge' with which the *Daubert* court was concerned." *Id.* Instead of explaining how Dr. Qu's methodology could be considered anything other than technical or scientific, however, the Commission simply notes that "it is difficult to see how there could be peer review or industry recognition or acceptance of a methodology that was called for by the unique claim construction of this investigation." *Id.*

Exactly. The Commission's premise—that this is a made-for-litigation methodology that has not been subjected to scientific or technical scrutiny outside of the courtroom—is entirely correct. [[

]] But the Commission draws the wrong conclusion from its premise. A lack of scientific support or independent usefulness for an expert's methodology creates a *Daubert* problem, not an exemption from *Daubert*. The *Daubert* line of cases applies to all "testimony based on 'technical' or 'other specialized' knowledge." *Kumho Tire*, 526 U.S. at 141. Thus, *Daubert* applies, and Dr. Qu's methodology flunks

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Daubert's requirements for the very reasons that the ITC gave for considering *Daubert* inapplicable—the total lack of scientific corroboration. Sp. Br. 24-25.

Indeed, the only reason that Dr. Qu's methodology might not be considered "scientific knowledge" is that it is not good or reliable science at all. But there is hardly an exemption to *Daubert* for "junk science" that is so dubious it cannot be called science at all. Such untested, dubious, or made-for-litigation methodologies deserve the strictest scrutiny of all under *Daubert*. See, e.g., *Daubert v. Merrell Dow Pharms., Inc.*, 43 F.3d 1311, 1317-18 (9th Cir. 1995) (*Daubert II*); *Johnson v. Manitowoc Boom Trucks, Inc.*, 484 F.3d 426, 434-35 (6th Cir. 2007); *Wagner v. Hesston Corp.*, 450 F.3d 756, 760 n.8 (8th Cir. 2006); *Norris v. Baxter Healthcare Corp.*, 397 F.3d 878, 886 (10th Cir. 2005). After all, the whole point of *Daubert* is to "bring[] the law into line with scientific standards for respectable science," *Libas, Ltd. v. United States*, 193 F.3d 1361, 1367 (Fed. Cir. 1999) (quotation omitted), by "mak[ing] certain that an expert . . . employs in the courtroom the same level of intellectual rigor that characterizes the practice of an expert in the relevant field." *Kumho Tire*, 526 U.S. at 152. Because "submission to the scrutiny of the scientific community is a component of 'good science,'" *Daubert*, 509 U.S. at 593, the made-for-litigation nature of a methodology that has not been tested or accepted in genuine scientific circles is a reason for rejecting the methodology, not for exempting it from *Daubert*. *Daubert II*, 43 F.3d at 1317-18.

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That is all the more so here because, even within the litigation context, Dr. Qu's methodology does not bear the required indicia of reliability. [[

]] Instead, the Commission claims that this important fact was absolutely irrelevant to its decision because it must "rely only on the record currently before it." ITC Br. 61. [[

]] It is common practice to impeach a witness with his prior statements or actions in other litigations or other contexts. *See Wilson v. Bradlees of New England, Inc.*, 250 F.3d 10, 16 (1st Cir. 2001). [[

]]

Even in this very investigation, the Commission determined that Dr. Qu's baselines were unreliable for purposes of his principal, on-board test. The ITC's brief emphasizes that point by explaining that Dr. Qu's baselines "impaired his ability" to prove the claimed movement in his on-board test. ITC Br. 59. While the ITC continues to assert that the baseline methodology was nonetheless appropriate for Dr. Qu's secondary, direct-loading test, the Commission's acceptance of that test was based on its own, extensive expert freelancing. Sp. Br. 26-30. The Commission recognized some of the flaws in Dr. Qu's methodology

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but purported to resolve them itself. *Id.* For example, the Commission expressly acknowledges that Dr. Qu's reasoning contains a "missing link," JA0000049, and that he made a "mistake" in measuring displacement at the wrong place, ITC Br. 42.

But the Commission then undertook to act as an expert in this field by purporting to fill the gaps and fix the errors in Dr. Qu's methodology. That was clear legal error because "agency expertise cannot substitute for record evidence." *Brand v. Miller*, 487 F.3d 862, 869 (Fed. Cir. 2007) (citing *Baltimore & Ohio R.R. Co. v. Aberdeen & Rockfish R.R. Co.*, 393 U.S. 87, 92 (1968)). On core factual matters such as infringement, an agency "cannot simply reach conclusions based on its own understanding or experience—or on its assessment of what would be basic knowledge or common sense." *In re Zurko*, 258 F.3d 1379, 1386 (Fed. Cir. 2001). And because the technical nature of the issues here requires expert testimony, Sp. Br. 18, the Commission's rejection of Dr. Qu's reasoning left it with no basis in the record, much less a substantial one, for finding infringement. *See also* ST Reply § I.B; Freescale Reply § II.B.1.

Moreover, in order to accept Dr. Qu's conclusion while rejecting part of his analysis, the Commission made a number of analytical errors and ultimately resorted to outright question-begging. Sp. Br. 29-30. That illustrates the importance of the *Daubert* line of cases. Relying on an untested, made-for-this-

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litigation-only methodology forces a finder of fact that is not skilled in the art (here, the ITC) to make very difficult technical judgments unaided by genuine scientific input by the relevant scientific community about the soundness of the methodology. Where, as here, the finder of fact departs from the expert's methodology in an attempt to fix it, the potential for error is heightened—as demonstrated by the numerous errors, detailed in the other Appellants' briefs, that the Commission made here. See ST Reply § I.B; Qualcomm Reply §§ I.D-E; Freescale Reply §§ II.B-D. Because the Commission's finding rests on both unreliable expert testimony and its own non-expert and erroneous freelancing, it is unsupported by reliable evidence.

C. The ITC Recently Rejected The Same Methodology

If more evidence were needed of the unreliability of Dr. Qu's methodology, the Commission recently provided it by finding the very same methodology unreliable. In another investigation ("the 630 investigation") concerning the same issues but different respondents, the Commission recently determined that "the Direct Loading testing methodology employed by Tessera's expert [Dr. Qu] to prove infringement is *unreliable*." *In re Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same (III)*, USITC Inv. No. 337-TA-630, 2009 WL 5564244 (Dec. 29, 2009) (Commission Notice at 3). That is crucial because Dr. Qu's direct-loading test is the *only* one the Commission

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used to find infringement in this case. The Commission's inconsistent treatment of the same issue in two closely related investigations confirms that Qu's methodology is unreliable and that the Commission's own decisionmaking is arbitrary and capricious.

The Commission has not yet issued a public version of its decision in the 630 investigation. But from the materials that are publicly available, the two investigations appear to be materially indistinguishable because Dr. Qu applied the identical direct-loading methodology to prove the same claim element in both investigations. The ALJ's description of Dr. Qu's methodology in the 630 investigation shows that it is the same one used here:

The direct loading methodology is [a finite element analysis ("FEA")]-based test that compares the movement of the chip package attached to the [printed circuit board ("PCB")] ("on-board") with the chip package not attached to the PCB ("off-board"). The way the method works is that each of the packages are modeled in FEA and thermal cycled. The displacements of the off board and on-board packages are determined from measurements taken from the bottom of the solder balls. The loads of the on-board and off-board FEA results are calculated based on the displacements. The load of the package off-board is subtracted from the load of the package onboard. The difference between the two loads is presumptively the "external load." Once the external load is known, it is directly applied to the actual and baseline packages, plastic work computed, and reliability determined.

JA0099472-73 (citations omitted), *compare* Sp. Br. 19-20 (describing use of identical methodology in this investigation). Because the ITC has not yet released a public version of its decision in the 630 investigation, Spansion has no way of

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knowing how the Commission attempted to reconcile its conflicting results in the two cases. But considering that it found the same methodology—used by the same expert retained by the same party for the same purpose—to be reliable in one investigation and unreliable in the next, the Commission’s determinations appear to be flatly inconsistent. In the 630 investigation, Tessera fully agreed with that assessment, emphasizing that, “[a]s the ALJ himself noted, the infringement methodology used by Dr. Qu in the 630 Investigation ‘is the same as that used in the 605 Investigation.’” JA0099630-31. Tessera likewise relied on testimony by Dr. Qu himself that “the direct loading analysis used in the 630 Investigation is ‘the exact same analysis’ as in 605 Investigation.” *Id.* (quoting Qu’s testimony). While the Commission assures this Court in a conclusory footnote to its brief that the decisions are consistent, it makes no attempt to explain how that could be. *See* ITC Br. 30.

The apparent inconsistency is significant for three reasons. First, it is arbitrary and capricious, and thus reversible error, for an agency to treat similarly situated entities differently without at least providing a reasoned explanation for doing so (and making it publicly available to both entities). *See County of Los Angeles v. Shalala*, 192 F.3d 1005, 1022 (D.C. Cir. 1999); *cf. McCrary v. Office of Pers. Mgmt.*, 459 F.3d 1344, 1350 (Fed. Cir. 2006) (holding that unexplained departure from past practice is arbitrary and capricious). Indeed, “Government is

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at its most arbitrary when it treats similarly situated people differently.” *Etelson v. Office of Pers. Mgmt.*, 684 F.2d 918, 926 (D.C. Cir. 1982). Thus, not just any explanation will do for treating similarly situated entities differently—it must be a *reasoned* one. *Schucker v. FDIC*, 401 F.3d 1347, 1354-55 (Fed. Cir. 2005). Far from being supported by a legitimate reason, the Commission’s differing treatment of the same methodology appears to be a case of calling something red one day and green the next.

Second, the Commission’s apparent inconsistency reduces the amount of deference to which it would otherwise be entitled. *See Lovshin v. Dep’t of the Navy*, 767 F.2d 826, 840 (Fed. Cir. 1985) (“[D]eference is not due to the extent it would ordinarily be given had the [agency] maintained a consistent position over the years.”); *see also Good Samaritan Hosp. v. Shalala*, 508 U.S. 402, 417 (1993); *Pauley v. BethEnergy Mines, Inc.*, 501 U.S. 680, 698 (1991).

Third, and most important for present purposes, the Commission’s decision in the 630 investigation underscores the unreliability of Dr. Qu’s methodology under *Daubert* even if there is some reasoned basis for treating the two investigations differently. Especially considering that Dr. Qu’s methodology has never been peer-reviewed, has never been accepted or used by others in the field, and has been used only in litigation, its rejection in other litigation—when used by the same expert for the same purpose concerning the same claim limitation—

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provides compelling proof that the methodology lacks the type of technical or scientific pedigree that *Daubert* requires.

While the Commission and Tessera argue that any discussion of the 630 investigation amounts to improper consideration of extra-record evidence, this is not just a question of evidence. *See* ITC Br. 30; Tess. Br. 48. The Commission and ALJ decisions are legal precedents that courts are free to consider whether or not they were placed in the record of a case. *See* ITC Br. 74 n.14 (acknowledging the distinction). And because both decisions were issued *after* the Commission's decision in this investigation, they are a proper subject for judicial notice in any event. *Advanced Software Design Corp. v. Fed. Reserve Bank of St. Louis*, 583 F.3d 1371, 1379 n.3 (Fed. Cir. 2009). [[

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It would be quite an understatement to say that Tessera is now trying to have it both ways. Tessera relies heavily on a number of other adjudications concerning the same family of patents, many of which did not reach a decision on the ultimate

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merits of the cases because of settlements or license agreements. *See* Tess. Br. 14-17, 72-74, 88-89. But Tessera, like the ITC, then turns around and argues that the Commission and this Court are required to ignore completely the two most relevant and recent decisions: the Commission's finding in the 630 investigation that the exact same methodology does not reliably prove infringement; and the Patent and Trademark Office's ("PTO's") final office actions finding all of the asserted claims unpatentable on reexamination. It is absurd to claim that this Court should blind itself to those actions but give weight to the fact that other companies reached licensing agreements.

II. THE PATENT CLAIMS ARE INDEFINITE

While the unreliability of Dr. Qu's methodology and the Commission's inconsistent treatment of that methodology are sufficient reasons to vacate the Commission's decision, it bears repeating that Tessera's resort to a made-to-order, unreliable methodology for proving infringement is borne from the indefinite claim language. Infringement and indefiniteness are separate inquiries, but in this instance it is impossible to divorce Dr. Qu's convoluted infringement methodology from the ambiguous claim language and specification. As the Supreme Court has emphasized, claims must "clearly distinguish what is claimed from what went before in the art and clearly circumscribe what is foreclosed from future enterprise." *United Carbon Co. v. Binney & Smith Co.*, 317 U.S. 228, 236 (1942).

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That requirement is vital because “[a] zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims would discourage invention only a little less than unequivocal foreclosure of the field.”

Id. Claims that require resort to an unreliable, exceedingly complex, made-for-this-litigation-only methodology raise precisely that concern.

The ITC and Tessera argue that this Court’s indefiniteness jurisprudence is forgiving and that the parties agreed to the claim construction below. ITC Br. 57; Tess. Br. 71. But this Court has been clear that, “[i]n and of itself, a reduction of the meaning of a claim term into words is *not* dispositive of whether the term is definite.” *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1371 (Fed. Cir. 2008) (emphasis added) (citing *Halliburton Energy Servs., Inc. v. M-I LLC*, 514 F.3d 1244, 1251 (Fed. Cir. 2008)). Even when a claim can be described in words, this Court has recognized at least two important, and related, requirements: 1) the claim must be “sufficiently precise to permit a potential competitor to determine whether or not he is infringing,” *Morton Int’l, Inc. v. Cardinal Chem. Co.*, 5 F.3d 1464, 1470 (Fed. Cir. 1993); and 2) “some objective standard must be provided in order to allow the public to determine the scope of the claimed invention,” such that, “[w]hen a word of degree is used . . . the patent’s specification [must] provide[] some standard for measuring that degree,” *Datamize, LLC v. Plumtree Software, Inc.*, 417 F.3d 1342, 1350-51 (Fed. Cir.

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2005). Those twin requirements are necessary to “guard against unreasonable advantages to the patentee and disadvantages to others arising from uncertainty as to their rights.” *United Carbon*, 317 U.S. at 232. And neither of them is satisfied here.

At the heart of Spansion’s challenge is the inability to quantify, measure, or otherwise identify the claimed “appreciable” stress relief which is required to meet the “moveable” and “movement” claim limitations. Sp. Br. 15, 18, 27, 34. While the ITC and Tessera claim that Appellants’ experts said they could determine whether the claims were infringed, they do not respond to the contrary showing in Spansion’s opening brief. *See* Sp. Br. 36. [[

]] While the experts agreed to a reduction of the claim limitation to words at some level of generality, they did not agree as to either the ultimate meaning of those words or what would constitute a showing that the claims had been infringed. *See also* Qualcomm Reply § IV; Freescale Reply § I.

In the abstract, one might be tempted to think that appreciable stress relief is the type of limitation that one ought to be able to measure and determine with reasonable certainty. But Tessera’s efforts to prove infringement in this

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investigation (and the 630 investigation) conclusively show otherwise. As discussed in Spansion's opening brief, Dr. Qu went to great lengths—requiring numerous assumptions, substitutions, estimations, and the like—to attempt to prove the claimed movement. Sp. Br. 18-20. And even then, the Commission found infringement in this investigation (though not in the 630 investigation) only by adding to Dr. Qu's convoluted analysis in an attempt to make up for some of the deficiencies in his methodology. By relying on vague and ambiguous claim language, Tessera and Dr. Qu have created a situation where they can (and do) always purport to prove infringement. A competitor attempting to ascertain the bounds of Tessera's patents thus finds itself chasing a moving target fueled by indefinite claim language.

Even if someone were able to derive a principled basis for determining infringement, the claims would still be indefinite because no such objective anchor is set forth in the patent itself. While Tessera argues that expert testimony is sufficient to meet the objective anchor requirement, Tess. Br. 74-76, 79, 80, this Court has made clear that the objective anchor must be found in "the patent's specification." *Datamize*, 417 F.3d at 1351. Thus, even if all experts on all sides agreed on the claims' meaning—which they have not—the law would still require an objective anchor in the patent itself, or at least in the intrinsic record of the patent's prosecution. That disclosure provides part of the *quid pro quo* for the

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patent bargain and permits companies to determine the metes and bounds of a patent's scope *before* they are sued. Tessera does not cite a single case to support the assertion that expert statements during litigation are sufficient, without more, to satisfy the objective anchor requirement set forth in *Datamize*. To be sure, such evidence may be considered. But it cannot usurp the objective anchor requirement.

The ITC suggests that mere recitation of terms of degree within the specification, such as substantial and substantially, constitutes intrinsic evidence of definiteness. ITC Br. 77-78. But substituting one term of degree (substantial) for another (appreciable) hardly brings the required clarity to the claims. The very cases cited by the ITC and Tessera on this point confirm that conclusion by looking to the patent specifications to find objective anchors. In *Oakley, Inc. v. Sunglass Hut International*, 316 F.3d 1331, 1341 (Fed. Cir. 2003), this Court held that the term "vivid colored appearance" was not indefinite because "the specification presents a formula for calculating" whether "the differential effect is either great enough to produce a 'vivid colored appearance' or not." Similarly, in *Exxon Research & Engineering Co. v. United States*, 265 F.3d 1371, 1377 (Fed. Cir. 2001), this Court held that a claim was not indefinite because "[t]he specification defines 'substantially increased' catalyst activity or productivity as an

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increase of at least about 30%,” and “makes it reasonably clear that the patentees intended to use [a specified] method” in making the relevant calculations.¹

Here, in contrast, there is no such objective anchor in the patents for determining whether the “moveable” and “movement” limitations are met. Nowhere does the intrinsic record define “appreciable” or provide examples of how to measure the claimed movement or to ascertain how much movement constitutes infringement. Indeed, beyond bald statements that movement occurs, the intrinsic record is devoid of relevant examples, methodologies, teachings, or explanations on that point. Tessera has used this indefiniteness to its advantage by creating a convoluted, made-to-order methodology that guarantees a finding of infringement. The asserted claims thereby pose the very concerns the indefiniteness requirement exists to prevent.

III. THE COMMISSION’S AWARD OF PROSPECTIVE INJUNCTIVE RELIEF IS NOT IN THE PUBLIC INTEREST

Even if Appellants were liable, the Commission’s award of prospective injunctive relief was nonetheless error because it is not in the public interest and the Commission has failed to provide a reasoned explanation for determining that it is.

¹ The other case cited by Tessera, *Terlep v. Brinkmann Corp.*, 418 F.3d 1379 (Fed. Cir. 2005), is not even an indefiniteness case and thus does not address the indefiniteness issues presented here.

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A. The PTO Reexaminations Are Relevant To Whether Prospective Injunctive Relief Is In The Public Interest

With respect to remedy, the key and undisputed points are that PTO has issued final office actions determining all of the asserted claims to be unpatentable, and Tessera (a licensor, not a competitor) could be made whole by damages in any event. In that circumstance, it makes little sense to harm the public interest in sound competition and patent policy by enjoining conduct that—according to the exhaustive, 1,900-page analysis of three expert examiners in PTO's Central Reexamination Unit—does not infringe a valid patent. If the examiners are upheld on appeal, there will have been massive, unjustified, and irreparable harm incorrectly imposed, and if they are reversed, damages will perfectly compensate a licensor. Sp. Br. 45.

The ITC responds that Congress unambiguously foreclosed it from considering reexaminations in determining whether prospective injunctive relief is in the public interest. ITC Br. 92. Based on that argument, one expects to read an express "thou shall not consider reexaminations" in the statute. In reality, however, Congress merely directed the ITC to order injunctive relief unless the "public health and welfare," among other things, counsel against such relief. 19 U.S.C. § 1337(d)(1). The notion that the "public health and welfare" categorically excludes consideration of objective indicators that a patent may be invalid is entirely the Commission's invention. Congress did not define the term public

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welfare, and it therefore takes its ordinary, natural, and extremely broad meaning. *Asgrow Seed Co. v. Winterboer*, 513 U.S. 179, 187 (1995). The Supreme Court has confirmed that “[t]he public welfare is a broad and inclusive concept” that encompasses “[t]he moral, social, *economic*, and physical well-being of the community.” *Day-Brite Lighting, Inc. v. Missouri*, 342 U.S. 421, 424-25 (1952) (emphasis added); accord Black’s Law Dictionary 1588 (7th ed. 1999). There is no reason to think the reexaminations could not inform the public welfare, and the reexaminations are directly relevant to the public welfare because they demonstrate that the asserted claims are likely invalid and will likely be cancelled after Tessera’s appeals from the reexaminations conclude. Efforts to enforce invalid patents “stifle, rather than promote, the progress of useful arts,” *KSR Int’l v. Teleflex, Inc.*, 550 U.S. 398, 427 (2007), which is precisely why the “suspect validity” of a patent is relevant to the decision whether a permanent injunction is in the public interest. *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 397 (2006) (Kennedy, J., concurring).

While the Commission argues that the *eBay* standard is not directly relevant here, ITC Br. 93-94, that is merely a quibble in light of Congress’s express mandate to consider the broad concept of “public welfare.” In addition, the traditional equitable principles reflected in *eBay* provide further confirmation that, if Congress had wanted to preclude consideration of such public-interest factors, it

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would have said so expressly and would not instead have used such a "broad and inclusive" term, *Day-Brite*, 342 U.S. at 424, as the public welfare. Sp. Br. 38-39.

Thus, the Commission gets matters backwards when it argues that Congress "unambiguously expressed" an intent that the ITC *not* consider the PTO's reexaminations. ITC Br. 92. Because the broad and inclusive term "public welfare" easily encompasses such considerations, the statute unambiguously requires the Commission *to* consider them. *See, e.g., Sabre, Inc. v. Dep't of Transp.*, 429 F.3d 1113, 1124-25 (D.C. Cir. 2005) (holding that broad terms demonstrate breadth, not ambiguity); *Consumer Elecs. Ass'n v. FCC*, 347 F.3d 291, 298 (D.C. Cir. 2003) (Roberts, J.) (same). The agency's refusal to consider the reexaminations as part of its public interest inquiry is therefore contrary to law and arbitrary and capricious, requiring this Court to vacate and remand the ITC's decision and orders for further consideration. *See, e.g., Motor Vehicle Mfrs. Ass'n of the U.S., Inc. v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983).

At a bare minimum, Congress's mandate that the ITC consider the public welfare certainly does not unambiguously *foreclose* the agency from considering reexaminations. Thus, even if this Court concluded that the statute was ambiguous on this issue, the agency's interpretation would still have to be reasonable. *See Chevron U.S.A., Inc. v. Natural Res. Def. Council*, 467 U.S. 837, 843 (1984). As the Commission concedes, its reasoning until now has been that it "would be

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premature to give *dispositive* weight to the PTO proceedings until all appeals have been exhausted.” ITC Br. 96 (emphasis added). As previously explained, however, that is an unreasoned dodge because Spansion does not complain that the Commission failed to give the reexaminations “dispositive,” or even “undue” weight, but that the Commission gave the reexaminations *no* weight at all. Sp. Br. 42.

In this Court, the Commission drops the dodge and asserts that PTO’s reexaminations are altogether irrelevant to its public-interest determination because the Commission “has focused its considerations on matters that have potentially far-reaching and detrimental effects for the public.” ITC Br. 92. Even so, it is very difficult to understand how the potential exclusion of vital products based on a patent claim that is likely invalid, and will likely be cancelled at the conclusion of the reexamination appeals, does not have potentially far-reaching and detrimental effects on the public welfare. Here, for example, the Commission excluded products that are a vital component of critical domestic industries based on a patent subject to objective indications of invalidity based on a suspect methodology and patched-together reasoning. To exclude all that from the public welfare analysis is to shirk the statutory obligation. Moreover, sound patent and competition policy ought to be a key component of the public interest, not a factor that is so tangential as to be disregarded altogether. Indeed, the Commission has

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long recognized that “the protection of a *valid* U.S. patent” is one of the “most significant interests to be balanced.” *In re Certain Display Devices For Photographs And The Like*, USITC Inv. No. 337-TA-30, 1978 WL 50701 (Jan. 12, 1978) (emphasis added). The converse is equally true because, as discussed above, automatic and draconian enforcement of likely *invalid* patents is equally destructive of sound patent and competition policy and the public welfare.²

B. This Issue Is Properly Before The Court

As with the *Daubert* issue discussed above, the ITC and Tessera find themselves arguing both that Spansion did not present this issue below and that the ITC considered and resolved it. ITC Br. 90-91, 95-97; Tess. Br. 42. Once again, they are correct on the second but not the first of those points. Indeed, they cannot even agree on why the issue was not preserved. The ITC argues that Appellants did not raise the issue at all, ITC Br. 90-91, while Tessera contends that “Spansion purported to preserve this argument before the Commission without actually providing any argument about it, and thereby waived it,” Tess. Br. 89 n.29.

Neither is correct.

² Tessera argues that the ITC reasonably disregarded the PTO proceedings because they were based on different claim constructions than those used here. Tess. Br. 92. While that may have some bearing on the persuasive value of the reexaminations with respect to the merits of some (though not all) of the issues raised on appeal, it has nothing to do with the remedial determination whether it would be in the public interest to enjoin competitive conduct on the theory that it infringes claims that are likely invalid and will likely be cancelled at the conclusion of the reexamination appeals.

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Appellants extensively briefed the relevance of the reexaminations when they asked the Commission to stay its proceedings pending the conclusion of the reexaminations. JA0013326-43. When Appellants later briefed the remedial issue now before this Court, they again argued that “it would be contrary to the public interest for the Commission to impose any remedy . . . pending resolution of the Patent Office’s standing rejections of the asserted patent claims,” and “incorporate[d] by reference the arguments and evidence submitted in connection with” the stay motion. JA0105059 n.100. While the remedial briefing on this issue was limited to a cursory footnote and cross-reference, that brevity reflects that the ITC had already determined, in the course of denying a stay, to disregard the reexaminations. By relying on the reasoning of its stay decisions in its brief to this Court, the ITC has again confirmed that it views the stay and remedial issues as being the same, and that any further argument on the point would have been futile. *See* ITC Br. 95-97. Accordingly, Appellants were not required to engage in the pointless exercise of pressing the issue further before the Commission. *See, e.g., CollegeNet, Inc. v. ApplyYourself, Inc.*, 418 F.3d 1225, 1234 (Fed. Cir. 2005).³

³ In addition, because the question here is whether injunctive relief is in the *public* interest, this Court should be very reluctant to find waiver or forfeiture by a *private* party. “[A] statutory right conferred on a private party, but affecting the public interest, may not be waived or released if such waiver or release contravenes the statutory policy.” *Brooklyn Sav. Bank v. O’Neil*, 324 U.S. 697, 704 (1945). This Court has explained that, “[a]lthough it is true that private rights may be affected by [the ITC’s] § 337 determinations, the thrust of the statute is directed toward the

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IV. THE ITC'S ORDERS MUST BE VACATED AT LEAST WITH RESPECT TO CONTRIBUTORY INFRINGEMENT OF THE '419 PATENT

At a bare minimum, this Court should vacate the portion of the ITC's decision and orders that prohibit contributory infringement of the '419 patent. Those orders were overbroad when entered because they prohibited *all* contributory infringement based only on evidence of a *single* direct infringer (Motorola). That runs contrary to the traditional equitable principle that injunctions must be narrowly tailored, as well as this Court's decision in *Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1274 (Fed. Cir. 2004). Sp. Br. 49-50. And now that Motorola and Tessera have entered into a license permitting Motorola to practice the claims of the '419 patent, Appellants' supply of components to Motorola is no longer unlawful in any event. Thus, this Court should vacate the portions of the ITC's decision and orders that prohibit contributory infringement of the '419 patent, and remand. Sp. Br. 52.

Tessera's contention that "the Commission expressly relied on evidence that many of Appellants' customers directly infringe" is false. Tess. Br. 60. The

protection of the public interest" *Akzo N.V. v. ITC*, 808 F.2d 1471, 1488 (Fed. Cir. 1986). Especially considering that the statute *expressly* calls for consideration of the public welfare, it is at best questionable whether this issue can be waived or forfeited by a private party. *See Zedner v. United States*, 547 U.S. 489, 500-01 (2006). In any event, even under the preservation principles applicable to purely private rights, Appellants were not required to belabor the point further, as explained above.

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totality of the Commission's statements regarding direct infringement of the '419 patent are the following:

- "The [Commission investigative attorney] alleges that evidence of direct infringement resides with Motorola, one of the named respondents in this investigation. We agree that the evidence shows that Motorola incorporates the accused devices into its products." JA0000053.
- "[T]he evidence shows that Motorola directly infringes the '419 patent by incorporating the accused devices into its products." JA0000055.

Because those are the Commission's sole statements addressing the question whether any company directly infringed the asserted claims, the Commission relied solely on Motorola in this regard.

The Commission asserts that "[t]he record contains, and the Commission *elsewhere* cited, evidence that various other of Appellants' customers have also mounted the accused packages onto circuit boards." ITC Br. 65 (emphasis added). In the Commission's view, "these customers, too, directly infringe the '419 patent, thus imputing contributory liability to Appellants." *Id.* [[

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]] See JA0022724-38,

0022743-53. Even if the customer listings were proof of direct infringement—and they are not—they could supply such proof at most with respect to those two particular Appellants, which do not include Spansion.

In addition, a customer list, standing alone, cannot prove direct infringement. As Tessera emphasizes, it has been a very active licensor. To prevail as to any Appellant, Tessera would have to show that the Appellant shipped an affected product in the United States to a company that does not have a license. Sp. Br. 50. Tessera would also have to show that the recipient company directly infringed by attaching one of the Appellants' packages to a printed circuit board in an infringing manner. The mere customer lists, however, do not establish those facts. More broadly, given the enormous consequences of a contributory infringement finding, the Commission's guilt-by-association standard for keeping its injunction in place does not remotely suffice.

The Commission argues primarily that this Court should not consider this issue because Appellants have not filed a petition pursuant to 19 C.F.R. § 210.76(a), which states that a person "may" petition the Commission to modify or set aside an order based on changed circumstances. ITC Br. 62-63. But whether a party *must* exhaust administrative remedies before seeking judicial review is a "case-specific" question that turns on a weighing of factors, including

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“judicial efficiency” and avoiding “prejudicial delay.” *Maggitt v. West*, 202 F.3d 1370, 1377 (Fed. Cir. 2000). Spansion fully exhausted its administrative remedies in the proceedings leading up to the Commission’s final decision and orders. Going back to the ITC for another round of proceedings before taking an appeal to this Court would have produced further delay. In part for that reason, a party is generally *not* required to seek reconsideration in order to exhaust administrative remedies. See *Int’l Harvester Co. v. Ruckelshaus*, 478 F.2d 615, 632 (D.C. Cir. 1973); *Placeway Constr. Corp. v. United States*, 920 F.2d 903, 906 (Fed. Cir. 1990). Especially considering that Appellants are currently laboring under the Commission’s injunctive orders, and that the patents will expire later this year, further delay was not practical. Instead, the only practical, and by far the most efficient, course is for this Court to consider all of the issues now, including the absence of proof of direct infringement of the ‘419 patent.

That course is especially appropriate here for two additional reasons. First, appellate courts typically consider whether conduct is no longer unlawful in light of intervening developments, and vacate lower court or agency rulings when that is the case. Indeed, this Court has done so in an ITC action before. See, e.g., *Tex. Instruments, Inc. v. ITC*, 851 F.2d 342, 344 (Fed. Cir. 1988) (vacating and remanding to ITC); *Can. Lumber Trade Alliance v. United States*, 517 F.3d 1319,

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1338-39, 1344 (Fed. Cir. 2008) (vacating and remanding to Court of International Trade). The ITC cites *no* case in which an appellate court declined to do so.

Second, as the Commission concedes, exhaustion is not required when it would be futile. ITC Br. 63. While the Commission argues that exhaustion would not necessarily be futile, it goes on to assert that customers other than Motorola “directly infringe the ‘419 patent, thus imputing contributory liability to Appellants.” ITC Br. 65. Thus, the Commission’s arguments on the merits of this issue make clear that further exhaustion of administrative remedies would not only be inefficient and impractical, but also futile.

V. THE ITC’S DECISION AND ORDERS SHOULD BE VACATED FOR THE ADDITIONAL REASONS IDENTIFIED IN THE OTHER APPELLANTS’ BRIEFS

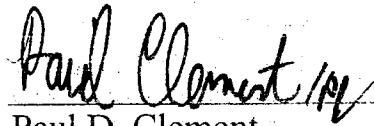
Tessera asserts that some issues were raised only by some Appellants, not including Spansion. *E.g.*, Tess. Br. 82. In its opening brief, however, Spansion expressly incorporated by reference all of the other issues and arguments raised in the other Appellants’ briefs. Sp. Br. 53. It continues to do so here.

CONCLUSION

The Commission's decision and orders should be reversed or, in the alternative, vacated and remanded.

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Respectfully Submitted,



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