

On appeal from the United States International Trade Commission in
Investigation No. 337-TA-630.

Intervenor.

KINGSTON TECHNOLOGY COMPANY, INC.,

and

Intervenor,

RAMAXEL TECHNOLOGY LTD.,

and

Intervenor,

ACER, INC., ACER AMERICA CORPORATION, NANYA TECHNOLOGY
CORPORATION, NANYA TECHNOLOGY CORPORATION U.S.A.,
and POWERCHIP SEMICONDUCTOR CORPORATION (now known as
Powerchip Technology Corporation),

and

Intervenor,

SMART MODULAR TECHNOLOGIES, INC.,

and

Intervenor,

ELPIDA MEMORY, INC. and ELPIDA MEMORY (USA) INC.,

and

Appellee.

INTERNATIONAL TRADE COMMISSION,

v.

Appellant,

TESSERA, INC.,

2010-1176

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

NONCONFIDENTIAL VERSION

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U.S. COURT OF APPEALS FOR
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CERTIFICATE OF INTEREST OF TESSERA, INC.

Counsel for Appellant Tessera, Inc., certifies the following:

1. The full name of every party, movant, or amicus curiae represented by the undersigned is: Tessera, Inc.
2. The parties named in the caption are the real parties in interest represented by the undersigned.
3. All parent corporations and any publicly held companies that own 10% or more of the stock of the party, movant, or amicus curiae represented by the undersigned are: Tessera Technologies Inc.
4. The names of all law firms and the partners or associates that appeared for the party, movant, or amicus curiae now represented by the undersigned in the trial court or agency or are expected to appear in this Court are:

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TABLE OF CONTENTS

Page

TABLE OF ABBREVIATIONS ix

INTRODUCTION 1

I. TESSERA'S NOTICE OF APPEAL WAS TIMELY 3

II. PATENT EXHAUSTION CANNOT ARISE FROM UNLICENSED, UNAUTHORIZED SALES 6

A. Out Of "Chaos" Comes Order 9

B. ITC/Respondents Point To Everything But The Contract 12

1. This Court Reviews Contract Interpretation *De Novo* 13

2. The Grace Period Does Not Create An Implied License 14

3. The Mere Promise To Pay Royalties Is Not The Agreed Reward For Tessera's Innovation 15

4. ITC/Respondents Conflate Terminating A License With Never Having One 16

C. Respondents' Assertion Of An Exhaustion Defense Cannot Compel Tessera To Seek Relief From Nonparty Licensees 18

D. ITC/Respondents Cannot Erase The Contract Language 21

E. Finding "Exhaustion" Without An Authorized First Sale Would Compromise The ITC's Statutory Mandate 23

F. Elpida Did Not Present Evidence That Elpida's Products Were 100% Licensed Under Any Theory 25

III.

THE WBGA NONINFRINGEMENT FINDING WAS BASED ON AN ERRONEOUS CONSTRUCTION OF THE TERM "TOP LAYER."

A. The ITC's Construction Was Changed, And Changed Erroneously..... 28

B. Under The Proper Construction, The WBGA Products Infringe..... 32

1. The "Top Layer" Of Every Accused WBGA Product Incorporates Solder Mask..... 33

(a) The Solder Mask Is Literally The "Layer" On "Top"..... 33

(b) Consideration Of The Infringing Accused μ BGA Products Is Instructive..... 35

2. The Asserted Claims Do Not Restrict How The Terminals Are Fabricated..... 38

3. The Solder Mask Of The Accused WBGA "Carries the Terminals" In The Same Way As The Polyimide of the Accused μ BGA..... 39

4. The Solder Mask Is Plainly "In Contact With" The Terminals..... 41

5. The Solder Mask Layer In These Products Cannot Be A "Protective Barrier"..... 44

6. The Accused WBGA Also Infringe Because The Substrate Core And Solder Mask Form A Composite "Top Layer"..... 45

C. Remand Is Unnecessary To Find The Dependent Claims Infringed..... 46

NONCONFIDENTIAL VERSION

Page

| | | |
|-----|--|----|
| IV. | MULTIPLE TRIBUNALS HAVE REJECTED RESPONDENTS' INVALIDITY THEORIES..... | 46 |
| | A. Juskey, '759..... | 47 |
| | B. Worp, '366..... | 48 |
| | C. Chia, '349..... | 50 |
| V. | THE EXPIRATION OF THE KHANDROS PATENTS CALLS FOR VACATUR AND REMAND OF THAT PORTION OF THE APPEAL..... | 51 |

NONCONFIDENTIAL VERSION

TABLE OF AUTHORITIES

Page(s)

Cases

Alfred E. Mann Found. v. Cochlear Corp.,
604 F.3d 1354 (Fed. Cir. 2010)..... 13

Allied Corp. v. ITC,
782 F.2d 982 (Fed. Cir. 1986)..... 5

Alturas v. Gloster,
16 Cal. 2d 46 (1940)..... 19

Bandag, Inc. v. Al Bolser's Tire Stores, Inc.,
750 F.2d 903 (Fed. Cir. 1984)..... 14

Broadcom Corp. v. ITC,
542 F.3d 894 (Fed. Cir. 2008)..... 5

Colonial Sav. & Loan Ass'n v. Redwood Empire Tile Co.,
236 Cal. App. 2d 186 (1965)..... 22

Cordis Corp. v. Medtronic, Inc.,
835 F.2d 859 (Fed. Cir. 1987)..... 19

Ecolab, Inc. v. FMC Corp.,
569 F.3d 1335 (Fed. Cir. 2009)..... 37

Ferris v. Coover,
10 Cal. 589 (1858)..... 22

Frankel v. Bd. of Dental Examiners,
46 Cal. App. 4th 534, rev. denied (1996)..... 22

Hyundai Elecs. Indus. Co. v. ITC,
899 F.2d 1204 (Fed. Cir. 1990)..... 10, 11

ICU Medical, Inc. v. Alaris Medical Systems,
558 F.3d 1368 (Fed. Cir. 2009)..... 29

In re Marriage of Thompson,
41 Cal. App. 4th 1049 (1996)..... 26

In re Princo Corp., 486 F.3d 1365 (Fed. Cir. 2007) 3

Jazz Photo Corp. v. ITC, 120 Fed. Appx. 367 (Fed. Cir. 2005) 5

Lisle Corp. v. Edwards, 777 F.2d 693 (Fed. Cir. 1985) 17, 18

Mayfield v. Nicholson, 444 F.3d 1328 (Fed. Cir. 2006) 14

Meyer v. Sprint Spectrum L.P., 45 Cal. 4th 634 (2009) 19

MJK Clearing, Inc. v. Greenblatt, 408 F.3d 512 (8th Cir. 2005) 15

Netcraft Corp. v. eBay, Inc., 549 F.3d 1394 (Fed. Cir. 2008) 29

Pacific Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co., 69 Cal.2d 33 (1968) 13

Phillips v. AWH Corp., 415 F.3d 1303 (Fed. Cir. 2005) 29

Quanta Computer, Inc. v. LG Elecs., Inc., 128 S.Ct. 2109 (2008), *rev'g* 453 F.3d 1364 (Fed. Cir. 2006) 19, 20

Ransom v. Penn Mut. Life Ins. Co., 43 Cal. 2d 420 (1954) 21, 22

Rubin v. Fuchs, 1 Cal. 3d 50 (1969) 22

San Diego Constr. Co. v. Mannix, 175 Cal. 548 (1917) 21

Texas Instruments v. ITC, 851 F.2d 342 (Fed. Cir. 1988) 52

Texas Instruments, Inc. v. ITC, 988 F.2d 1165 (Fed. Cir. 1993) 23

Trading Techs. Int'l, Inc. v. eSpeed, Inc., 595 F.3d 1340, *reh'g denied* (Fed. Cir. 2010) 28

Trintec Indus., Inc. v. Top-U.S.A. Corp., 295 F.3d 1292 (Fed. Cir. 2002) 49

U.S. v. Hollywood Motor Car Co., 458 U.S. 263 (1982) 4

Vastfame Camera, Ltd. v. ITC, 56 Fed. Appx. 494 (Fed. Cir. 2003) 5

Vita-Mix Corp. v. Basic Holding, Inc., 581 F.3d 1317 (Fed. Cir. 2009) 28

Wilson v. Sandford, 51 U.S. 99 (1850) 21

Young Eng'rs, Inc. v. ITC, 721 F.2d 1305 (Fed. Cir. 1983) 26

Administrative Determinations

Certain Acid-Washed Denim Garments And Accessories, Inv. No. 337-TA-324, USITC Pub. 2576, Comm'n Op., 1992 ITC LEXIS 697 (11/1992) 24

Certain Molded-In Sandwich Panel Inserts and Methods for their Installation, Inv. No. 337-TA-99, USITC Pub. 1297, Comm'n Op. (10/1982), 1982 ITC LEXIS 137 26

Certain Stringed Musical Instruments and Components Thereof, Inv. No. 337-TA-586, 2009 ITC LEXIS 2250 (5/16/2008) 24

Certain Sucralose, Sweeteners Containing Sucralose, And Related Intermediate Compounds Thereof, Inv. No. 337-TA-604, USITC Pub. 4139, Comm'n Order, 2010 ITC LEXIS 630 (4/6/2009) 11

| | |
|------------------------------|--------|
| 19 C.F.R. §210.42(h)(2)..... | 4 |
| 19 U.S.C. §1337..... | passim |
| Cal. Civ. Code §1582..... | 25 |
| Rules | |
| Fed. Cir. R. 32.1..... | 5 |

In this nonconfidential version of the reply brief, confidential business information subject to the January 14, 2008 protective order in this Investigation (JA642-54) has been redacted.

NONCONFIDENTIAL VERSION

TABLE OF ABBREVIATIONS

| | |
|---------|--|
| ALJ | Administrative Law Judge |
| ANP | Intervenors Acer, Inc., Acer America Corporation, Nanya Technology Corporation, Nanya Technology Corporation U.S.A., and Powerchip Semiconductor Corporation |
| ANPBr | Confidential Brief of ANP (filed July 20, 2010) |
| EBr | Confidential Brief of Elpida (filed July 20, 2010) |
| Elpida | Intervenors Elpida Memory, Inc and Elpida Memory (USA), Inc. |
| ITC | Appellee The United States International Trade Commission |
| ITCBr | Confidential Brief of ITC (filed July 20, 2010) |
| JA | Joint Appendix page number(s) |
| KBr | Brief Of Intervenor Kingston Technology Company, Inc. (filed July 20, 2010) |
| TAOBr | Confidential Opening Brief Of Tessera (filed May 27, 2010) |
| Tessera | Appellant Tessera, Inc. |

INTRODUCTION

This appeal may be notable less for the parties' disputes about the

infringement of the '106 Patent than for the remarkable positions the ITC has taken about its role in the enforcement of §337. The ITC, cheered on by the infringing Respondents, advances an aggressive new "exhaustion" theory that uproots that

doctrine from its proper role, which is to ensure that patentees receive the reward for their invention once, but not twice. The ITC's new theory would immunize the importation of infringing goods on which not even a *single* payment has been made, and depends on the view that an unpaid sale is "authorized" even if it is subject to a license agreement that states the opposite. According to the ITC, a licensor's bare and unfulfilled promise to pay is all that is needed to exhaust a

patentee's rights against any and all third parties. Under this theory, the United States would be powerless to block even a billion dollar influx of unlicensed, infringing goods on which the required royalties had never been paid. The ITC's only response is that the remedies that were available before Congress enacted §337 would still be available.

What rationale does the ITC provide for such a rule? It says that "chaos"

would ensue if Respondents had to proffer a form verifying that royalties on goods that practice Tessera's patents were paid for under the terms of the agreement.

ITC/Respondents invoke the specter of administrative "chaos" even though the

ITC and Customs routinely and successfully administer similar forms in enforcing §337. Abdication of the ITC's statutory mandate and an unprecedented expansion of the exhaustion doctrine cannot be justified by the assertion that neither the ITC nor Respondents can administer a one page report.

The ITC's exhaustion theory is coupled to a "waiver" argument that would insulate that theory from review. But the waiver claim flies in the face of the ITC's own regulations and practice and is inconsistent with its conduct and that of the Respondents in this appeal. If accepted, it would trigger a flood of wasteful, piecemeal appeals that would needlessly burden both the ITC and this Court.

The '106 infringement and invalidity issues are straightforward. The record demonstrates that the ITC imported an incorrect new limitation from the specification into the claims before analyzing infringement, improperly altering the correct claim construction that it had earlier adjudicated. Seeking to transform legal error into factual judgment, the Respondents hunt fruitlessly for evidence to support the ITC's finding that an internal layer buried in an accused package can be its "top layer." Finally, Respondents attack the ITC's swift rejection of their invalidity defense. But none of their arguments, under any claim construction, can make the very different encapsulation methods found in the prior art resemble, let alone anticipate, the '106 Patent's widely licensed claims.

I. TESSERA'S NOTICE OF APPEAL WAS TIMELY.

The ITC makes a startling new argument: according to the ITC, Tessera

waived its appeal on exhaustion because it did not file a Notice of Appeal within

sixty days of the ITC's October 30, 2009 Notice of Commission Determination to

Review in Part ("Notice Of Partial Review"). ITCBr37-42;JA50-53. The ITC also

claims that the Notice of Partial Review terminated Elpida from the Investigation

"entirely." ITCBr41. These arguments collide with the ITC's regulations, the

policies behind them, the ITC's and Respondents' own conduct, and this Court's

precedents.

Governing Statute And Regulation: This appeal is governed by §337(c),

which requires that "[a]ny person adversely affected by a *final determination* of

the Commission... may appeal such determination, within 60 days after the

determination becomes final." "Finality is variously defined; like many legal

terms, its precise meaning depends on context." *In re Princo Corp.*, 486 F.3d

1365, 1367 (Fed. Cir. 2007). The question, then, is whether the Notice of Partial

Review constitutes a "final determination."

The ITC's own regulations provide the answer:

An initial determination under §210.42(a)(1)(i) shall become the

determination of the Commission 60 days after the date of service of
the initial determination, *unless the Commission* within 60 days after

¹ Emphases herein are added.

the date of such service shall have ordered review of the initial determination or *certain issues therein*

19 C.F.R. §210.42(h)(2).

This regulation is unequivocal: because the ITC ordered review of "certain issues" in the ALJ's initial determination, JA50-53, the initial determination did *not* become "the determination" 60 days after being served; rather "the determination" of the ITC was the 1/4/10 *Final Determination* of the Commission that reviewed "certain issues therein." *Id.* The ITC's waiver argument directly contradicts this regulation.

If §210.42(h)(2) left room for doubt, the following considerations would

lead to the same inevitable result:

Policy Considerations: §210.42(h)(2) prevents piecemeal and potentially

unnecessary appeals. *See, e.g., U.S. v. Hollywood Motor Car Co.*, 458 U.S. 263,

265 (1982) (piecemeal appeals disfavored). It would be grossly inefficient to

require *seriatim* appeals of interim "final" ITC decisions that resolve only pieces of

a patent infringement inquiry, or address issues relevant to only one respondent. In

this appeal, the ITC seemingly demands that review of an *affirmative defense* to

infringement, asserted by all respondents (exhaustion) but allegedly dispositive for

only one (Elpida), must proceed separately from review of any finding on

infringement. The procedure advocated by the ITC would impose unacceptable burdens on the ITC, complainants, respondents, and this Court.

Case Law: *Neither Allied Corp. v. ITC* nor *Broadcom Corp. v. ITC*

addresses whether a notice of partial review constitutes a final, appealable decision. Both involved undisputedly final determinations finding some patents valid and others invalid, and the question was whether the patentee who wished to appeal on invalidity was required to appeal immediately or wait for the Presidential review period to pass. 782 F.2d 982, 983-84 (Fed. Cir. 1986); 542 F.3d at 894, 896-97 (Fed. Cir. 2008). Neither case considered issues relating to affirmative defenses such as exhaustion—defenses that cannot be “finally” resolved in isolation from the underlying infringement claim.

In situations analogous to this case, this Court has dismissed appeals like the one the ITC asserts Tessera should have filed—often in reliance on the ITC’s own arguments and motions that they were premature. *E.g., Vastfame Camera, Ltd. v. ITC*, 56 Fed. Appx. 494, 495 (Fed. Cir. 2003) (dismissing some appeals as premature where notice of appeal was filed immediately after notice that ITC would partly review initial determination); *cf. Jazz Photo Corp. v. ITC*, 120 Fed. Appx. 367, 368 (Fed. Cir. 2005).²

² Tessera cites these nonprecedential cases for issue preclusion purposes. Fed. Cir. R. 32.1.

The Parties' Actions: Finally, the ITC's and Elpida's own actions confirm

that the Notice of Partial Review was not a final determination, and that neither

party ever believed it was anything of the kind.

- The Notice of Partial Review itself recognized that "final disposition" of the case would occur in the future. In contrast, the ITC noticed the "Final Determination" as a "final determination." JA45.

- The ITC Staff continued to brief the exhaustion issues to the ITC after the Notice of Partial Review issued. JA3597,3614-15,3618.

- Two months after the Notice of Partial Review, the ITC's December 2009 Notice of Final Determination described Elpida as a Respondent that "remains in the investigation." JA45-46.

- The ITC's "Final Determination" expressly affirmed the ALJ's finding of patent exhaustion—a superfluous affirmation if the Notice of Partial Review had been a final determination. JA47.

- Belying the new claim that it was long ago "terminated" from the investigation and any appeal waived, Elpida continued to participate in all stages of this case after the Notice of Partial Review issued, JA2765-67;JA3543,3546;EBR—and was granted intervention in this appeal based on its representation to this Court that it "remained in the investigation as respondent until the investigation concluded on January 4, 2010." Elpida I/22/2010 Mot. To Intervene at 2.

II. PATENT EXHAUSTION CANNOT ARISE FROM UNLICENSED, UNAUTHORIZED SALES.

ITC/Respondents admit that "authorization" is the critical requirement to

effectuate a patent-exhausting first sale. ITCBr42;EBR11;ANPBr58.

ITC/Respondents further concede that the limits, scope, and conditions of any such

“authorization” are to be gleaned in this case solely from the terms of Tessera’s license agreements with Respondents’ suppliers. ITCBr43;EBr14-15;ANPBr58. ITC/Respondents nonetheless insist that when the express terms and conditions of Tessera’s license agreements are not met—and no license payment is made—the doctrine insulates the Respondents from any infringement finding and any exclusion order. In short, Respondents rally behind the ALJ’s determination that an “authorized” sale can occur without authorization.

As the ITC acknowledges, the patent exhaustion doctrine ensures that patentees receive their reward for their innovations, while precluding unjust double recoveries. ITCBr50;TAOB53. But the record evidence here demonstrated that Tessera was not paid the requisite royalties on certain Accused Products even *once*. The license agreements at issue make clear that Tessera does not grant a license on any product that practices its patents until the royalty owed on that product has been paid. Thus, ITC/Respondents simultaneously stretch the exhaustion doctrine beyond its acknowledged purpose and run roughshod over the express terms of Tessera’s licenses.

The fulcrum for these arguments is a parade of horrors about the administrative “chaos” that would befall the ITC and the microelectronics industry if the Court were to enforce the terms of Tessera’s license agreements or limit the

exhaustion doctrine to its proper role. But the parade is imaginary, and in any case would not justify a departure from existing exhaustion principles or the terms of the relevant license agreements. Regrettably, neither the ITC nor Respondents inform the Court that all Respondents would have to do to prove an *actual* exhaustion is to produce a simple verification from their suppliers that the required royalties due on Accused Products were paid—no more complicated than the one-page letter

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Similarly, if goods subject to an exclusion order were being imported during the grace period before royalties were due under the terms of the agreement, a Respondent would simply have to affirm that the Respondent's supplier was a licensee in good standing, and had made payments as provided for under the terms of the operative license. This omission is particularly jarring coming from the ITC, which routinely uses similar procedures in the form of certifications to enable Customs and Border Patrol ("CBP") to enforce its remedial orders. Filing or presenting a one page document is a *de minimis* burden, and hardly a basis for untoward extensions of the law or studied misreadings of license contracts. Because the actual license terms are inconsistent with their exhaustion theory, ITC/Respondents are driven first to ignore, and then to batter the terms until they can be squared with the ITC/Respondents' starting point—that the

burden of obtaining a one-page verification requires that the exhaustion theory be

transformed into a complete bar to relief from infringement, whether or not

authorized sales have occurred.

In elevating the supposed dangers of an imagined administrative “chaos”

over the interest in protecting U.S. patentholders from imported infringing

products, ITC/Respondents ignore the ITC’s statutory mandate to protect

American businesses from unfair competition. They would allow infringing

importers to evade the ITC’s enforcement authority merely by pointing to a third

party license agreement that the importer knows is being ignored.

A. Out Of “Chaos” Comes Order.

ITC/Respondents argue that this Court should not give effect to the plain

language of Tessera’s license agreements because doing so would lead to “chaos.”

ITCBr52,56;EBR30-32. The horrors that ITC/Respondents parade include the

hypothesized inability of downstream manufacturers to know whether products are

licensed, crushing burdens on CBP, and the specter of Respondents being

conscripted into acting as Tessera’s license “police.” ITCBr56,EBR32. All

nonsense, especially in light of the ease with which Respondents can obtain

verification from their suppliers that the terms of Tessera’s agreements have been

satisfied, and royalties paid.

This Court has explained that the “rationale underlying the issuance of general exclusion orders [is] placing the risk of unfairness associated with a prophylactic order upon potential importers rather than American manufacturers.” *Hyundai Elec. Indus. Co. v. ITC*, 899 F.2d 1204, 1210 (Fed. Cir. 1990). Here, ITC/Respondents insist that all the risk be reversed, from importers who buy unlicensed products, to Tessera. No justification exists for such a reversal. As customers of Tessera’s licensees, Respondents can simply ask that these licensees send a short letter—or even just check off a box on a form—to confirm that all royalties have been paid on the products at issue. TAOB63-65;JA0182624. Similarly, in situations in which Respondents must prove exhaustion or import goods subject to an exclusion order during the grace period before royalties are due on Accused Products, Respondents need simply to produce verification that their supplier is a licensee in good standing. JA0103020-21(3151:16-3152:6). It is particularly disconcerting that the ITC ignores this simple solution, because the ITC regularly relies on a similarly simple certification procedure in its remedial orders. For example, in *Hyundai*, the ITC ordered that “persons seeking to import [computers] shall, prior to the entry...of such products into the U.S., certify that they have made appropriate inquiry and thereupon state that to the best of their knowledge and belief any [infringing memory devices] incorporated into,

assembled onto, or contained in such products are not covered by this Order.” 899 F.2d at 1207. Through this certification provision, the ITC provided that Hyundai computer products would not be excluded from entry if Hyundai could certify that they did not contain the infringing memory devices. Hyundai challenged the adoption of this provision, but this Court rejected that challenge, holding instead that the certification provision was a “careful and common-sense balancing of the parties’ conflicting interests” and fashioned with “sensitivity and objectivity.” *Id.* at 1209. The ITC continues to use certification provisions today in a form almost unchanged from that affirmed in *Hyundai*. E.g., *Certain Sucralose, Sweeteners Containing Sucralose, And Related Intermediate Compounds Thereof*, Inv. 337-TA-604, USITC Pub. 4139, Comm’n Order, 2010 ITC LEXIS 630, *6-*7 (4/6/2009).

The ITC hypothesizes that the supposed “chaos” fomented by Tessera’s

license agreements would also include double payments to Tessera. ITCBr52. It chooses to ignore the fact that Respondents can simply verify, based if needed on information from suppliers, that required royalties have already been paid,

eliminating the imagined “horrible” of double payment. ITCBr52. Tessera made clear, over and over again, that it did not seek, and would not accept, any “double

³ Elpida complains that this language does not appear in the license agreements of some of its suppliers. EBr24. Yet Elpida fails to explain how the
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attention everywhere but the text of the agreements, even though each agreement contract language, ITC/Respondents defend their positions by directing the Court's Faced with such clear

rely, REDACTED admitted by one of Tessera's licensees, upon whose license Respondents seek to

³ As

57. Tessera grants a license REDACTED that illusion. But Tessera's license agreements could hardly be clearer. TAQB56- ITC/Respondents must distract the Court from the contracts at issue to maintain Having prophesied a dire, but illusionary, vision of "chaos,"

B. ITC/Respondents Point To Everything But The Contract.

101060-62,101070-72(1207:6-11); JA155390,155414-179. royalties." JA17689,17690; JA100847-49,100877-79(1014:3-20); JA100937,

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1. This Court Reviews Contract Interpretation De Novo.

ITC/Respondents distort the standard of review, and the contract analysis, by elevating parole evidence over the plain text. The ITC suggests that the Court must affirm the ALJ's contract interpretation so long as it is supported by "substantial evidence." ITCBr44. Yet even ANP concedes that "interpretation of a contract presents a question of law that [the Court] reviews[s] de novo." *Alfred E. Mann Found. v. Cochlear Corp.*, 604 F.3d 1354, 1359 (Fed. Cir. 2010); ANPBr58n.8. Attempting to recharacterize this determination as one turning on issues of fact, the ITC focuses on parole evidence, and argues that the plain text of the agreements is inconsistent with that extrinsic evidence. ITCBr44-48. But in California, parole evidence is only admissible to interpret contract terms if the court decides, after considering the proffer, that the contract language is ambiguous. *Pacific Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co.*, 69 Cal.2d 33, 39-40 (1968). Even then, "extrinsic evidence is not admissible to add to, detract from, or vary the terms of a written contract." *Id.* at 39. Moreover, the ALJ made no finding that parole evidence is admissible in this investigation, and his determination did not rely on parole evidence. JA204-10. Accordingly, this Court

cannot rely on it as a basis to support the determination. *Mayfield v. Nicholson*, 444 F.3d 1328, 1334 (Fed. Cir. 2006) (courts “generally may not sustain the agency on a ground different from that invoked by the agency”). Even were this Court to delve into the “expert” evidence cited by ITC/Respondents, it consisted simply of unsubstantiated generalizations about licensing practice—and was introduced to contradict, rather than clarify, the meaning of the provisions at issue. ITCBr44-45;EBR22-27.

2. The Grace Period Does Not Create An Implied License.

ITC/Respondents make much of the fact that Tessera’s licenses typically grant a grace period **REDACTED** before royalties must be paid. They argue that this grace period implies the grant of a license to specific products before royalties are paid thereon. EBr16-17;ANPBr57;ITCBr15. This argument is without merit. “A mere sale does not import a license except where the circumstances plainly indicate that the grant of a license should be inferred.”

Bandag, Inc. v. Al Bolser’s Tire Stores, Inc., 750 F.2d 903, 925 (Fed. Cir. 1984). No license can be inferred by Tessera’s mere willingness to refrain from an infringement suit during the contractual grace period in light of the express condition—which appears twice—that *no license is granted until after the royalties owed are actually paid*. Nor could such a license be implied without

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ignoring

3. The Mere Promise To Pay Royalties Is Not The Agreed Reward For Tessera's Innovation.

ITC/Respondents next argue that Tessera receives its "consideration" for the license on particular products when it receives the mere promise to pay royalties in the future. EBr10-11,19;ANPBr63;ITCBr50-51. This argument fails for multiple reasons, as is made clear by the very authorities ITC/Respondents cite. First, the consideration question considers whether a contract is *valid*, e.g., *MJK Clearing, Inc. v. Greenblatt*, 408 F.3d 512, 516 (8th Cir. 2005), not whether an undisputedly valid contract can be used to support an exhaustion defense. Here, Tessera seeks not to invalidate its agreements, but rather to have the express terms of these agreements upheld.

Second, even were the question of consideration relevant here, none of ITC/Respondents' cases holds that, as a matter of law, a patentee *must* accept the mere promise to pay royalties as the consideration for a license. The *MJK* court, for example, stated only that "[a] promise to perform an act in the future *may* constitute consideration for a promissory note." *MJK*, 408 F.3d at 516. Although

⁴ The ITC argues that “under Tessera’s reading of the case law, contracts that call for running royalties escape patent exhaustion.” ITCBr51,54. Wrong. Tessera’s license agreements do not “escape” patent exhaustion—they straightforwardly require that a royalty be paid before it can occur.

ITC/Respondents make several arguments premised on the fact that the license agreements make failure to pay royalties a ground for termination. These arguments confuse breach of contract with failure to obtain a license. The ITC says Tessera’s “entire argument” hinges on the claim that if a licensee does not pay royalties on a specific product “the contract ceases to exist for that product.” ITCBr42. Nonsense. Tessera’s position is the exact opposite: if a licensee fails to pay royalties owed on specific products, Tessera need not terminate the contract, although it has the choice to—instead, the agreement to grant licenses at specified rates if royalties are paid can remain in place, but with

4. ITC/Respondents Conflate Terminating A License With Never Having One.

a licensee *may* accept the mere promise to pay in exchange for granting a license, a licensee is not required to do so. Here, Tessera did not. In its license agreements, Tessera promises to permit its licensees to license individual products at agreed-to royalty rates, and in exchange, the licensees agree that they must actually pay royalties at those rates and abide by other terms and restrictions in order to obtain a license for individual products on a product-by-product basis.⁴

no licenses granted on those products. TAOR61. Similarly, Tessera has never argued that each agreement constitutes a countless number of "potential agreements" that become actual agreements upon receipt of royalty payments. ITCB43. Each TCC License Agreement is a single, ongoing agreement. Rather than create a new agreement, the payment of royalties simply results in a license to specific products under the existing agreement. ITC/Respondents next argue that the provision conditioning license upon actual payment of royalties would "render the termination provision superfluous because there would be no license to terminate" if royalties were not paid. ITCB47;EBR20-21,23. This argument conflates the agreements as a whole, which are ongoing but terminable for breach, with license grants to specific products, which do not exist unless those products' royalties are paid. Finally, ITC/Respondents suggest that when a licensee fails to pay royalties, Tessera's only option is to terminate the agreement. ITCB47;EBR20-21,30. As Tessera's Opening Brief explained, the agreements give parties the option of terminating the contract for breach or maintaining it and entering dispute resolution. TAOR61. Respondents' reliance on *Lisle Corp. v. Edwards* is misplaced. EBR20. There, the primary issue was whether a licensee's manufacturing of a patented article on behalf of a customer created a *de facto*

unauthorized sublicense to that customer, and the secondary issue was whether a failure to mark, in light of the agreement's 90-day grace period, constituted breach. 777 F.2d 693, 695 (Fed. Cir. 1985). *Lisle* did not preclude parties from agreeing that failure to pay royalties can *both* fail to satisfy a license condition *and* be grounds to terminate their agreement.

C. Respondents' Assertion Of An Exhaustion Defense Cannot Compel Tessera To Seek Relief From Nonparty Licenses.

ITC/Respondents also incorrectly claim that, once they assert an exhaustion defense, Tessera's only remedy is a private contract action against its licensees.

ITCB44,51,56;EBR27-30;ANPB61,64.

None of ITC/Respondents' authorities substantiates that view, *see* EBR28-29, as each of those cases considered a lawsuit brought between an intellectual

property rights holder and its licensee—the issue was merely whether that dispute had to be brought as an infringement action or a contract action. Here, Tessera

sued *non-licensee* manufacturers for infringement, and these manufacturers have put TCC License Agreements at issue by raising an exhaustion defense. None of ITC/Respondents' authorities even suggests that in this scenario the courthouse

doors must immediately be shut on Tessera, forcing it to sue other parties

elsewhere.

Such a rule would make no sense. The mere raising of an exhaustion defense by *non*licensees should not compel a patentholder to litigate against its licensees, especially when the relief sought is a Congressionally-mandated order excluding infringing goods from being brought into the U.S. Such a rule would, in many cases, create a *complete* bar to the patentholder's relief because there are many situations in which a patentholder could *not* bring a suit against its licensee, even if it desired. For example, courts may refuse to permit a patentholder to terminate the contract and sue for infringement, even where the licensee has failed to pay royalties. *Cordis Corp. v. Medtronic, Inc.*, 835 F.2d 859, 864 (Fed. Cir. 1987). Others may refuse to grant declaratory relief as to contract interpretation without an "actual controversy." *Meyer v. Sprint Spectrum L.P.*, 45 Cal.4th 634, 647-48 (2009). In extreme cases, courts may do both. *Alluras v. Gloster*, 16 Cal.2d 46, 49 (1940) (affirming demurrer for lack of "actual controversy" because plaintiff did not allege sufficient basis to terminate).

Respondents' theory is incompatible with Supreme Court precedent. In *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S.Ct. 2109, 2114 (2008), *reversing* 453 F.3d 1364 (Fed. Cir. 2006), patentholder LG sued third party downstream manufacturers, including Quanta, for infringement, but did *not* sue its licensee Intel. 453 F.3d. at 1364. Quanta claimed patent exhaustion. Were Respondents'

theory correct, the Supreme Court would have held that LG was required to go to state court and pursue a contract action against Intel because Quanta had put the terms of the license agreement at issue by claiming exhaustion. Instead, however, the Supreme Court looked to the terms of LG's agreement with Intel and determined whether Intel was authorized to sell the accused products. 128 S.Ct. at 2121-22.

Respondents' authorities are even less compelling because this is an appeal from the ITC instead of a court. The American public has an interest in preventing Respondents from importing infringing goods, and it would deny the public this Congressional relief were there a rule that foreign manufacturers of downstream goods could force the ITC to abandon any investigation, limit patentholders to pursuing private actions for private remedies, and import infringing goods free of federal restraint, merely by pointing to the existence of a license agreement somewhere in the supply chain.

Even putting aside the ITC's statutory responsibilities, the ITC/Respondents' authorities do not support their position. Each of the cases—*Fantastic Fakes*, *Graham, Jacob Maxwell*, and *Sun Microsystems*—expressly affirmed that parties are allowed to contract such that no license is granted until the royalties owed are

paid, in which case an action for infringement is the proper avenue for relief.

Here, the agreements include such a condition precedent.

D. ITC/Respondents Cannot Erase The Contract Language.

When ITC/Respondents do finally mention the language of the agreements,

their arguments fare no better than their attempts to ignore it.

First, Respondents argue that conditions precedent are “disfavored” in

California. EBR18-19;ANPBr61. But they cite authorities in which the party

seeking relief has *already paid* the money owed under the contract. *E.g., San*

Diego Constr. Co. v. Mannix, 175 Cal. 548, 557 (1917) (plaintiff had paid for land

parcel); *Ransom v. Penn Mut. Life Ins. Co.*, 43 Cal.2d 420, 423-25 (1954) (policy

claimant had already paid first premium); *cf. Wilson v. Sandford*, 51 U.S. 99, 101

(1850) (licensee had already partly paid royalties). These cases simply teach that

California disfavors conditions precedent that work a forfeiture *after* the party

seeking relief has performed by paying. By contrast, here, Respondents seek to

benefit from exhaustion when the money that is due is *not paid*.

Second, the authorities supposedly REDACTED

are inapposite. ANPBr63;EBR18. Contrary to ITC/Respondents’ claims, the

general rule in California is that “[s]ubject to” is generally construed to impose a

condition precedent.” *Rubin v. Fuchs*, 1 Cal.3d 50, 54 (1969); *Colonial Sav. & Loan Ass'n v. Redwood Empire Title Co.*, 236 Cal.App.2d 186, 192 (1965).
ITC/Respondents’ cases address a limited exception not applicable here, where a transaction is “subject to” approval and the party who must determine whether to approve does not act on its right to do so. *E.g., Ransom*, 43 Cal.2d at 423; *Frankel v. Bd. of Dental Examiners*, 46 Cal.App.4th 534, 550, *rev. denied* (1996); *see also Ferris v. Coover*, 10 Cal. 589, 615-618 (1858). The role of an approval condition in a standard breach of contract case pales in comparison to the importance of a royalty condition to a patent license—particularly in the context of exhaustion, the *sine qua non* of which is that the patentee receives its reward. *TAOBR53-54*.
Finally, unlike those in Respondents’ cases, the agreements here have an express **REDACTED** provision reaffirming that no license rights are granted if the royalty is not paid. ITC/Respondents cannot even agree among themselves about how best to distort this provision. *EBR24;ITCB45;ANPBR62*. ANP is not even internally consistent: ANP first agrees with Tessera that “the clause commences with the admonition that only products on which royalties are paid are licensed,” but later agrees with Elpida that the provision only creates a mechanism to dispute what products are within the license’s scope. *ANPBR62-63;EBR24-25*. Meanwhile, the ITC admits that “the first sentence of the exclusion

agreement.

agreement exists, even if the Accused Products were never licensed under that could evade the authority of the ITC merely by presenting evidence that a license represent a significant abdication of the ITC's statutory duty. Any respondent F.2d 1165, 1181 (Fed. Cir. 1993). ITC/Respondents' arguments, if adopted, would of United States intellectual property rights." *Texas Instruments, Inc. v. ITC*, 988 enabling statute "to make [Section 337] a more effective remedy for the protection U.S.C. §1337(a). Over the last few decades, Congress has amended the ITC's including articles that "infringe a valid and enforceable United States patent." 19 "[u]nfair methods of competition and unfair acts in the importation of articles,"

The statutory mandate of the ITC is to protect American business from

F. Finding "Exhaustion" Without An Authorized First Sale Would Compromise The ITC's Statutory Mandate.

failure to have entered into the agreement at all.

products under the terms set forth within the license agreement is the same thing as these arguments rest on the fallacy that the failure to obtain a license on specific ITCBR46-47. Like the "termination provision" arguments above, see Part II.B.4, asserts that this contractual language should not be given its "literal meaning." provision suggests that payment of royalties is a condition of a license"—but then

As the ITC has recently reaffirmed, one purpose of the ITC's exclusion order is to drive manufacturers to license products and pay the royalties to the patentholder that reward its innovations. *See Certain Stringed Musical Instruments & Components Thereof*, Inv. 337-TA-586, 2009 ITC LEXIS 2250, *23-*26 (5/16/2008) (Congress amended §337 in 1988 to provide remedy for "intellectual property owners who engage in extensive licensing of their [patent] rights to manufacturers") (citing legislative history); *Certain Acid-Washed Denim Garments & Accessories*, Inv. 337-TA-324, USITC Pub. 2576, Comm'n Op., 1992 ITC LEXIS 697, *39 (11/1992) ("Products imported under license of the patent owner...are exempt from the coverage of the order."). The ITC's theory would eviscerate the incentive to pay those royalties.

The scaffold for ITC/Respondents' arguments is the silent assumption that royalties have been or somehow always will be paid on Tessera's products. The evidence in this Investigation, however, revealed that often they are not. In the microelectronics industry, the vast majority of consumer goods are manufactured by a heavily divided supply chain overseas, and only the final consumer product is imported into the United States. ITC/Respondents' exhaustion theory would open a gaping loophole in Section 337 and put the ITC's remedial orders off limits to a vast swath of patentholders who have signed license agreements. Most finished

This post-
Complaint change in circumstances has no bearing on Elpida's exhaustion defense
as of the time of the complaint.
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good manufacturers could point to some license agreement somewhere in the
supply chain as evidence of "exhaustion," even if the agreement has never been
satisfied.
F. Elpida Did Not Present Evidence That Elpida's Products Were
100% Licensed Under Any Theory.
Contrary to ITC/Respondents' assertions, no record evidence shows that
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A Section 337 violation is measured as of filing the complaint, TAObR69-71, and respondents cannot halt ITC investigations in their tracks by belatedly curtailing their infringement. *E.g., Certain Molded-In Sandwich Panel Inserts and Methods for their Installation*, Inv. 337-TA-99, USITC Pub. 1297, Comm'n Op., 1982 ITC LEXIS 137, at *33-*34 (10/1982), *aff'd, Young Eng'rs, Inc. v. ITC*, 721 F.2d 1305 (Fed. Cir. 1983). Elpida's only response is to argue that an "accord and satisfaction" occurred when Tessera accepted tardy royalty payments. EBR37. But Elpida neither argues nor shows that such payments were made "on the express condition that acceptance of it [would] constitute full payment," nor that "the creditor so underst[ood] the transaction," as required. *In re Marriage of Thompson*, 41 Cal.App.4th 1049, 1058 (1996).

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from having to verify that their products are licensed to avoid their exclusion. are hardly a good reason to immunize Elpida or the other Respondents

EBR35. These post-complaint efforts to REDACTED

admits that the initiation of this investigation was what motivated REDACTED

Simply put, REDACTED Even Elpida

The ALJ never made any determination whether the payments made post-Complaint paid all royalties due pre-Complaint.⁵ There has never been a finding on this issue. JA0000211-12. This Court should decline the invitation to affirm a determination that does not exist, and should reject ITC/Respondents' novel expansion of the exhaustion defense.

III. THE WBGA NONINFRINGEMENT FINDING WAS BASED ON AN ERRONEOUS CONSTRUCTION OF THE TERM "TOP LAYER."

The ITC correctly construed "top layer" at first—but then proceeded to add a new, erroneous limitation that the top layer "cannot include" a solder mask layer. Based on that altered construction, it found noninfringement by the Accused WBGA products. JA28-29;TAOB11-32.

Seeking to avoid *de novo* review, the ITC asserts that the limitation it added did not involve "a claim construction issue" at all, but was a "factual infringement finding" entitled to deference. ITCB20,22-23. The ITC cites no precedent to support its position and concedes that its "no-solder-mask" determination relied entirely on its view of the intrinsic evidence. JA27-29;TAOB126-32. Moreover, that determination was plainly one about "the metes and bounds of the asserted

⁵ Tessera's current understanding is that PTI has paid all royalties due on accused products it sold Elpida. However, Elpida has additional suppliers. EBR34.

claims”—the quintessence of claim construction. *Trading Techs. Int'l, Inc. v.*

eSpeed, Inc., 595 F.3d 1340, 1351, *reh'g denied* (Fed. Cir. 2010).

The ITC's erroneous shift in its construction is similar to those reversed in

cases like *Vita-Mix Corp. v. Basic Holding, Inc.*, 581 F.3d 1317 (Fed. Cir. 2009).

In *Vita-Mix*, as here, the trial court arrived at an initial construction, changed it

while purporting to “apply” it to the accused products, and on that basis found

noninfringement. *Id.* at 1321-23. This Court found that the trial court had added a

new limitation to its construction, rejected the changed construction on *de novo*

review, and affirmed that the original construction was correct. *Id.*

**A. The ITC's Construction Was Changed, And Changed
Erroneously.**

The defense of the ITC's “top layer” construction centers on the ITC's

argument below: that the ‘106 patent specification “makes clear that the solder

mask layer and the claimed ‘top layer’ are distinct components.” JA28-29.

Neither the patent nor its claims, however, say any such thing. So the

ITC/Respondents are forced to argue that the solder mask and top layer must be

different as a matter of law because they are never described in the preferred

embodiments as being the *same*. E.g., ITCBr32-25;ANPBr34-37;KBr20-23;

EBr50. This is not a recognized doctrine of construction, nor does it make sense.

The plain language of the claims simply calls for a “top layer,” not the top layer

affirmatively described as an example in the specification, excluding all others.

“An invention is not limited to its examples.” *Netcraft Corp. v. eBay, Inc.*, 549

F.3d 1394, 1400 (Fed. Cir. 2008).

Only some of the preferred embodiments even *mention* solder mask, and

nothing in the patent even comes close to teaching that the top layer must

necessarily *exclude* solder mask. ITCBtr9;ANPBtr33-34. Descriptions in the

specification limit claim scope only where the specification reveals (1) a special

definition given to a term by the patentee that differs from the meaning it would

otherwise possess, or (2) intentional disclaimer or disavowal of claim scope.

Phillips v. AWH Corp., 415 F.3d 1303, 1316 (Fed. Cir. 2005) (*en banc*). Because

neither scenario is present here, TAOBtr23-32, the ITC’s construction is erroneous.

ITC/Respondents do advance a few untimely new arguments. First, ANP

now argues that “top layer” cannot be construed to include solder mask unless

Tessera submitted affirmative “evidence that the ordinary meaning of ‘top layer’

16 encompasses the solder mask 30.” ANPBtr33-34,37-38. But the ITC found no

fault with Tessera’s construction that—by its terms—did *not* exclude solder mask.

Tessera had no obligation to list everything the ordinary meaning might exclude.⁶

⁶ Respondents cite *ICU Medical, Inc. v. Alaris Medical Systems*, 558 F.3d 1368, 1375 (Fed. Cir. 2009), but in that case the patentee sought to broaden the

claim term “spike” to include nonpointed objects without providing any evidence that “spike” could encompass such objects—the exact opposite of here, where the

ANP also argues that the "top layer" cannot be solder mask because the two are "separate[ly] and distinct[ly] numbered component layer[s]" in the specification. ANPBr33. There is no such numerological doctrine. Indeed, the patent also at times identifies the *protective barrier* as a "separate and distinct numbered component layer" from the solder mask; however, it elsewhere describes the solder mask as serving that role, yet there is no dispute that solder mask can still be the protective barrier. E.g., JA113285-88(106)(2:58-61,6:56-7:13)("dam 44," "shield 46").

ITC/Respondents next theorize that the claimed terminals cannot be "on" solder mask, from which they conclude that the top layer (on which the terminals must be carried) cannot include solder mask. KBr8-9,14,21-26. But their own citation to the '106 specification refutes the premise of their argument; it describes solder mask as being "tightly fit[ted]" to the terminals and possessing "terminal holes" "registered with the terminals." JA113287(106)(5:42-66). They also claim

that co-inventor Dr. DiStefano testified that

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ordinary meaning of "top layer" plainly includes a "layer" on "top" of the pre-encapsulation assembly. TAOBr39.

⁸ Furthermore, any such disclaimer, even if it existed, would be irrelevant to Tessera's composite-layer infringement read. JA3351,3353-55.

⁷ This evidence also contradicts ANP's argument that construing "top layer" to encompass composites containing solder mask would allow "any layer or layers adjoining the top layer [to] be effectively 'added' to the top layer." ANPBr38. The other layers in the package are not REDACTED

embodiments. Moreover, as the ITC put it, even if there were a disclaimer, it bottom surface of the top layer—as indeed they are in many of the preferred Dependent claim 20 makes explicit that the terminals *can* be positioned on the argument, which was correctly rejected below. JA21-25;JA2568-80;JA3351-55.⁸

the scope of the '106 claims. ANPBr40-45. ITC and Elpida do not join this "disclaim[ing] the Figure 7 embodiment of the [incorporated] '265 Patent" from terminals located on the bottom surface of the top layer" by supposedly Finally, ANP argues that "Tessera disclaimed all embodiments having

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construction. TAOBR32.

the evidence of record compels a finding of infringement under the correct Remand for additional infringement analysis is unnecessary where, as here,

B. Under The Proper Construction, The WGA Products Infringe.

See also JA113289('106)(10:41-44); JA2568-81; JA3344-46,3351-55,3360-62.

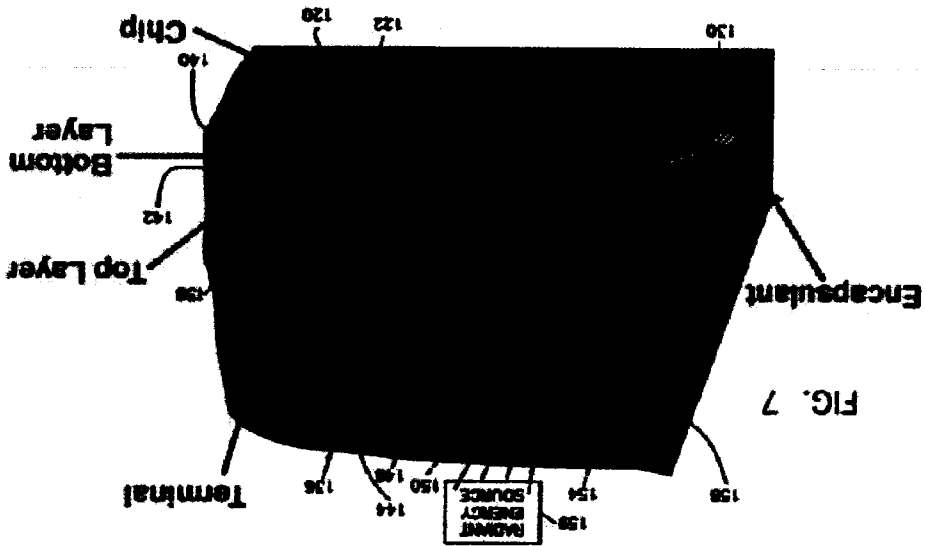
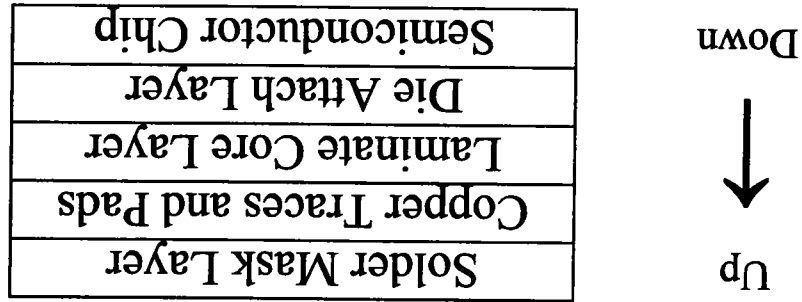


FIG. 7

exposed terminals.” JA22;JA2573-74.

in this investigation[,] because the asserted claims of the '106 patent require[] at JA1257; JA141355,141369-70('265)(Fig.7;14:40-57), but which “does not arise during encapsulation—as shown in Figure 7 itself, JA1253-58('106)(File Wrapper) would have been restricted to embodiments where “the terminals are *unexposed*”

There are some variations on the structure. For example, REDACTED



It is undisputed that all accused WBGA (*i.e.*, laminate substrate) packages contain at least the following elements, in order: semiconductor chip, die attach layer, laminate core layer, copper traces and solder-ball pads, and a solder mask layer. JA17737-38; JA142799-803(QQ82-84).

1. The "Top Layer" Of Every Accused WBGA Product Incorporates Solder Mask.
 - (a) The Solder Mask Is Literally The "Layer" On "Top."

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It is undisputed that the solder mask layer is the uppermost layer from the active side of the chip, making it the "*top*" layer in the ordinary meaning of that word—consistent with the teachings of the '106 patent and incorporated-by-

reference '265 and '611 Patents. TAOR39; JA17737-38; JA142799-803(QQ82-

84).

In contrast, the laminate "core" by its very terms is an *internal* layer of the chip package—located below the top solder-mask layer, and in some instances not even REDACTED —yet the ITC found it to be the "top layer." JA29;

JA113304; TAOR39-40. The ITC/Respondents offer no basis for that finding,

which contradicts the plain claim language.

(b) Consideration Of The Infringing Accused μ BGA Products Is Instructive.

Calling a layer the "top layer" simply because it is "disposed on the active side of the chip," even when it is not in fact on "top" of the unencapsulated assembly, leads to predictably anomalous results. The ITC recognized this when it overturned the ALJ's erroneous finding that the lower elastomeric layer of the

Accused μ BGA products was the "top layer." JA109-10;JA26-27. The Accused μ BGAs have the same structure as the interposer/chip carrier described and

depicted in the '106 and '265 patents. In spatial order beginning from the chip's active surface, the Accused μ BGAs and the packages in the patents have an

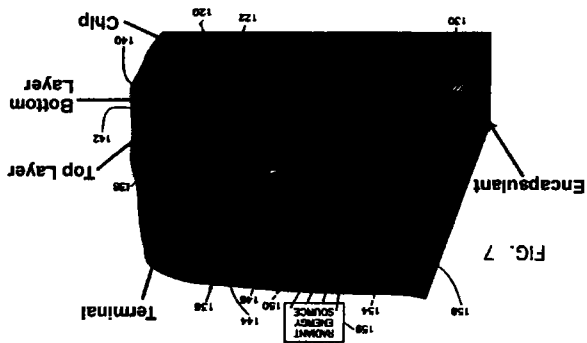
elastomeric pad, copper leads and terminals, and a single layer of polyimide, with the polyimide being the uppermost layer. Compare JA112987;JA171242-46

(QQ325-33), with JA113280-87('106)(Figs.1-3,5,7,8,12;5:8-16);JA141355,

141369('265)(Fig.7;14:19-30). Below for comparison are a cross-section of an Accused μ BGA (JA112987), and an illustrative figure of the incorporated '265

patent having an analogous structure.

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The elastomeric layer in the Accused μ BGA, which the ALJ initially

misidentified as the "top layer" of the μ BGA, is "disposed on the active side of the chip" and in contact with the terminals—much like the laminate core in the

Accused WBGA. *E.g.*, ANPBr19. But the ITC did not end its μ BGA analysis

there. Instead, the ITC correctly recognized that the claim language requires the

"top layer" to be not just *any* dielectric layer disposed on the active side of the chip

and which carries the terminals, but the "*top*" such layer, and also requires

"providing a protective barrier *in contact with* said top layer."

JA113289(106)(9:40-42). The μ BGAs' elastomeric layer is disposed on the

active side of the chip, but it is an *internal* layer, below the uppermost polyimide

layer, and it cannot come in contact with the protective barrier. JA26-

27;JA112987;JA171243-46(QQ325-33).⁹ The ITC therefore recognized that the

μ BGAs' elastomeric layer could not be the "top layer," and that the polyimide

layer on top had to be the "top layer." JA26-27.

No party disputes that finding. Yet, for the Accused WBGA, the ITC takes

exactly the opposite position: it contends that, somehow, the laminate core—an

internal layer which can *never* contact the protective barrier—must be the "top

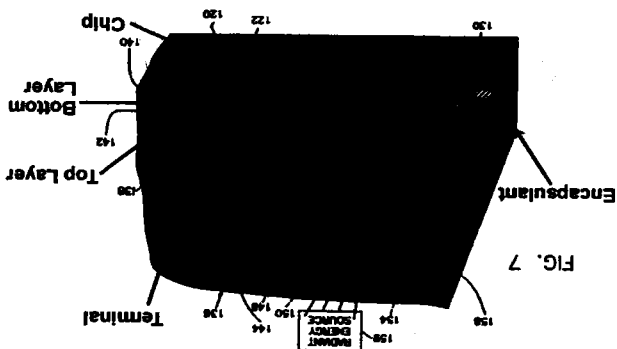
⁹ Indeed, the '265 Patent referred to a layer analogous to the elastomeric layer in the Accused μ BGA as an "underlayer," JA141369(265)(Fig.7:14:26-30).

point so that it would exclude the solder mask and apply solely to the core—an

In sum, it makes no sense to twist the meaning of “top layer” to the breaking (claim interpretation incorrect if skilled artisans would “[s]urely...not” choose it).

manner. See *Ecolab, Inc. v. FMC Corp.*, 569 F.3d 1335, 1345 (Fed. Cir. 2009)

practice. The patent should not be interpreted in a technologically nonsensical JA113289(106)(9:40-42). Such a read would render the claim impossible to it could never physically contact a protective barrier, as the claim requires. JA26; Moreover, if the top layer were an internal layer buried inside the assembly,



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not the core, that is on “top,” as claimed.

the solder mask layer. JA29;JA113304;TAOBR39-40. It is the upper solder mask, the ‘265 patent, TAOBR40, the WBGAs laminate core is undisputedly *underneath*

Comparing

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with Fig. 7 of

finding did for the Accused μBGA.

layer.” This position contradicts the claim language, just as the ALJ’s analogous

internal structure that cannot possibly satisfy multiple explicit claim requirements.

Doing so would be particularly illogical here, where the solder mask layer has

none of these difficulties, and *is* on "top" and "in contact with" the terminals of

every single Accused wBGA assembly.

2. The Asserted Claims Do Not Restrict How The Terminals Are Fabricated.

ITC/Respondents also invite this Court to add further limitations to the

claims, this time based upon how the terminals are fabricated. ITCBr23-25;

ANPB26;EB43-45,47;KB16.¹⁰ They contend that the phrase "carries the

terminals" creates a requirement that the terminals be *fabricated* on the top layer.

Id.; *see, e.g., ANPB26;ITCBr25.*¹¹ Nothing in the intrinsic (or extrinsic) evidence

supports such a restriction.

The asserted claims concern the configuration (*i.e., the structure*) of the

semiconductor chip assembly at the time of encapsulation and how the

encapsulation process is accomplished. JA113289-90('106)(cls.1-4,9,10,33-35).

¹⁰ ITC/Respondents' "fabrication" arguments are limited to Elpida's

Accused wBGA. JA171191(QQ6-7),171236-40(QQ299-311)(citing RX-322C

(JA17316-35)),171247-51(QQ341-354)(citing RX-324C(JA173348-63)),

171271(errata); JA102434(2566:14-17).

¹¹ Contrary to Respondents' assertion, ANPB26, the ITC did *not* adopt such findings below, and does not join this argument. The ITC rejected the ALJ's

construction of "top layer" below. Although the parties briefed the fabrication issue, *e.g., JA19519-35,19564-66*, the ITC never reached it, JA28-29.

