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\*\*E-Filed 9/8/2011\*\*

**UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN JOSE DIVISION**

FREESCALE SEMICONDUCTOR, INC.,  
Plaintiff,  
v.  
CHIPMOS TECHNOLOGIES, INC.,  
Defendant,  

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AND RELATED COUNTERCLAIMS.

Case No. 5:09-cv-3689-JF  
ORDER<sup>1</sup> (1) GRANTING  
FREESCALE'S MOTION FOR  
PARTIAL SUMMARY JUDGMENT;  
AND (2) DENYING CHIPMOS'S  
CROSS-MOTION FOR PARTIAL  
SUMMARY JUDGMENT  
[re: dkt. entries 82, 100]

Plaintiff/Counterdefendant Freescale Semiconductor, Inc. ("Freescale") seeks partial summary judgment with respect to its contract claim as well as the patent misuse counterclaim asserted by Defendant/Counterclaimant ChipMOS Technology, Inc. ("ChipMOS"). ChipMOS opposes the motion and seeks partial summary judgment with respect to Freescale's contract claim and with respect to a number of its counterclaims.

<sup>1</sup>This disposition is not designated for publication and may not be cited.

1 **I. BACKGROUND**

2 The facts underlying this lawsuit are well-known to the parties and need not be recited in  
3 full here. The parties’ dispute arises out of an Immunity Agreement (“the Agreement”) entered  
4 into by ChipMOS and Freescale’s predecessor-in-interest, Motorola, Inc. (“Motorola”). In  
5 essence, the Agreement cross-licenses patents covering ball grid array (“BGA”) package  
6 technology, as it provides that each party is immune from suit for infringement of the other’s  
7 patents relating to BGA packages. The Agreement requires ChipMOS to make royalty payments  
8 with respect to certain BGA packages that it makes and ships during a calendar quarter.  
9 Motorola assigned its rights and obligations under the Agreement to Freescale. In March 2006,  
10 an independent audit led Freescale to believe that ChipMOS owed royalty payments under the  
11 Agreement. Freescale notified ChipMOS that it considered failure to pay to be a material breach  
12 of the Agreement. ChipMOS failed to make payment within forty-five days, and Freescale  
13 exercised its right to terminate the Agreement. Freescale then filed the instant action in the Santa  
14 Clara Superior Court, asserting a claim for breach of contract. On August 12, 2009, ChipMOS  
15 removed the action to this Court on the basis of diversity of citizenship, and it also filed  
16 counterclaims for breach of contract and for a judicial declaration that certain of Freescale’s  
17 patents are invalid and not infringed by ChipMOS’s products.

18 On April 22, 2010, this Court stayed the litigation with respect to patent-related issues  
19 pending disposition of certain contract-related issues. On August 3, 2010, the Court granted  
20 partial summary judgment for Freescale with respect to ChipMOS’s counterclaim for breach of  
21 contract. The Court concluded as follows: the Agreement provides for a “total-sales royalty,”  
22 i.e., a royalty based on the total sales of ChipMOS’s BGA packages, irrespective of whether the  
23 specific BGA packages are covered by any patent; ChipMOS’s products fall within the scope of  
24 the Agreement; ChipMOS failed to make royalty payments; and thus ChipMOS cannot establish  
25 its own performance under the Agreement, a necessary element of its contract claim. With  
26 respect to Freescale’s contract claim, the Court concluded that Freescale had established its own  
27 performance, breach by ChipMOS, and resulting injury. The only unresolved question was the  
28 validity of the Agreement in light of ChipMOS’s counterclaim of patent misuse; the Court



1 limits which the patentee must not exceed in employing the leverage of his patent to control or  
2 limit the operations of [a] licensee.” *Id.* at 136. “[T]he patent’s leverage may not be used to  
3 extract from the licensee a commitment to purchase, use, or sell other products according to the  
4 desires of the patentee.” *Id.* “[N]either can that leverage be used to garner as royalties a  
5 percentage share of the licensee’s receipts from sales of other products; in either case, the  
6 patentee seeks to extend the monopoly of his patent to derive a benefit not attributable to use of  
7 the patent’s teachings.” *Id.* “[C]onditioning the grant of a patent license upon payment of  
8 royalties on products which do not use the teaching of the patent does amount to patent misuse.”  
9 *Id.* at 135.

10         However, a situation easily might arise in which “the licensee as well as the patentee  
11 would find it more convenient and efficient from several standpoints to base royalties on total  
12 sales than to face the burden of figuring royalties based on actual use.” *Zenith Radio*, 395 U.S. at  
13 138. “If convenience of the parties rather than patent power dictates the total-sales royalty  
14 provision, there are no misuse of the patents and no forbidden conditions attached to the license.”  
15 *Id.*

16         ChipMOS claims that Freescale conditioned the Agreement upon ChipMOS’s payment of  
17 royalties on BGA packages that do not use the teaching of the subject patents (“Motorola  
18 patents”). However, ChipMOS concedes that it did not raise the implications of the total-sales  
19 royalty provision during negotiation of the Agreement. ChipMOS has not presented any  
20 evidence that Motorola misrepresented the royalty provision or that ChipMOS resisted the  
21 provision or suggested alternatives that Motorola refused. Rather, ChipMOS’s theory is that  
22 Motorola had such a firm, non-negotiable policy of requiring a total-sales royalty provision that  
23 the policy amounted to the unacceptable coercion described in *Zenith Radio*. ChipMOS offers  
24 evidence that Motorola used a form of the total-sales royalty agreement at issue in this case as its  
25 “standard agreement” with all assembly houses. ChipMOS claims that its evidence establishes  
26 that the total-sales royalty was the *only* way to obtain a license or immunity agreement from  
27 Motorola, and that numerous licensees attempted to negotiate this provision but Motorola refused  
28 to deal.

1 After examining carefully all of the deposition transcripts and other evidence offered by  
2 ChipMOS, the Court concludes ChipMOS's showing is insufficient to raise a genuine issue of  
3 material fact. While it does appear that Motorola used a form of the Agreement as its "standard"  
4 agreement, and that some assembly houses pushed back on *other* aspects of the Agreement, the  
5 record is devoid of evidence from which a trier of fact could conclude that any of the assembly  
6 houses asked Motorola to replace the total-sales royalty provision with one based upon only  
7 patented products. There is no evidence that Motorola rode roughshod over the desires of the  
8 assembly houses by insisting on a percentage-of-sales royalty, regardless of use, or by rejecting  
9 proposals to pay only for actual use.

#### 10 **B. Patent Exhaustion**

11 "The longstanding doctrine of patent exhaustion provides that the initial authorized sale  
12 of a patented item terminates all patent rights to that item." *Quanta Computer, Inc. v. LG*  
13 *Electronics, Inc.*, 553 U.S. 617, 625 (2008). Thus a patentee's attempts to collect royalties from  
14 two different parties on the same products violates the exhaustion doctrine. *See PSC Inc. v.*  
15 *Symbol Technologies, Inc.*, 26 F. Supp. 2d 505, 510 (W.D.N.Y. 1998).

16 ChipMOS argued initially that it was asked to pay royalties on products that it assembled  
17 for Micron, which also had a license with respect to the Motorola patents and was asked to pay  
18 royalties on the same products. ChipMOS now argues that in June 2005, Motorola entered into a  
19 settlement agreement with Micron under which the parties granted to each other royalty-free,  
20 fully-paid, non-exclusive, worldwide licenses under the patents in question. If this is true,  
21 Freescale is not collecting "double" royalties, because it is not collecting royalties from Micron at  
22 all. ChipMOS nonetheless argues that under these circumstances its exhaustion defense  
23 precludes Freescale from recovering royalties on products that ChipMOS assembled for Micron.

24 The Court concludes that ChipMOS has failed to demonstrate that the Micron settlement  
25 agreement covers the same patents as those at issue in this case. Moreover, ChipMOS waived  
26 this defense by failing to raise it in response to Freescale's earlier motion for summary judgment.  
27 *See Pandrol USA, LP v. Airboss Ry. Products, Inc.*, 320 F.3d 1354, 1367 (Fed. Cir. 2003)  
28 (holding that defendant in patent suit waived a defense by failing to raise it in opposition to

1 plaintiff's motion for summary judgment).<sup>2</sup>

2 **IV. ORDER**

- 3 (1) Freescale's motion for partial summary judgment is GRANTED with respect to its  
4 contract claim and ChipMOS's patent misuse counterclaim; and  
5 (2) ChipMOS's motion for partial summary judgment is DENIED.

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8 DATED: 9/8/2011

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10 JEREMY FOGEL  
11 United States District Judge

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28 <sup>2</sup> The Court notes that even if ChipMOS were to prevail on its exhaustion defense, at most Freescale's contract damages would be reduced – Freescale still would prevail on its breach of contract claim.