

UNITED STATES INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C.

The Honorable Thomas B. Pender
Administrative Law Judge

In the Matter of:

CERTAIN MEMORY MODULES AND
COMPONENTS THEREOF

Inv. No. 337-TA-1089

**RESPONDENTS SK HYNIX INC., SK HYNIX AMERICA INC. AND SK HYNIX
MEMORY SOLUTIONS INC.'S CASE MANAGEMENT STATEMENT**

Respondents SK hynix Inc., SK hynix America Inc., and SK hynix memory solutions Inc. (collectively, "SK hynix") submit this Case Management Statement pursuant to Ground Rule 6.3.

I. INTRODUCTION

With this Investigation, Netlist essentially seeks an impermissible do-over of the allegations that Netlist asserted, and the Commission rejected, in Netlist's previously-filed ITC investigation against Respondents, Inv. No. 337-TA-1023 ("1023 Investigation"). In the 1023 Investigation, Netlist asserted six patents (it withdrew one prior to hearing) that Netlist claimed were standard essential to certain JEDEC standards governing memory modules. The accused products in the 1023 Investigation were the same SK hynix standard-complaint DDR4 RDIMM and LRDIMM memory modules accused here. On January 16, 2018, the Commission affirmed Chief Administrative Law Judge Bullock's Initial Determination that SK hynix does not infringe any asserted patent in the 1023 Investigation. The patents Netlist asserts in this Investigation are related to those Netlist asserted in the 1023 Investigation – they are children of the parent patents asserted in the 1023 Investigation. They have the same specifications as, and claims strikingly similar to, the previously asserted patents, and they issued during discovery in the 1023

Investigation, but Netlist did not seek to add them to the 1023 Investigation. Instead, Netlist impermissibly burdens the Commission, the Administrative Law Judge, the Office of Unfair Imports and Investigations, and Respondents with duplicitous, burdensome litigation.

By way of background, the products at issue in this investigation are memory modules that comply with JEDEC's industry standards. The accused memory modules, DDR4 RDIMM and LRDIMM,¹ plug into servers, and they serve as main memory. JEDEC, a microelectronics industry standard-setting organization, sets standards that allow interoperability between servers and memory devices, such as these modules.

Netlist does not design or manufacture JEDEC compliant DDR4 RDIMM or LRDIMM, and it never has. It does not compete with Respondents. And, Netlist freely admits that it made *no* technical contribution to any JEDEC standard. Others contributed the technologies JEDEC adopted into its standards, which JEDEC compliant products implement. Indeed, in years past when Netlist designed and sold memory modules, its business model was to sell *non*-JEDEC compliant memory modules; these are the products, according to Netlist, from which the patents arose. Tellingly, despite having litigated the patents and defended IPRs, Netlist did not even disclose four of the five patents asserted at the 1023 hearing to JEDEC as potentially essential to the standard until years after the patents issued, and just months before filing its 1023 complaint. All of this reflects a shift in Netlist's overall strategy. After operating at a loss for all but one year of its existence, Netlist now touts that "[t]he Company is focused on monetizing its patent portfolio" and that it "plans to pursue an intellectual property-based licensing business in which

¹ RDIMM is an acronym for registered dual in-line memory module. LRDIMM is an acronym for load reduced dual in-line memory module.

it would generate revenue by selling or licensing its technology, and it intends to vigorously enforce its patent rights against infringers of such rights.” Netlist 10-Q, Aug. 2016 at 6, 19.

Consistent with this strategy, Netlist has secured third-party funding for its litigation campaign against SK hynix, which is by no means limited to the two investigations in the ITC. Netlist recently announced that it “obtained outside investment to finance the legal fees and costs of its legal action against SK hynix” from TR Global Funding V, LLC. See <http://www.netlist.com/investors/financial-news/press-release-details/2017/Netlist-And-TRGP-Announce-Financing-To-Cover-All-Costs-Of-Legal-Actions-Against-SK-hynix/default.aspx>. With this funding, and in addition to the present investigation, Netlist has filed six additional patent infringement suits against SK hynix and/or SK hynix customers in the U.S., Germany and China:

1. On August 31, 2016, Netlist initiated a six patent infringement action against SK hynix and two of its affiliates in the U.S. District Court for the Central District of California, Civil Action No. 8:16-cv-01605-JLS-JCG (hereinafter “1605 Central District Action”). In addition to damages, Netlist sought a permanent injunction against SK hynix’s sale of the accused standard-compliant products.
2. The following day, Netlist initiated the 1023 investigation against SK hynix at the ITC. In its ITC action, Netlist sought an exclusion order barring the importation of SK hynix’s accused standard-compliant products, as well as a cease and desist order directed to inventory in the U.S. As discussed above, the Commission terminated the investigation January 16, 2018 with a finding of no violation.
3. On June 14, 2017, Netlist initiated another patent infringement action against SK hynix and two of its affiliates in U.S. District Court for the Central District of California, Civil Action No. 8:17-cv-01030-JLS-JCG. This action asserts the same two patents asserted in this Investigation. Netlist again sought a permanent injunction against SK hynix’s sale of the accused standard-compliant products in addition to damages.
4. On July 11, 2017, Netlist filed a fourth patent infringement suit in the Beijing Intellectual Property Court. In that suit, Netlist again seeks an injunction against SK hynix. Netlist also seeks to enjoin SK hynix customers that purchase LRDIMMs designed by SK hynix Inc.

5. On July 11, 2017, Netlist filed a fifth patent infringement action in the District Court of Munich. In Germany, Netlist Luxembourg S.à r.l accuses SK hynix Inc. and Hewlett-Packard GmbH, who allegedly purchases LRDIMM designed by SK hynix Inc., of patent infringement.
6. On August 11, 2017, Netlist filed a sixth patent infringement action in the Beijing Intellectual Property Court, this time against SK hynix alleged customers. In this suit, Netlist also seeks an injunction. Netlist seeks to enjoin alleged customers that purchase LRDIMMs designed by SK hynix Inc.

In each of the seven suits, Netlists seeks to enjoin SK hynix's sales of standard-complaint products not because those sales diminish Netlist product sales (Netlist does not sell competing product), but because Netlist seeks to exploit the threat of an injunction to make absurd royalty demands contrary to its commitments.

Indeed, for years, SK hynix has attempted to secure peace with Netlist through licensing. Netlist concedes that it is obligated to license the asserted patents on reasonable terms and conditions that are demonstrably free of any unfair discrimination (*i.e.*, "RAND" terms). Yet despite its RAND commitment, Netlist refuses to license SK hynix on reasonable terms, insisting on royalties that far exceed those charged by holders of much larger and more established patent portfolios in this industry or, indeed, any appropriate benchmark.

Critically, Netlist demands licensing royalties that are magnitudes greater than it charged SK hynix's primary competitor Samsung. This is not only commercially unreasonable, but it also violates Netlist's RAND contractual obligation. Netlist entered a broad, portfolio license with Samsung. Yet, Netlist has refused even to discuss the far more favorable terms given to Samsung, the largest supplier of products in the United States competing with those that are the subject of this Investigation. Netlist unreasonably maintains the position that its obligation to offer a license to SK hynix on terms free of unfair discrimination imposes no limitation on the terms it can demand.

It bears noting that in litigation currently pending in the District Court for the Central District of California, SK hynix has sought the Court's determination of the RAND terms for Complainant's alleged standard essential patents. Once those RAND terms have been judicially determined, Netlist will be obligated to extend a license to SK hynix on those terms. And, for its part, SK hynix has agreed to accept a license on the basis of such a final judicial determination. Thus, the present Investigation is not necessary for Netlist to secure reasonable compensation for the asserted patents, and Netlist ought not to be permitted consistent with its RAND obligations to withhold a license and exclude or enjoin SK hynix's products under these circumstances. Hence, Netlist's only goal in initiating and prosecuting the present Investigation (and injunction actions abroad) is to use the threat of an exclusion order in order to pressure SK hynix into taking a license on terms that are not RAND and that would be discriminatory vis-à-vis the Samsung license.

As detailed in its Answer to the Complaint, SK hynix asserts several defenses relating to Complainant's RAND commitment and contends that any relief in favor of Netlist would be contrary to the public interest.

Below, SK hynix addresses each of the topics set forth in Ground Rule 6.3:

II. Status of Any Settlement Discussions

The private parties engaged in three settlement conferences, including a mediation, in the 1023 Investigation, with the last one occurring on April 19, 2017. Since then, the private parties have engaged in additional settlement discussions, with the most recent such discussions occurring on November 6, 2017. Little progress has been made to date because Netlist continues to demand, in violation of the commitments it made to JEDEC to offer to license the patents on RAND terms, royalties that are orders of magnitude higher than the royalty rates at which Netlist

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