

*The Naples Roundtable, Leahy Institute of Advanced Patent Studies*

## Issue X: Understanding The Conflict of Positions In the SEP / FRAND Issues – Latest US Views

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# 1. Basics

# Standard Essential Patents

## The Basics: Terminology

### ■ **Industry Standards**

- “technical specifications that ensure that a variety of products from different manufacturers operate compatibly”
  - **Microsoft Corp. v. Motorola, Inc.**, 795 F.3d 1024, 1030 (9<sup>th</sup> Cir. 2015)

### ■ **Standard Essential Patent (SEP)**

- “Patents that are essential to the standard (in that they must be practiced to accomplish the standard) are called standard essential patents, or ‘SEPs.’”
  - **Microsoft Corp. v. Motorola, Inc.**, 2013 WL 5373179, at \*1 (W.D. Wash. Sept. 24, 2013)
- Determined *claim-by-claim*, not for entire patent.
- A claim is technically essential to standard if not possible to make products that comply with standard without practicing the claim.

# Standard Essential Patents (cont'd.)

## The Basics: Terminology

- **Standard Essential Patent (SEP) Cont.**
  - ETSI Intellectual Property Rights Policy (Rules of Procedure, 5 April 2017)
    - “ESSENTIAL” . . . means that *it is not possible on technical (but not commercial) grounds*, taking into account normal technical practice and the state of the art generally available at the time of standardization, to make, sell, lease, otherwise dispose of, repair, use or operate EQUIPMENT or METHODS which comply with a STANDARD without infringing that IPR.
  - IEEE Standards Association (13 June 2017)
    - An Essential Patent Claim means any Patent Claim . . . the use of which was necessary to implement either a mandatory or optional portion of a normative clause of the IEEE Standard when, at the time of the IEEE Standard’s approval, there was *no commercially and technically feasible non-infringing alternative* implementation method for such mandatory or optional portion of the normative clause. An Essential Patent Claim does not include any Patent Claim that was essential only for Enabling Technology . . . .



## Standard Essential Patents (cont'd.)

### The Basics: Patent Infringement and Standards

- Even if patent owner or Standard Organization declares patent(s) essential to a standard, patentee still has the burden to prove infringement
- Claims are not infringed by Standards/Specifications
  - Must prove accused product contains structure corresponding to every apparatus claim element, or implementer performs every step of claimed method.
  - “Only in the situation where a patent covers every possible implementation of a standard will it be enough to prove infringement by showing standard compliance.”
    - **Fujitsu Ltd. v. Netgear Inc.**, 620 F.3d 1321, 1328 (Fed. Cir. 2010)

## 2. Non-Discrimination

## Similarly Situated Licensees

- General consensus that FRAND “non-discrimination” commitment applies to treatment of “**similarly situated**” licensees
- Who is “similarly situated”? [market-definition]
  - not *all* licensees
  - all licensees in same *general* product category (smartphone vendors)?
  - all licensees catering to a particular consumer base (low/medium/high-end)?

## Competitive Harm

- In *Unwired Planet v. Huawei* (UK EWHC (Pat.) 2017), court held that in order for non-discrimination covenant to be violated, there must be *competitive* harm.
  - “impairing the development of standards”
- TCL: harm to a competitor (TCL) is sufficient to find a violation of FRAND commitment
  - antitrust/competition harm is not required

## Non-Discrimination

FRAND Non-discrimination was addressed at some length by Judge Selna in *TCL Communication Technology Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson*, Case No. SACV 14-341, Memorandum of Findings of Fact and Conclusions of Law (C.D. Cal. Dec. 21, 2017):

In that case, the parties agreed that, under the non-discrimination prong of the FRAND commitment, “like” or “close to like” rates must be offered to firms that are “similarly situated.” The parties considered “firms using the same technology and at a similar level in the value chain.” The court found that, **because TCL was established in the world market, “for purposes of license comparisons the analysis should include all firms reasonably well-established in the world market.”** In explaining its rationale, the court examined the particular ETSI policy at issue and its goal of facilitating competition in the market. **The court noted that excluding large firms, like Apple and Samsung, “would have the effect of insulating them, and further contributing to their dominant positions, by imposing a barrier in the form of higher rates for those not at the top end of the market.”** Further, **the court found that permitting the patent holder to pick and choose criteria with no relation to its SEPs or the FRAND commitment ‘would effectively allow [the patent holder] to read the non-discrimination prong out of the FRAND commitment.’**

The Sedona Conference Framework & Analysis of SEP / FRAND Issues (February 2018). p. 27.

## Non-Discrimination (con'td.)

With respect to whether companies are “similarly situated” for purposes of comparing license terms, the court considered, among other things, the geographic scope of the company, the scope of the license required, and a reasonable sales volume. The court considered certain factors not-relevant, such as exclusive applications, retail stores, brand recognition, and proprietary operating systems. The court ruled that ETSI had rejected a most favored nations provision that would have required revisiting prior licensing agreements based on later entered agreements, so Ericsson would not be held accountable for agreements made after its offer to TCL.

With respect to determining the royalty rates of comparable licenses for assessing discrimination, the court compared the effective royalty rate (both monetary and non-monetary consideration) offered to the accused infringer with the effective royalty rate of license between the patent holder and companies “similarly situated” to the accused infringer. The court also evaluated the potential impact of royalty caps and floors. **The court found that harm to the firm offered discriminatory rates was sufficient; impairment of the development or adoption of the standard was not necessary for discriminatory harm.**

With respect to the non-discrimination commitment, the court concluded “there is no single rate that is necessarily FRAND, and different rates offered to different licensees may well be FRAND given the economics of the specific license.

**The TCL court acknowledged that its comparable license analysis was “not perfect,” but the offers Ericsson made to TCL “are radically divergent from the rates which Ericsson agreed to accept from licensees similarly situated to TCL.** The decision acknowledged that its analysis addresses a litigated dispute about non-discrimination and does not necessarily apply to what FRAND terms parties may reach in private negotiations.

The Sedona Conference Framework For Analysis of SEP / FRAND Issues (February 2018), pp. 27-28.

## Non-Discrimination (con'td.)

Lawrence et al., “*USA v. UK - A United Approach to FRAND? Comparing the New Judgment in *TCL v. Ericsson* with *Unwired Planet v. Huawei*”*

: The CLIP Board (Bristows LLP), Lexology, <https://www.Lexology.com/library> (Jan. 8, 2018), stated, regarding non-discrimination, that:

In assessing the non-discrimination aspect of FRAND, both judges agreed that licensors cannot discriminate against similarly situated licensees. Judge Selna looked in some detail at what ‘similarly situated’ means and concluded that **the basis for comparison must be all firms reasonably well-established in the world market. This excludes ‘local kings’** – firms that sell most of their products in a single country – **but includes industry giants** such as Samsung and Apple, despite their greater market share and brand recognition. This approach is good news for licensees whose products retail at lower price points, as it means they should benefit from the same level of rates they do. **Judge Selna explicitly dismissed the relevance of competition law (in this case the US Sherman Act) for this assessment – whereas Birss J. applied Article 102 in determining that – if his primary conclusion about benchmark rates were incorrect – Huawei would still need to show harm to competition resulting from any discrimination between it and other similarly situated licensees.** (Coincidentally, the same approach to discrimination has recently been endorsed in the IP – albeit not the SEP – context by Advocate General Wahl in Case C-525/16 MEO – *Communicacoes e Multimedia*.)

## Non-Discrimination (con'td.)

Greenbaum, “Nondiscrimination in 5G Standards,” Notre Dame Law Review Online, Vol. 94:2 (2018), 55, also discussed the *TCL Communication* and *Unwired Planet*, considerations of non-discrimination:

*TCL Communication Technology Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson* and *Unwired Planet International Ltd. v. Huawei Technologies Co.* **were the first court decisions in the United States and United Kingdom, respectively, to directly address discrimination between similarly situated firms. Commentators hailed the decisions as providing “crucial guidance,” “helpful insights,” and “important guideposts” in assessing FRAND obligations.** Unfortunately, however, these decisions addressed only relatively straightforward questions of nondiscrimination. Both cases examined differential royalties between handset providers, one of the most common use cases of current wireless communication standards. Neither case, however, addressed the more controversial question to be presented by the broad implementation of 5G technology-discrimination between incremental value from the technology.

Pages 58-59.



## Non-Discrimination (cont'd.)

As to “similarly situated”:

**Ericsson had argued that the largest handset manufacturers-specifically Samsung and Apple-were not “similarly situated” to TCL and, as such, Ericsson could discriminate against TCL by charging it higher royalty rates than those flagship brands.** The court rejected that argument and held that “the prohibition on discrimination would mean very little if the largest, most profitable firms could always be a category unto themselves simply because they were the largest and most profitable firms. **In other words, the court held that high and low end vendors of the same product should be considered similarly situated-and patentees could not discriminate between such firms by offering them different royalty rates.** According to the court, the “most important factor in determining which firms are similarly situated” is the geographic scope fo the license, rather than sales volume, profitability, or brand recognition of the licensee.

Broadly speaking, *Unwired Planet* addressed the same nondiscrimination questions raised in *TCL*, even as the United Kingdom court came to some different conclusions. . . .

As in *TCL*, **the central nondiscrimination issue was whether the patentee could discriminate between manufacturers based on their respective size or market share.** As in *TCL*, *Unwired Planet* also held that a patentee could not discriminate between licensees based on their size. Specifically, the *Unwired Planet* court asserted that a FRAND rate must be based on a benchmark value of the licensed patents-a patentee could not discriminate between licensees based on their size or other characteristics specific to the licensee. **In this respect, the court stated that “new entrants are entitled to pay a royalty based on the same benchmark as established large entities.”**

Pages 59-60.

## Non-Discrimination (cont'd.)

Greenbaum concluded that:

Both *TCL* and *Unwired Planet* provide insights for the application of the FRAND nondiscrimination commitment. **However, neither case addresses the pressing issues to be raised by the large-scale adoption of 5G technology.** That technology will see wireless communication technology included in a diverse collection of products and services—from now-commoditized cellphones to leading-edge innovations. Courts will need to pass judgment on whether patentees can price discriminate between such products, capturing greater value from the more expensive, sophisticated products and services while allowing the commodity products to pay lower royalties. Neither *TCL* nor *Universal Planet* provide guidance on this issue.

While no U.S. court has directly examined the issue of discrimination between product lines, **some decisions imply different approaches to the issue.** Compare *Microsoft Corp. v. Motorola, Inc.* No. C10-1823, 2013 WL 2111217, at \*4 (W.D. Wash. Apr. 25, 2013) (setting different royalty rates for Microsoft Xbox products and “all other Microsoft products”), **with *In re Innovatio IP Ventures, LLC***, No. 11 C 9308, 2013 WL 5593609, at \*38 (N.D. Ill. Oct. 3, 2013) (advocating methodology for royalty calculation that would not result in discrimination between end use products). *Unwired Planet* itself calculated different royalty rates for handset and “RAN infrastructure,” but these are not different end uses for the network so much as different parts of the network potentially covered by different patents. See *Unwired Planet*, [2018] EWHC (Pat) at [222].

Page 60 & 48.

## Non-Discrimination (cont'd.)

Contreras addressed non-discrimination in “The Global Standards Wars: Patent and Competition Disputes in North America, Europe and Asia,” a paper based on a lecture he gave at Keio University, Tokyo, Japan (Dec. 17, 2017), VI, Non-Discrimination. [See *also* ftn. 65, pg. 21: For a detailed discussion of the non-discrimination prong of FRAND, see Jorge L. Contreras & Anne Layne-Farrar, *Non-Discrimination and FRAND Commitments*, in *Cambridge Handbook of Technical Standardization Law: Competition, Antitrust, and Patents*, Ch. 12 (Jorge L. Contreras, ed., Cambridge Univ. Press: 2017).]

**He presented his remarks regarding three types of non-discrimination: similarly-situated licensees, hard-edged non-discrimination, and level discrimination. As to similarly-situated licensees:**

There is a general consensus that in order to comply with the non-discrimination prong of the FRAND commitment, a SEP holder must treat ‘similarly situated’ licensees in a similar manner. Several commentators have understood this constraint to allow a SEP holder to charge different royalty rates to implementers based on their size or market share (often with the understanding that larger players are likely to sell more licensed products and thus pay higher levels of royalties). In *Unwired Planet*, the court reasons that a FRAND royalty rate should be set based on the value of the licensed patents, not on the size of other characteristics of the licensee (¶ 175). Thus, “all licensees who need the same kind of licence will be charged the same kind of rate” (*id.*) and “[s]mall new entrants are entitled to pay a royalty based on the same benchmark as established large entities” (¶ 806(8)).

## Non-Discrimination (cont'd.)

Likewise, in ***TCL v. Ericsson***, Judge Selna concludes that similarly situated firms are “all firms reasonably well-established in the world market” [for telecommunications products]. The court expressly excludes from this group “local kings” – firms that sell most of their products in a single country (e.g., India’s Karbonn and China’s Coolpad). The firms that the court finds to be similarly situated to TCL are Apple, Samsung, Huawei, LG, HTC and ZTE. Ericsson argued that Apple and Samsung are not similar to TCL given their greater market shares and brand recognition, but the court rejected this argument, reasoning that “the prohibition on discrimination would mean very little if the largest, most profitable firms could always be a category unto themselves simply because they were the largest and most profitable firms”.

Pages 21-22.

## Non-Discrimination (cont'd.)

As to hard-edged non-discrimination:

In *Unwired Planet*, Justice Birss . . . asks what happens if, after a FRAND rate is agreed between a SEP holder and an implementer, the implementer discovers that the SEP holder has, previously or subsequently, granted more favorable terms (i.e., a lower royalty rate) to another “similarly situated” implementer? Has the SEP holder violated its nondiscrimination commitment? Interestingly, the court rules that a SEP licensee cannot challenge a license granted to it on FRAND terms if it later discovers that a similarly-situated licensee is paying a lower rate for the same patents *unless* the difference would “distort competition” between the two licensees. In reaching this conclusion, the court rejects the notion that the ND prong of FRAND implies a “hard-edged” obligation that places an absolute ceiling on the rate that a SEP holder may charge to other licensees. It justifies this reasoning under competition law principles, noting that a competition law violation would not occur without a competitive distortion. . .

Perhaps following the UK court’s lead, in *TCL v. Ericsson*, Ericsson argued that in order for an instance of discrimination to violate its FRAND commitment, the discrimination must have the effect of “impairing the development of standards”. But Judge Selva takes a different view, holding that discrimination in violation of a FRAND commitment can be found so long as an *individual* firm is harmed. He expressly rejects the application of a competition-based standard, which requires harm to competition rather than harm to a competitor, to the analysis of a FRAND commitment.

## Non-Discrimination (cont'd.)

And as to level discrimination:

**In addition to the questions addressed in these cases, there are several additional issues concerning the non-discrimination prong of FRAND. One of the most hotly debated of these is whether a FRAND commitment requires a SEP holder to license all applicants, or whether SEP holders may refuse to license certain categories of potential licensees (usually “upstream” component vendors) so that they may instead license other categories of licensees (usually “downstream” product vendors that purchase components from upstream vendors). This approach is largely motivated by the doctrine of patent exhaustion**, under which a patent holder may collect a royalty only once per patented article. Thus, if a standardized technology is implemented in a chip, the SEP holder may collect a royalty either from the manufacturer of the chip, the assembler of the board on which the chip resides, the producer of the smartphone in which the board is installed or the user of the smart phone that utilizes the chip.

## Non-Discrimination (cont'd.)

There is thus a significant debate regarding the ability of SEP holders, under their FRAND commitments, to refuse to grant licenses to upstream component manufacturers who seek SEP licenses. Courts and commentators are divided on this issue. The US. Court of Appeals for the Ninth Circuit held in *Microsoft v. Motorola* that a SEP holder, in its declaration to the ITU, promised to “grant a license to an unrestricted number of applicants on a worldwide, non-discriminatory basis”. This statement implies that such level discrimination is not permissible....similar commitment to universal access was adopted by the IEEE in recent amendments to its intellectual property policy.

But others have argued that the “non-discrimination” prong of FRAND does *not* require SE[ holders to offer licenses to every applicant, but only to avoid discrimination within the class of applicants that the SEP holder chooses to license. SEP holders who refuse to license component vendors have argued that by instead licensing such component vendors’ downstream customers, they have, in effect, “indirectly licensed” the component vendors, and that refusing to the license component vendors does not discriminate against competitors. In other words, so long as no component vendors receive licenses, no one component maker is placed at a competitive disadvantage. This approach was seemingly validated by the district court in *Ericsson v. D-Link*, which held that Ericsson did not violate its non-discrimination covenant by offering licenses only to vendors of “fully compliant” products and refusing to license chip and component vendors.



## Non-Discrimination-Transparency of Licenses

Kamlah, “Transparent Licensing of Standard Essential Patents”; Lexology, <https://www.Lexology.com/library> (Oct. 16, 2018), discussed a recent Düsseldorf Court of Appeal decision involving a work-around to license confidentiality:

It appears that at least the Düsseldorf Court of Appeal is prepared to take a bolder approach. . . . If licensing negotiations fail, patentees often sue implementers for infringement of the standard essential patent and apply for an injunction. **Under the CJEU’s landmark decision *Huawei v. ZTE*, the injunction can only be granted if the patentee made a license offer on FRAND terms to the defendant before bringing the action. Therefore the courts concerned with litigation over standard essential patents now have to review whether a license offered by the patentee prior to bringing litigation is actually FRAND.** Since German procedural law does not allow for pre-trial discovery, **the German courts are dependent on the disclosure of past royalty rates by the patentee. This disclosure is regularly refused by patentees who invoke their right to the confidentiality of business secrets. To resolve this issue, the Düsseldorf Court of Appeal has already established a procedure whereby the patentee’s prior license agreements have to be disclosed either to the defendant’s attorneys under a confidentiality order or also to the defendant, if the defendant is prepared to sign a confidentiality agreement . . .**



## Non-Discrimination-Transparency of Licenses (cont'd.)

In a recent case, the Düsseldorf Court of Appeal has now provided some additional clarifications on the patentee's right to keep royalty rates in third party licenses confidential (decision of 25 April 2018, file ref. I-2 W 8/18). **The Court of Appeal reiterated that it is absolutely mandatory to give the defendant access to the actual license agreements concluded by the patentee.** Only with access to these license agreements the defendant is able to assess whether the patentee's royalty rates are actually non-discriminatory. Moreover defendants only have to accept strict confidentiality agreements in litigation, if the plaintiff can legitimately claim confidential treatment for information to be disclosed to the defendant. **The Court then takes the view that royalty rates agreed for a patent, which by law has to be licensed under FRAND terms to everyone, are usually not a business secret entitled to special protection. These license terms should generally be transparent to the market, because they should be the same for comparable licensees anyway.** Consequently it is not immediately apparent in the Court of Appeal's view why the patentee should have a legitimate interest in keeping license terms negotiated for standard essential patents under a FRAND undertaking secret. In this context the court also points to license pools like MPEG LA, which publish standard license terms on their website.

**With this further clarification it will become more difficult for the owners of standard essential patents litigating in Düsseldorf to keep royalty rates previously offered to third parties secret.**

### 3. Royalty Determination

## Methods for Calculating FRAND Royalties

- “Bottom-up”
  - More like a conventional reasonable royalty determination
    - Modified *Georgia-Pacific* factors
  - Value of asserted patents is determined
    - Value of patents to standard
    - Value of standard to accused product
  - *Ex ante* value of patented technology in comparison with alternative
    - Comparables may be used
    - Susceptible to royalty stacking

## FRAND Cases Applying a Bottom-Up Approach

- *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 104 (9<sup>th</sup> Cir. 2015), *aff'g* 2013 WL 2111217 (W.D. Wash. 2013):
  - Applied a modified version of the *Georgia-Pacific* factors
  - Incremental value (the value of the patented invention over the next-best alternative) is the theoretically correct measure of patent value, though one that may be difficult to estimate in practice.

## FRAND Cases Applying A Bottom-Up Approach (cont'd.)

- *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024 (9<sup>th</sup> Cir. 2015), *Aff'g* 2014 WL 2111217 (W.D. Wash. 2013) (cont'd):
  - Derived the lower end of the FRAND range by means of a comparison with the royalty that Motorola would have earned from its patents had it been a member of the relevant patent pool for the technology in question, and concluded that the FRAND royalty would be three times the pool royalty.

## FRAND Cases Applying A Bottom-Up Approach (cont'd.)

- *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3 1201 (Fed. Cir. 2014):
  - *Mostly relied on comparables.*
- *CSIRO v. Cisco Sys.*, 2015 WL 7783669 (Fed. Cir. 2015):
  - Mostly relied on comparables, as well as parties' previous negotiations.
  - [NB not SEP/FRAND]

## Methods for Calculating FRAND Royalties

- “Top-down”;
  - Determine the “pot” from which aggregate royalties are to be drawn.
    - E.g., what % of what revenue base should go to pay aggregate royalties for use of the standard?
  - Estimate the number of patents within the pot.
  - Estimate the proportion valid, infringed, functionally essential in fact.
  - Determine the percentage owned by the plaintiff.
  - Numeric proportionality (patent counting) or weighted value?

## FRAND Cases Applying A Top-Down Approach

- *In re Innovatio IP Venture, LLC Patent Litig.*, 2013 WL 5593609 (N.D. Ill. 2013).
  - Base = WiFi chip (price x volume).
  - “Pot” = profit margin on sales of WiFi chips (12.1% of \$14.85)
  - Estimate the number of SEPs based on studies, expert testimony.
  - Patents in suit were higher than average value.
  - Schankerman study: 10% of patents account for 85% of value.



## FRAND Cases Applying A Top-Down Approach (cont'd.)

- *TCL Comm'n Tech. Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson*, Case No: SACV 14-341 JVS(DFMx), 2017 WL 6611635 (C.D. Cal. Dec. 21, 2017). . .

# Synopsis of TCL Communication v. LM Ericsson

In *TCL Communication Technology Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson*, the US District Court for the Central District of California issued the public version of its Memorandum of Findings of Fact and Conclusions of Law **where it determined that Telefonaktiebolaget LM Ericsson's proposed royalty rates for a license to standard essential patents (SEPs) were not fair, reasonable, and non-discriminatory (FRAND) based on a top-down analysis and a comparison with other global licenses (C.D. Cal. Dec. 21, 2017).**

Ericsson holds an extensive portfolio of telecommunications patents, including patents affecting 2G, 3G, and 4G cellular technologies that the European Telecommunications Standards Institute (“ETSI”) accepted into these standards. Acceptance into the standards required Ericsson to license the SEPs at FRAND rates. TCL Communication Technology Holdings, Ltd. manufactures and distributes cell phones worldwide and sought to license Ericsson's SEPs, but the parties were unable to reach an agreement. The parties had been negotiating for several years and Ericsson sued TCL in several foreign countries for alleged infringement of the SEPs before **TCL sought a declaratory judgment in the Central District of California: that Ericsson failed to offer FRAND terms and conditions; to establish the FRAND rates.**

During the negotiations, Ericsson had made several offers to TCL and asserted during litigation that two options based on a April 23, 2014 offer and a February 11, 2015 offer (Options A and B) were FRAND:

- A. running royalty on handsets of approximately 1% for 2G, 3G and 4G
- B. 0.8% - 1.0% for 2G, 1.2% for 3G and 1.5% for 4G with a \$2.00 per unit floor and a \$4.50 per unit cap

Court found Ericsson's offers to TCL “**radically divergent** from the rates which Ericsson agreed to accept from licensees similarly situated to TCL” with proposed royalty “floor” specifically called out as discriminatory

**TCL suggested a top-down approach for determining a FRAND rate.** This approach identifies an aggregate royalty for all SEPs within a standard and apportions the aggregate based on the specific SEPs relative value to the overall value of all SEPs within the standard using a fraction where: the numerator is the value of the licensor's SEPs for the standard; the denominator is the total value of all SEPs within the standard. **Ericsson suggested determining FRAND rates ex ante (bottom up)** by estimating the value of SEPs independent of any value arising from their inclusion into the standard.

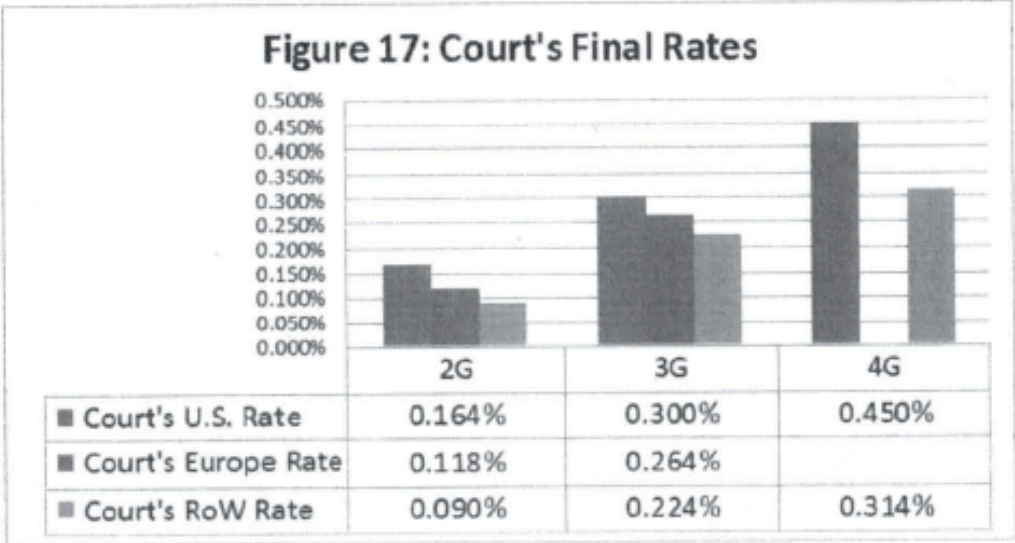
## Synopsis of TCL Communication v. LM Ericsson (cont'd.)

**The district court concluded that neither Option A nor Option B were FRAND based on: A top-down analysis to determine a FRAND rate; global licenses that Ericsson granted to other companies.**

**First**, the district court: rejected Ericsson's approach as flawed in light of evidence suggesting that by using this approach just two features of the SEPs would have a value greater than Ericsson's entire patent portfolio; **used the top-down approach** because it prevents royalty stacking. **The district court then adjusted the royalty determined from the top-down approach based on:** the importance and contribution of Ericsson's SEPs compared to other SEPs covering the standard; the geographic strength of Ericsson's SEPs, since many companies agree to a global rate.

# Synopsis of TCL Communication v. LM Ericsson (cont'd.)

**Next**, the district court identified Ericsson's licenses **with other companies similarly situated to TCL. Whether another company is similarly situated to TCL is based on:** the company's geographic scope, noting that companies selling most of their products in a single country are not similarly situated to companies distributing the product globally; the licenses the company requires; the company's sales volume. **The analysis of these licenses included:** identifying an appropriate discount rate; estimating the revenue from sales of products compliant with the standard; evaluating the strength of the licensor's SEPs compared to the strength of the licensee's SEPs.



## Comment Post *TCL v. Ericsson* and *Unwired Planet v. Huawei* (But Pre-Appeal in Either)

Wold, in IAM Magazine, ran an article entitled, “The State of Mobile SEP licensing after recent high-profile FRAND cases in London, California and Shenzhen,” Lexology, <https://www.Lexology.com/library> (Jan. 19, 2018), which speculated on the status quo and where it would lead. No encouragement was on offer:

**Taking the results of the *TCL v. Ericsson* case at face value and discounting the possibility of major changes on appeal, one might anticipate two potential consequences:**

- SEP licensees may observe that TCL obtained an advantageous rate and a substantial (seven years and counting) delay in taking a license from a leading licensor, and that TCL’s likely worst case is simply paying FRAND rates in the end.
- Parties may see that relative to protracted negotiations, the courts can expeditiously aid in global SEP licensing price discovery and eliminate ambiguity over proper SEP licensing practice, and this may encourage greater use of litigation and a rush to the most advantageous or otherwise appropriate jurisdictions.

**To the extent that the *TCL v. Ericsson* decision proves informative and influential – and future decisions build upon those of Judges Selna, Justice Birss and others – the market may gain sufficient clarity as to proper SEP licensing practice and the prevailing rates and move towards more confidential and efficient deal-making.**

However, it is at least equally probable that in the absence of material incentives, **parties will persist in seeking unreasonable outcomes (e.g., hold-out and hold-up)**. But what sorts of incentives could most efficiently and effectively help? There is plenty to think about and much work to do in 2018.

## Key Differences

<i>Unwired Planet/Huawei</i>	<i>TCL/Ericsson</i>
Comparable licenses – main basis for FRAND rate Top-down rate used as a check	Top-down rate – main basis for FRAND, adjustments to reflect comparable licenses (similarly situated, unpacked)
One FRAND rate (in any given set of circumstances) Court of Appeal: rev'd, no single FRAND rate, number of possible sets of terms	No single rate that is necessarily FRAND
Two (2) geographic rates based on number of patents held: Major Markets and Other Markets (based on China rate)	Rates for three (3) regions: USA, Europe and ROW (based on China rate)
ND aspect of FRAND – benchmark approached applied, no breach if one licensee receives a lower rate	Discrimination merely requires harm to individual entities, not harm to competition
Doesn't directly deal with the question of value regarding expired patents	Expired patents included in the total number of SEPs in a standard, but not in Ericsson's share
Multimode rates calculated	Single mode rates treated as applicable to multimode devices (but top-down rates acknowledged to reflect multi-mode royalty burden)
FRAND injunction (enforced only if a license isn't entered into)	Final judgment in form of mandatory injunction imposing license agreement

## FRAND Rates

- FRAND Rates: The aggregate patent numbers and final rates as determined in both cases are set out below:
- Aggregate Patent Numbers and Royalties*

	Industry Total SEPs		Aggregate Royalty	
	Unwired Planet	TCL	Unwired Planet	TCL
2G	154	365	c. 4.9%	5%
3G	479	953	c. 5.6%	5%
4G	800	1481	c. 8.8	6-10%

- TCL: FRAND Rates for Ericcson’s Portfolio (Handsets Only)

	USA	Europe	RoW
2G	0.164%	0.118%	0.090%
3G	0.300%	0.264%	0.224%
4G	0.450%	0.314%	0.314%

- Unwired Planet: FRAND Rates (for handsets; slightly different rates applied for infrastructure)*

	Major Markets	Other Markets
2G	0.064%	0.016%
3G	0.032%	0.016%
4G	0.052%	0.026%



## “Essentiality” In Fact

In *Cellular Communications Equipment LLC v. HTC Corp. et. al.*, Civil Action No. 6-16-cv-00363 (E.D. Tex. 2016), MSJ (Aug. 9, 2018), Mag. J. Mitchell denied plaintiff’s motion for summary judgment on defendant’s FRAND defenses because there was a genuine dispute of material fact whether plaintiff made a FRAND commitment for the patent-in-suit:

“Plaintiff asserts that declared essential patents are not necessarily essential. Plaintiff argues that there is no evidence that the patent-in-suit are standards essential, and thus there is no FRAND commitment. . . . Plaintiff’s argument that its use of the phrase ‘standards essential’ in its FRAND Statement did not trigger a FRAND commitment is unpersuasive. . . . **Plaintiff’s FRAND Statement to the court clearly indicates that it considered the [patent-in-suit] to be standards essential and that it was prepared to license the [patent] at a FRAND rate.**” (page 3).

## “Essentiality” In Fact (cont’d.)

Long, “Judge Mitchell rules there are factual Issues whether Patent is ‘Essential’ to a Standard (Cellular Eqpt. ZTE), Essential Patent Blog, <https://www.essentialpatentblog.com/2018/08>, commented generally that:

**This case illustrates problems in loosely referring to standard essential patents generically as patents relevant to a standard or erroneously stating that a patent was “declared essential.”** Declarations that patent owners submit to standard setting bodies **typically do not declare that patents are essential to the standard, but identify patents that may be essential to the standard and what licensing terms, if any, they would offer if the patent actually is essential.** A patent is not actually a “standard essential patent” or “SEP” **unless it is “essential” to the standard under the standard setting body’s intellectual property rights (IPR) policy.** (In this case, ETS whose IPR policy requires a declaration that a patent was **potentially essential to a standard and would be available to license under FRAND terms to the extent the patent is essential to the standard**”).

Further, this case illustrates that, just because a patent is infringed by one way of implementing the standard does not mean that the patent covers every way to implement the standard and, thus, may be “essential” and subject to a standard-setting licensing commitment.

**In sum, for convenience, speakers, writers and parties may loosely talk about a patent or patent portfolio as being SEP(s) as a short-hand for patents that were declared potentially an SEP. But, when making statements on which a court, agency or other decisions may rely, it may be helpful to be more precise or provide a caveat that the term SEP is being used as a short-hand and does not mean that a patent actually is essential to the standard.**

## “Essentiality” In Fact (cont’d.)

Further, Long noted that:

Judge Mitchell ruled that Cellular’s FRAND Statement to the court “clearly indicates that it considered the ‘174 Patent to be standards essential and that it was prepared to license the ‘174 Patent at a FRAND rate.” Further, Cellular’s expert’s report stated that he has “never come across a single incidence where the Qualcomm code did not encompass the 3GPP standards” and that, as such, ZTE’s accused products using that code were “designed to comply with the 3GPP standards.” Judge Mitchell found that this statement “equates [ZTE’s infringement] of the ‘174 Patent with compliance of the 3GPP standards, thus implicating the essentiality of the ‘174 Patent.” Accordingly, when viewed in the light most favorable to ZTE, there are genuine issues of material fact that precluded granting summary judgement.

**Note that the procedural posture of this ruling under the summary judgment standard is important when considering its scope.** For example, the expert report statement about the software code probably was intended by patent owner Cellular to indicate that ZTE’s products that use the software code practice the standard. **But it probably was not intended to mean that it was the only possible way to implement the standard and, thus, was “essential” under ETSI’s IPR Policy. Basically, ZTE probably was trying to straddle the line between an essential and non-essential patent that is infringed by a standard-compliant product:**

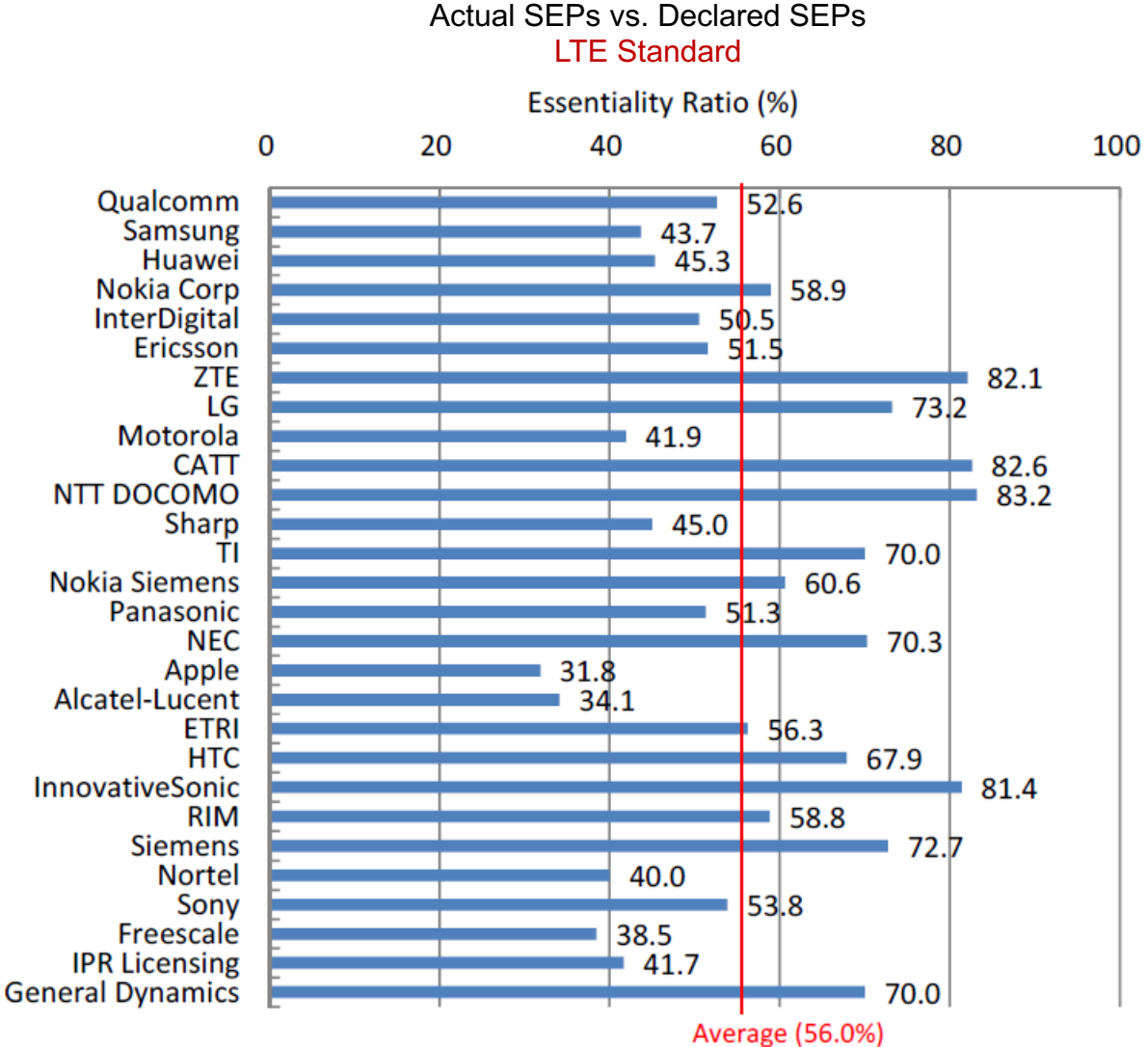
- 1. Not Essential To the Standard:** ZTE used one way to implement the standard **which also infringes the ‘174 Patent**, but there may be **other technically feasible ways to implement the standard without infringing the ‘174 Patent**. **So the patent is not essential under the ETSI IPR Policy.**
- 2. Essential To the Standard:** ZTE used the only possible technical way to implement the standard and that way infringes the ‘174 Patent. **So the patent is essential under the ETSI IPR Policy.**

## “Essentiality” In Fact (cont’d.)

**Said another way:** All standard essential patents are infringed by products implementing the standard, but not all patents that are infringed by products implementing the standard are standard essential patents. Distinguishing between the two types of patents, at least under the ETSI IPR Policy, requires determining whether the patent covers all possible technical ways to implement the standard.

**This is where the summary judgment standard comes in:** Judge Mitchell was not necessarily ruling that the expert report statement meant that the patents actually were essential to the standard. Rather, if viewed in the light most favorable to ZTE, a reasonable juror could find as a matter of fact that the ‘174 Patent was essential to the standard under ETSI’s IPR Policy based on the expert report statement taken along with Cellular’s FRAND Statement. Then again, a reasonable juror could find that the patent was not essential based on that same evidence. Reasonable jurors could find either way, so the issue must be presented to the jury to make the call.

# Declared SEPs are Overstated



How To Check The Essentiality Of a Standard Essential Patent?  
<https://www.greyb.com/checking-essentiality-sep/>

## Flexibility in Determining SEP Licensing Continues

***Exmark v. Briggs-Stratton* further confirms that there is no categorical rule about selecting a royalty base when litigating a reasonable royalty in order to apportion value to the patented invention, but that “apportionment can be addressed in a variety of ways . . . [s]o long as [the patent owner] adequately and reliably apportions between the improved and conventional features” of the accused product.** In this case, the Federal Circuit ruled that the patent owner properly could use the entire lawn mower as the royalty base and was not limited to the innovative baffle component of the lawn mower as a royalty base. This case continues the clarification made in the Federal Circuit’s *CSIRO* decision that recognized that “adaptability [in determining patent damages] is necessary because different cases present different facts” and rejected as “untenable” the argument that every damages model must start with the smallest salable patent practicing unit (SSPPU).

Long, “Federal Circuit confirms flexibility in determining royalty base (*Exmark v. Briggs & Stratton*),” LexBlog, <https://www.lexblog.com/2018/01/22> (Jan. 22, 2018).

## Flexibility in Determining SEP Licensing Continues (cont'd.)

The Federal Circuit stated that the patent claim was directed to the entire lawn mower, but the claim included conventional lawn mower features (e.g., mower deck, side discharge opening) along with the patented improvement relating to the lawn mower's flow control baffle. **In such circumstances, “the patent owner must apportion or separate the damages between the patented improvement and the conventional components of the multicomponent product.”** Doing so ensures that the patent owner “is compensated for the patented improvement (i.e., the improved flow control baffle) rather than the entire mower.”

**The Federal Circuit rejected the adjudged infringer's argument that such apportionment must be done by selecting the royalty base (i.e., use the flow control baffle price) rather than the royalty rate:**

On appeal, [the adjudged infringer] Briggs argues that [the patent owner] **Exmark's expert should have apportioned or separated the value of the baffle from the other features of the mower through the royalty base rather than the royalty rate. We disagree.** We have held that **apportionment can be addressed in a variety of ways, including “by careful selection of the royalty base to reflect the value added by the patented feature [or] ... by adjustment of the royalty rate so as to discount the value of a product's non-patented features; or by a combination thereof.** So long as [the patent owner] Exmark adequately and reliably apportions between the improved and conventional features of the accused mower, **using the accused mower as a royalty base and apportioning through the royalty rate is an acceptable methodology.** “The essential requirement is that the **ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.**”

## Flexibility in Determining SEP Licensing Continues (cont'd.)

The Federal Circuit further found that using the entire end product price (the lawn mower sales price) was “particularly appropriate” because “the asserted claim is, in fact, directed to the lawn mower as a whole: Thus, the claim covers “the infringing product as whole, not a single component of a multi-component product.” But where a claim covers the product as a whole having both conventional and unconventional elements, **apportionment is required**. **That can be done using the royalty rate, not just the royalty base.**

**We hold that such apportionment can be done in this case through a thorough and reliable analysis to apportion the royalty rate.**

The Federal Circuit further observed that **using the entire lawn mower price as the royalty base “is consistent with the realities of a hypothetical negotiation and accurately reflects the real-world bargaining that occurs, particularly in licensing,”** stating:

As we stated in *Lucent Technologies, Inc. v. Gateway, Inc.*, “[t]he hypothetical negotiation tries, as best as possible, to recreate the *ex ante* licensing negotiation scenario and to describe the resulting agreement.” “[S]ophisticated parties routinely enter into license agreements that base the value of the patented inventions as a percentage of the commercial products’ sales price,” and thus, “[t]here is nothing inherently wrong with using the market value of the entire product, especially when there is no established market value for the infringing component or feature, so long as the multiplier accounts for the proportion of the base represented by the infringing component or feature.”



# No Expert Testimony re Royalty Stacking/Patent Hold Up Without Evidence

In *Network-1 Security Solutions, Inc. v. Alcatel-Lucent USA Inc., et al.*, Civil Action No. 6-11-cv-00492 (E.D. Tex. Sept. 21, 2017), Motion in Limine – Expert Testimony (*Daubert*), **the court granted plaintiff’s motion to exclude the testimony of defendants’ damages expert regarding royalty stacking as unhelpful because there was no evidence a defendant applied stacked royalties to the accused technology:**

“[N]one of [defendants’] arguments tie royalty stacking to the facts of this case...**Here, [defendant] has identified no evidence that it has received requests for multiple royalties, or that it considers royalty stacking in real-world licensing negotiations.**” (page 5)

The court granted plaintiff’s motion **to exclude the testimony of defendants’ damages expert regarding patent hold-up for noncomparable patents because there was no evidence that patent hold-up was an issue:**

“**Defendant has not presented evidence or suggest that patent hold-up is a problem in this case . . . . Defendant]has not preserved evidence suggesting that [plaintiff] actually uses it [standard-essential patents] to extract higher royalties from standard-compliant entities, i.e., engages in patent holdup. [Defendant] has not identified, for instance, facts indicating that any of [plaintiff’s] licensees have actually complained about hold-up . . . . [The expert’s] opinion regarding patent holdup is theoretical, and not tied to the facts of this case. Moreover, at the Hearing, Defense counsel admitted that he did not have any authority to support the notion that an expert may generally discuss examples of courts awarding royalties lower than what the plaintiff has asked for, without tying patent hold up to the facts of the specified case at hand.**” (page 7)

Emphasis added.

## Arbitration of SEP / FRAND Overcharge Claims

In *HTC America Inc., et. al., v. Ericsson Inc., et. al.*, Civil Action No. 6-18-cv-200243-JRG (E.D. Tex. 2018), Motion to Compel Arbitration (Nov. 7, 2018), **a Texas federal court granted a request from Ericsson Inc. to arbitrate HTC America Inc.'s claims that it overpaid in the past for cellular and wireless standard-essential patent licenses, separating them from HTC's bid to get a better rate set moving forward.** HTC accused Ericsson of demanding unreasonable licensing terms and overcharging it for soon-to-be-obsolete technology covering aging cellular and wireless standards. In addition to failing to account for the diminishing value of the legacy technology, in breach of its FRAND obligations, HTC also accused Ericsson of colluding with other large SEP holders to manipulate the standards-setting process.

**U.S. District Judge Gilstrap issued an order severing and staying HTC's antitrust claims and other claims that it was overcharged in the past by Ericsson for SEP licenses, while leaving intact the portion of the suit seeking licenses going forward on fair, reasonable, and non-discriminatory, or FRAND, terms.** The court found that the first set dealt with the rates that HTC paid in the past pursuant to a series of agreements, all of which include enforceable arbitration provisions, meaning they should be sent to an arbitrator to decide what to arbitrate.

**"The court finds that Ericsson has presented a plausible argument that the refund claims are covered by the arbitration clauses, and as such,** its assertion of arbitrability is not 'wholly groundless,'" the order said. "The threshold question of whether the past refund claims are arbitrable must be sent to the arbitrator pursuant to the parties' delegation clause."

Perlman, "HTC Compelled to Arbitrate Anti-Trust Claims Past SEP Rates," Law360, <https://www.law360.com./Articles/110005/print?=IP> (Nov. 7, 2018)

# Global Rate-Setting: Contreras' New Rate-Setting Mechanism for Standard-Essential Patents

In an August 3, 2018 draft of a paper intended for publication in the Wash. L. Rev. in 2019 (Contreras "Global Rate-Setting: A Solution for Standard-Essential Patents," Prof. Contreras of the University of Utah's S.J. Quinney College of Law,

lays out a roadmap for the establishment of an expert FRAND rate-setting tribunal that promotes the tripartite goals of transparency, consistency and comprehensiveness. This tribunal is modelled on the U.S. Copyright Royalty Board and similar rate-setting agencies, though it is envisioned not as a governmental body, but an international non-governmental organization. It is hoped that such a tribunal will bring greater predictability and stability to the technology development ecosystem while reducing inefficient litigation.

Abstract, pg. 1.

The major features of the proposed FRAND Tribunal are the following:

SDOs can require (mandatory version) or offer (optional version) that their participants **resolve all disputes regarding the level of FRAND royalties to be charged for SEPs covering the SDO's standards through an international, non-governmental rate-setting tribunal.** Once the tribunal is engaged, it will collect all available evidence regarding the patented and unpatented technology included in a particular standard, determine an aggregate royalty rate for the standard, and apportion royalties among all SEP holders. **Other than these rate-setting matters, the tribunal would adjudicate no other issues, and related contract and antitrust claims would continue to be subject to adjudication by any court(s) having jurisdiction.** SDO participants would be required to refrain from seeking injunctive relief against potential licensees during the pendency of rate-setting proceedings, but once FRAND royalty rates are determined for a specific standard, a SEP holder will be permitted to pursue injunctions against product manufacturers that refuse to accept a license at the designated rate within a reasonable time. Additional details regarding this proposal are set forth below.

(Page 26).

## Global Rate-Setting: Contreras' New Rate-Setting Mechanism for Standard-Essential Patents (cont'd.)

[here-proposed] the global FRAND rate-setting tribunal designed to reduce negotiation, litigation and other excess transaction costs while achieving a fair allocation of resources among affected stakeholders. **It does that through a mechanism that seeks, to the greatest extent possible, to achieve the tripartite goals of transparency, consistency and comprehensiveness.** Specifically, it calls for the establishment of an international, non-governmental FRAND Tribunal, and the modification of SDO policies either to mandate or make available the resolution of FRAND royalty disputes through this mechanism. Like existing rate-setting bodies such as the U.S. Copyright Royalty Board, the FRAND Tribunal **will collect all available evidence** regarding the patented and unpatented technology involved in a particular standard, **determine an aggregate (top-down) royalty rate for the standard as a whole, and appropriately apportion royalties among all holders of essential patents.** **Other than these rate-setting matters, the FRAND Tribunal will adjudicate no other issues,** and related claims for breach of contract and antitrust and competition law violations would continue to be subject to adjudication by any court(s) having jurisdiction. SDO participants would be required to refrain proceedings, but once FRAND royalty rates are determined for a specific standard, **a patent holder will be permitted to pursue injunctions against product manufacturers that refuse to accept a license at the designated rate.**

Though the proposed rate-setting mechanism will not result in awards to individual patent holders that precisely account for the value of each patent, **this degree of precision is not realistic expectation nor a necessary condition to the functioning of the market.** Rather, it is hoped that the proposed FRAND Tribunal will make the FRAND licensing marketplace operate more efficiently by eliminating excessive transaction costs and enabling broad dissemination of proceeds among affected stakeholders.

Conclusion, pgs. 37-38.

## *FTC v. Qualcomm*: Duty to Provide FRAND SEP Licenses at Chip Level

Trial court held **Qualcomm to be obligated to provide licenses for its standard-essential patents to rival chipmakers**, siding with the Federal Trade Commission on an important issue in the agency's challenge of the company's broader licensing practices. *FTC V. Qualcomm*, Civil Action No. 5:17-cv-00220 (N.D. Cal. 2017).

U.S. District Judge Koh issued an **order granting the FTC's bid for summary judgment on the issue, rejecting Qualcomm's contention that it is only required to license its SEPs to manufacturers of end devices — not components — on fair, reasonable and nondiscriminatory, or FRAND, terms.** The court said the intellectual property rights policies of the organizations that adopted the standards include provisions that prevent Qualcomm from making that distinction: **“Consistent with Ninth Circuit precedent, the plain text of the IPR policies, and the relevant extrinsic evidence, the court concludes that the . . . policies require Qualcomm to license its SEPs to modem chip suppliers,”** the order said.

The FTC lodged its suit in January 2017, alleging that Qualcomm illegally maintained its monopoly over baseband processors, which are semiconductor chips used in cellphones, in violation of antitrust laws. **In addition to refusing to license its SEPs to competing chipmakers**, Qualcomm was also accused of using its dominance in the semiconductor market to wrench higher royalties and anti-competitive licensing terms from cellphone makers.

**The FTC moved for summary judgment on the extent of Qualcomm's FRAND obligations, arguing** that the company made commitments with the Telecommunications Industry Association and the Alliance for Telecommunications Industry Solutions over several patents that were adopted as SEPs for 2G, 3G and 4G cellular technology.

Perlman, “Qualcomm Must License Some IP To Rivals In FTC Suit”; Law360, <https://www.law360.com/Articles/1099593/print?Section=IP> (Nov. 6, 2018)

## *FTC v. Qualcomm: Duty to Provide FRAND SEP Licenses at Chip Level (cont'd.)*

In granting the motion, Judge Koh said that in addition to the plain language of the policy provisions, guidelines issued by the standard-setting organizations also support the position that Qualcomm has to license to competing chipmakers, as do statements of purpose included in the policies themselves. She also pointed to a pair of Ninth Circuit decisions from 2012 and 2015 in a case brought by Microsoft Corp. over Motorola Inc.'s FRAND obligations that she said found the obligations extend to "all comers." "Qualcomm is unable to identify any court that has made a contrary statement about the scope of a SEP holder's FRAND commitments," the order said.

**Judge Koh also said Qualcomm's own practices contradict its position that chipmakers never receive SEP licenses, saying the company conceded in its opposition to the summary judgment motion that another chipmaker had received SEP licenses.** More importantly, the order said, the FTC has shown through Qualcomm's own documents that it has itself received licenses to manufacturer components like modem chips.

In addition, the order said, Qualcomm has claimed in prior litigation with Ericsson that an SEP holder may not discriminate in licensing its SEPs, a case that involved one of the very standard-setting organizations at issue in the instant suit. The order also pointed to a European Commission filing from Nokia that contended Qualcomm violated its FRAND obligations.

## FTC v. Qualcomm: Duty to Provide FRAND SEP Licenses at Chip Level (cont'd.)

Further, comment on the effects of the ruling were offered by Koenig, “Will FTC Win Radically Reshape “Cell Patent Licensing”: Law360, <https://www.law360.com/Articles/1099879/Print?Section=IP>, where he stated that:

U.S. District Judge . . . Koh held that the chipmaking giant can't distinguish between finished devices and the components used to make them under its binding obligations to openly license its SEPs.

Her decision gave the FTC key ammunition against Qualcomm as the case approaches a trial scheduled for January. It also likely tees up a long string of similar licensing fights against Qualcomm and other SEP holders that have similar agreements to license those patents under fair and reasonable terms inked with the organizations that adopted their intellectual property into industry technology standards....

The issue of whether Qualcomm is or isn't obligated to license its SEPs to rival chipmakers, [an antitrust lawyer] said, likely "is now off the table in those cases as well." Other courts too may also be influenced by Judge Koh's ruling, according to experts, who say it will give SEP licensees more leverage to try and negotiate lower prices based on cheaper individual components rather than the much more expensive end product.

....



## *FTC v. Qualcomm: Duty to Provide FRAND SEP Licenses at Chip Level (cont'd.)*

In the instant case, the FTC moved for summary judgment on the extent of Qualcomm's fair and reasonable licensing obligations in late August, arguing that the company made commitments with the Telecommunications Industry Association and the Alliance for Telecommunications Industry Solutions over several patents that were adopted as SEPs for 2G, 3G and 4G cellular technology.

**The agency argued that the terms of these commitments include unambiguous obligations for Qualcomm to provide licenses to any company that requests them and said the commitments serve as a binding contract. Qualcomm has largely dominated the chip space, although Intel has been making inroads into the market.**

Qualcomm responded the next month, warning that a decision holding the company obligated to license its SEPs not just to manufacturers of end devices, as it's done historically, but also to firms making individual components, on fair, reasonable and nondiscriminatory, or FRAND, terms, "would radically reshape licensing in the cellular industry." It also argued that the standards at issue cover the communication between handsets and cellular infrastructure, and only need to be licensed to manufacturers of finished devices, not modem chips.

....



## FTC v. Qualcomm: Duty to Provide FRAND SEP Licenses at Chip Level (cont'd.)

Qualcomm's loss Tuesday doesn't head off the trial scheduled for Jan. 4, where the FTC will still have to prove that the chipmaker's licensing practices weren't just a breach of contract but of antitrust laws.

Bridging that gap could be difficult, especially in the face of arguments from some attorneys that FRAND licensing doesn't typically implicate antitrust law. FTC Chairman Joseph Simons, who inherited the case from the Obama-era commission, recused himself from the Qualcomm row. **But Simons argued in early October congressional testimony that antitrust enforcement should generally stay out of FRAND licensing disputes.**

"The way I look at it is, there has to be an antitrust problem in addition to a problem with the standard-setting context. ... **Just the fact that there is a breach of a FRAND commitment does not mean in any way that there is an antitrust violation,**" Simons said at the time.

While many have noted a gap between the FTC and the U.S. Department of Justice on antitrust enforcement in the SEP licensing space, **the head of the DOJ's Antitrust Division, Makan Delrahim, has also emphasized a focus on contract law first in such disputes....**

"Should the case progress to whether the patent was used to extend or secure a monopoly position in chips (something on which I express no opinion), it moves away from a simple determination of what the right FRAND terms might be," [an antitrust lawyer said], "and may present the 'plus' factors consistent with applying an antitrust focus, even under the 'New Madison' approach advocated both by Delrahim and, in a more nuanced way, by Chairman Simons."

## *FTC v. Qualcomm: Duty to Provide FRAND SEP Licenses at Chip Level (cont'd.)*

However the case turns out in the end, ...the FTC and others challenging the licensing practices of Qualcomm and other similar SEP holders can use a ruling on such contractual obligations to say "that's how everyone should be licensing." Judge Koh's ruling, according to attorneys, can help force Qualcomm into licensing negotiations even with competitors it's historically refused to deal with.

The rulings' fallout likely won't be limited to the law. That's because licensing structures directly affect how implementers using the licenses pay SEP holders. **According to attorneys, licensing at the finished-product level is typically based on the end price, with SEP holders like Qualcomm getting paid a fixed percentage on the overall dollar value of a phone or other piece of technology that can run into the hundreds of dollars.**

"That would necessarily change" if Qualcomm and other holders of wireless and 4G patents have to license at the component level instead of the end product, said an IP litigator.

**Component level licensing, attorneys say, would yield payments based on the vastly cheaper individual parts.**

**"It would substantially complicate the methodology," said another IP litigator.**

## FTC v. Qualcomm: Duty to Provide FRAND SEP Licenses at Chip Level (cont'd.)

See *also* Graham, “Chip Makers Face Tough Decisions Following Judge Koh’s Qualcomm Ruling,” The Recorder, <https://www.law.com/therecorder/2018/11/08/chip-makers-face-tough-decisions-following-judge-Koh's-Qualcomm-ruling>.

**The question will be whether to accept Koh’s decision that they’re required to license their standard-essential patents to chip-making competitors or continue brushing them off.** ‘It’s a very sobering ruling for large-scale standard-essential patent holders, especially in the 3G, 4G, 5G licensing space,’ a lawyer said. **‘It’s only one district court judge’s interpretation” of a chip supplier’s commitment to fair, reasonable and non-discriminatory (FRAND) royalties, “but it’s a very influential district court judge in a very influential case.’** If major SEP holders such as Ericsson and Nokia accede to Koh’s **ruling**, it will likely depress the royalty income they earn not only on phones, but other consumer items like drones, even cars. **But if they continue refusing to license competitors**, they could risk getting hauled into court and accused of breaching their FRAND obligations. ‘It’s definitely going to make life more complicated for SEP holders in the 3G and 4G space,’ he said. ‘That’s going to be a tough decision for in-house [attorneys] to make.’”

## 4. Injunctive Relief Availability; Willful Infringement

## United States: Factual Issues Determine Whether Injunction Appropriate

**“A patentee subject to FRAND commitments may have difficulty establishing irreparable harm. On the other hand, an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.”**

*Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286,  
1332 (Fed. Cir. 2014) (emphasis added)

## United States: Court Can Award Attorneys Fees for Injunctive Action

- *Microsoft Corp. v. Motorola, Inc.* (9<sup>th</sup> Cir. 2015)
  - Jury found that Motorola breached duty of good faith and fair dealing with respect to its FRAND obligations
  - Court held that jury could have found that Motorola sought to leverage the “crippling consequences” of an injunction to capture more than the value of the patents
  - Court noted that Microsoft had already sought judicial determination of FRAND rate at that time
  - **Take-away:** Seeking injunctions against willing licensees for FRAND-encumbered SEPs can be unlawful

## Willful Infringement of SEPs Subject to FRAND Commitment

As noted in Long, “Jury awards running royalty for willfully infringed SEPs subject to FRAND Commitment (PanOptis v. Huawei)”; Essential Patent Blog, [https://www.essentialpatentblog/2018/08\(Aug.31,2018\)](https://www.essentialpatentblog/2018/08(Aug.31,2018)), a jury found that Huawei willfully infringed four patents owned by PanOptis alleged to be essential to mobile cellular standards and subject to a FRAND commitment as well as a fifth patent related to the H.264 video compression standard but was not subject to a FRAND commitment. The jury awarded a reasonable royalty of \$7.7 million for the single patent without a FRAND commitment, which was almost three times higher than the combined royalty awarded for the four FRAND-committed SEPs of \$2.8 million. (It was not clear whether that difference is due to the FRAND-commitment or to the relative value of the patented technologies to the infringing products.)

Prior to trial, the court limited the case to determination of FRAND commitments on U.S. patents as a matter of U.S. law and not opining on FRAND commitments for foreign patents under foreign law. For example, the court refused to enjoin a Chinese antitrust action based on alleged FRAND violations for related Chinese SEPs. And the court refused to include in this case a determination of whether there was infringement of related foreign SEPs and whether licensing offers on those foreign SEPs complied with the FRAND commitment under foreign law.

The court will next hold a bench trial (i.e., trial before the judge, not a jury) on whether PanOptis licensing offers complied with its FRAND commitments.

## Willful Infringement of SEPs Subject to FRAND Commitment, (cont'd.)

**Denied Antisuit Injunction Against Chinese Action.** In April 2018, Magistrate Judge Payne issued a Report and Recommendation that Judge Gilstrap deny PanOptis' request to enjoin Huawei from pursuing the antitrust action in China.

PanOptis alleged that the Chinese action may result in an injunction that precludes PanOptis from proceeding in this U.S. action.

Huawei, however, submitted a written agreement not to seek such an injunction. Huawei also asserted that, even though an issue in both actions is PanOptis' offer of a global license, the Chinese action concerned only Chinese patents, just like the instant case concerns only U.S. patents. Thus, the scope of relief in either court would be limited to patents within their respective jurisdictions.

Judge Payne found that Huawei's agreement not to pursue an injunction against this action in China and the scope of both proceedings being limited to patents within their respective jurisdictions meant there was nothing oppressive about letting both cases go forward and there would not be overlapping relief. Further, he found that, "perhaps most important" was there was no "injury resulting from the Chinese actions ... immediate enough to warrant preliminary relief" because "the Chinese court has not issued any order that might affect this case." If that later changes, PanOptis can seek relief at that time.

Judge Gilstrap **adopted** Judge Payne's recommendation.



## Willful Infringement of SEPs Subject to FRAND Commitment, (cont'd.)

**Denied Summary Judgment on FRAND Compliance.** Magistrate Judge Payne recommended denying PanOptis motion for a summary judgment ruling that its global FRAND offer to Huawei was fair, reasonable and nondiscriminatory, ruling that there were factual issues requiring trial. He found that, “[w]hen the legal question uses words like [‘fair’, ‘reasonable’ and ‘nondiscriminatory’] summary judgment is hard to win.” A trial must resolve factual issues, including “whether PanOptis’ offers made during negotiations, as well as its damages claim, are consistent with the FRAND obligation” as well as whether the patents are essential to the LTE standard.

Judge Gilstrap **adopted** Magistrate Judge Payne’s recommendation.

### Damages Jury Instructions

**The jury instructions included instructions for determining damages based on a reasonable royalty, which damages instructions may be found in pages 22 to 27 of the instructions. The bulk of those instructions follow traditional reasonably royalty law.**

It is not clear from the public record whether and to what extent there was evidence of patent holdup or royalty stacking or what damages theories either of the parties asserted that, among other things, apportioned value of the patented technology from the value of the standard per the instructions above.

## Willful Infringement of SEPs Subject to FRAND Commitment, (cont'd.)

The pertinent jury charge stated:

**“A reasonable royalty must reflect that the ‘216, ‘569,’293, and ‘284 Patents have been declared to be essential to the cellular standards of the European Telecommunications Standards Institute, sometimes called “ETSI.” Further, PanOptis committed to license the ‘216, ‘569, ‘293, and ‘284 Patents on fair, reasonable, and non-discriminatory—or “FRAND”—terms.**

Because of this FRAND commitment, I will refer at times in my instructions to “standard-essential” patents. By referring to standard-essential patents, the Court is not instructing you that the asserted patents are actually essential to any standard. Again, it is up to you, the jury, to decide whether or not PanOptis has proven that the patents are standard-essential and infringed.

Ericsson and Panasonic—PanOptis’ predecessors-in-interest with respect to the asserted patents—**submitted written commitments to ETSI covering the ‘216, ‘569, ‘293, and ‘284 Patents, in which they agreed to grant irrevocable licenses on fair, reasonable, and non-discriminatory—or FRAND—terms and conditions. Because Ericsson and Panasonic are predecessors-in-interest to PanOptis, PanOptis has the same FRAND obligations as Ericsson and Panasonic had when they submitted their written commitments to ETSI.**

You must make sure that any reasonable royalty determination takes into account PanOptis’ FRAND obligations as the Court has just explained them to you. A reasonable royalty in this case for the ‘216, ‘569, ‘293, and ‘284 Patents **cannot exceed the amount permitted under PanOptis’ FRAND obligations.** In determining what amount is a FRAND royalty, you may consider any evidence of patent hold-up and royalty stacking. **The ‘238 Patent has not been declared essential to any cellular standard, and, therefore, a reasonable royalty determination regarding the ‘238 Patent need not take into account any FRAND obligations.**

## Willful Infringement of SEPs Subject to FRAND Commitment, (cont'd.)

I will provide you with additional instructions on how the FRAND commitment for the asserted patents affects your determination of a reasonable royalty.

**For the '216, '569, '293, and '284 Patents, which have a FRAND obligation to ETSI as part of the LTE standards, you must consider the following two factors:**

- (1) any royalty for the patented technology **must be apportioned from** the value of the standard as a whole; and
- (2) the FRAND royalty rate must be based on the **incremental value** that the patented technology adds to the product, **not any value added** by the standardization of that technology.”

## Huawei Prohibited from Enforcing Chinese Injunction Relating to SEPs / FRAND Issues

*In Huawei Technologies Co., Ltd. et al. v. Samsung Electronics Co., Ltd.*, Civil Action No. 3-16-cv-02787-WHO (ND Cal 2016), 2018 WL 1784065, at \*1 (N.D. Cal. April 13, 2018), Motion for Preliminary Injunction (April 13, 2018) [Orrick, J.], **the court granted defendants Samsung's motion for an antisuit injunction prohibiting plaintiff Huawei from enforcing injunction orders issued by a Chinese court and found that the parties and issues in the two actions were functionally the same:** “[One plaintiff and one defendant] are parties to both actions, and some of the their affiliates or subsidiaries are parties in each action . . . **both parties have presented me with a breach of contract claim based on the other's alleged failure to abide by its commitments to [a standards setting organization].** Neither party disputes the other's right to enforce that contract as a third-party beneficiary. **And the availability of injunctive relief for each party's [standard essential patents] depends on the breach of contract claims. . . .**” **[T]he contractual umbrella over the patent claims' controls and dictates that this action is dispositive of [plaintiffs'] Chinese actions....**The appropriate remedy for [plaintiffs] breach of contract claim may very well be the injunctive relief issued by the Shenzhen court. **But I must have the opportunity to adjudicate that the claim without [defendants] facing the threat of the Shenzhen court injunctions.”** (page 10)

## Huawei Prohibited from Enforcing Chinese Injunction Relating to SEPs / FRAND Issues (cont'd.)

**Judge Orrick also found that the Chinese injunction orders would frustrate US domestic policies:** “[Defendant] argues that allowing [plaintiff] to enforce the Shenzhen Court’s injunction would frustrate specific domestic policies against injunctive relief on [standard essential patents] and general public policies anticompetitive conduct and breaches of contract. The bulk of precedent supports its position.... There is a risk of inconsistent judgments if I were to find that [plaintiff] is not entitled to seek injunctive relief for its SEPs. In addition, in the absence of an antisuit injunction [defendant] faces the risk of significant harm, not just in China, but with impacts percolating around the world. **The Chinese injunctions would likely force it to accept [plaintiffs’] licensing terms, before any court has an opportunity to adjudicate the parties’ breach of contract claims.** Under these circumstances, the Shenzhen Order ‘interfere[s] with ‘equitable considerations’ by compromising the court’s ability to reach a just result in the case before it free of external pressure on [Samsung] to enter into a holdup’ settlement before the litigation is complete.” (page 16)

**Further, the U.S. court’s issuance of the anti-suit injunction would have a negligible impact on comity:** “**Since this action preceded the Chinese actions – if only by one date – enjoining the foreign action would not ‘intolerably impact comity.’ . . . Defendant] seeks only to enjoin [plaintiffs] from enforcing the Chinese injunctions until I have an opportunity evaluate the propriety of injunctive relief for the parties’ [standard essential patents].** Since [defendant] has appealed the injunction order, the parties estimate a few months before it becomes final. . . . **The scope of this anti-suit injunction, limited to a particular order dealing with two patents, a specific form of relief, and estimated to last less than six months, presents a negligible impact on comity.**” (page 20)

## Huawei Prohibited from Enforcing Chinese Injunction Relating to SEPs / FRAND Issues (cont'd.)

The Court, before addressing Samsung's motion for an anti-suit injunction, summarized the Ninth Circuit's decision in *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872 (9<sup>th</sup> Cir. 2012), which the court applied. **Microsoft had filed a breach of FRAND contract action against Motorola in the Western District of Washington based on the terms offered for FRAND license to video coding SEPs, and then obtained an antisuit injunction when Motorola obtained injunctions in Germany on patents within the same portfolios. The Ninth Circuit affirmed that injunction.**

## Huawei Prohibited from Enforcing Chinese Injunction Relating to SEPs / FRAND Issues (cont'd.)

Long, on “Judge Orrick enjoins Huawei from enforcing Injunction for Infringing SEI’s issued by China’s Shenzhen Court (*Huawei v. Samsung*): <http://www.essentialpatentblog.com/2018/04>, noted that:

Judge Orrick applied the Ninth Circuit’s *Gallo* decision that provides a three-part test to determine whether a U.S. court should enjoin a party from “proceeding in a foreign court in circumstances that are unjust,”:

1. Determine whether or not the parties and the issues are the same in both the domestic and foreign actions, and whether or not the first action is dispositive of the action to be enjoined.
2. Determine whether at least one of the four factors identified in the *Unterweser* decision applies:
  - (i) The foreign litigation may frustrate a policy of the U.S. court that would issue the antisuit injunction.
  - (ii) The foreign litigation would be vexatious or oppressive.
  - (iii) The foreign litigation would threaten the U.S. court’s *in rem* or *quasi in rem* jurisdiction.
  - (iv) The foreign litigation would prejudice other equitable considerations.

## Huawei Prohibited from Enforcing Chinese Injunction Relating to SEPs / FRAND Issues (cont'd.)

3. Determine whether the requested antisuit injunction's impact on comity is tolerable, where comity is basically deference that one country gives to the laws and rulings of another country regarding activity within that other country.

As an initial matter, Judge Orrick ruled that, based on the Ninth Circuit's decision that affirmed the antisuit injunction in the *Microsoft v. Motorola* SEP-FRAND case, he only needed to consider the three-part *Gallo* test and he did not need to also consider the traditional four factors for preliminary injunction relief (i.e., likelihood of success on the merits; irreparable harm to the party seeking the injunction if the injunction is not granted, the balance of the equities between the parties if an injunction is or is not entered, and the public interest).



# Huawei Prohibited from Enforcing Chinese Injunction Relating to SEPs / FRAND Issues (cont'd.)

Long also identified several key points in the decision, to wit:

- **Filing Date of U.S. and Foreign Actions.** The patent owner (Huawei) filed this U.S. action and the Chinese action at the same time. **Technically, perhaps because of the time zone difference, the U.S. action was filed one day before the Chinese action. The fact that Huawei technically filed this U.S. case one day before Huawei filed the Chinese case was a factor that Judge Orrick found to favor entering an antisuit injunction that gives preference to the first filed U.S. action over the later filed Chinese action. Huawei essentially outraced itself in the first-to-file competition (i.e., filed its U.S. action before filing its Chinese action)**
- **Scope of U.S. and Foreign Actions.** Although not totally clear from the record, the Chinese court apparently considered only whether the accused infringer (Samsung) was a willing licensee in its negotiations with the patent owner (Huawei) for a license under the Chinese SEPs. **In this U.S. case, however, the court would consider a much broader issue of whether Huawei breached its FRAND commitment and determine FRAND contract terms. In other words, the U.S. court was not going to simply retry and decide the same issues already decided by the Chinese court and his decision would control whether the patent owner would be entitled to the injunctive relief granted by the Chinese court.**

## Huawei Prohibited from Enforcing Chinese Injunction Relating to SEPs / FRAND Issues (cont'd.)

**Judicial Estoppel From Entering the Antisuit Injunction.** The accused infringer (Samsung) successfully argued against bifurcating the U.S. case that would have decided the FRAND contract issues first; rather, it argued that the U.S. court must first determine whether the patent owner's (Huawei's) patents were valid, enforceable, infringed and essential to the standard before the court could then decide the contractual FRAND issues. **The U.S. court agreed to proceed with the entire case—both the FRAND contract and U.S. SEP infringement claims—at the same time with a single two-week jury trial. The accused infringer's later request for an antisuit injunction “tempted” the court to hold that the accused infringer was judicially estopped from now arguing that an antisuit injunction was warranted so that the the contractual issues would be decided first (contrary to the accused infringer's successful bifurcation argument).** But, rather than that, the court ruled that the infringer would be granted the antisuit injunction **but could not argue that the FRAND contract issues could not be decided without evidence of whether the foreign patents were valid, enforceable, infringed or essential (if such determinations were outside the scope of the U.S. court's jurisdiction).**

**Judge Orrick ruled that he would enjoin Huawei from enforcing the injunction orders** granted by the Chinese Shenzhen court “until I have the ability to determine the breach of contract claim [that Huawei] chose to present in this action prior to filing the Chinese actions.” [Order at 21].

## Huawei Prohibited from Enforcing Chinese Injunction Relating to SEPs / FRAND Issues (cont'd.)

In further activity in the case, Judge Orrick ruled on several Motions in Limine Regarding Expert Testimony (*Daubert*) on Sept. 25, 2018. **With respect to FRAND damages, the court denied defendant's motion to exclude the testimony of plaintiff's damages expert regarding FRAND rates because his selected portfolio strength indicators were not unreliable:**

“[The expert] accounts for expired patents and uses a weighted calculation to combine deemed essential patent counts with Approved Contributions, so a firm with a robust SEP portfolio but not contributions would still be assigned a significant patent value. Further, the use of the indicator is not duplicative of the database because the deemed essential patents are extrapolations given the number of patents involved, and the indicator simply provides another factor to consider in analyzing the portfolio strength, which yields more reliable results.” (page 71).

**Judge Orrick also denied defendant's motion to exclude the testimony of plaintiff's damages experts regarding FRAND commitments for improperly opining on French law:**

“Both parties agree that French law governs the ETSI IPR Policy, and each side has submitted reports from French law experts and taken the respective depositions. . . . [The expert] essentially asserts that [plaintiff] has acted in good faith, whereas [defendant] has not. . . . [His] opinions will prove helpful to the jury in determining the ultimate issue of whether either party breached its FRAND obligations.” (page 74).

## 5. USITC & FRAND

## USITC: Certain 3G Mobile Handsets and Components Thereof, Inv. No. 337-TA-613 (April 27, 2015)

On remand, while determining that the patents at issue were not standards essential, issued *dicta* stating that exclusionary relief would **not** be inappropriate for standards essential patents:

“[SSO] had mandatory mediation to determine FRAND rate in 1993, and removed it from their polity. They considered barring parties from injunctive relief, but did not do so.”

“. . . The evidence demonstrated that ETSI was aware of the possibility of exclusionary relief, either from injunctions or at the ITC, and chose to allow such relief under its SSO agreement. Therefore, there is **no** evidence in this case . . . that an exclusion order should **not** be issued.”

## ITC: No FRAND Defense Based on Alleged Discriminatory Licensing

Chief Administrative Law Judge (“ALJ”) Bullock of the U.S. International Trade Commission (“ITC”) issued an Initial Determination, in December 2017, that **accused infringer Hynix (respondent) had not established that patent owner Netlist (complainant), had breached a RAND commitment to JEDEC concerning computer memory technology standards. He found that exclusionary relief would be proper and not against the public interest if the memory products infringe valid claims of the alleged standard essential patents (“SEPs”); but he found that the alleged SEPs were not infringed.**

**A key part of the RAND defense was the accused infringer’s argument that the licensing offer it received from the patent owner showed discriminatory licensing that violated the RAND commitment because it differed from licensing terms that the patent owner entered with someone else. Specifically, the patent owner Netlist had entered a joint development agreement with Samsung that not only granted a license to the alleged SEPs, but also had other non-monetary considerations including a strategic partnership with Samsung that Netlist believed to have substantial benefits. The accused infringer Hynix, however, argued that the non-monetary strategic partnership terms were a sham meant to cover-up what was essentially a royalty-based licensing agreement, thus allowing Netlist to improperly seek different—and discriminatory—effective royalty terms with Hynix or others. ALJ Bullock rejected Hynix’s arguments, finding that the strategic partnership benefits did not have “no value” as Hynix had argued and that patent owner Netlist was not required to provide those same terms to Hynix.**

**This decision provided some procedural insights into litigating SEPs at the ITC. For example, ALJ Bullock ruled that the party raising a RAND defense has the burden to prove that defense. Further, parties should present their standard-setting license defense and rebuttal in the context of the law that governs the IPR policy at issue — i.e., in this case, the JEDEC Manual states that its RAND commitment is subject to interpretation under New York law.**

# ITC No FRAND Defense Based on Alleged Discriminatory Licensing (cont'd.)

Long, “ALJ Bullock rules that Hynix did not establish RAND defense based on alleged discriminatory licensing (Netlist v. Hynix 337-TA-1023),” <https://www.essentialpatentblog.com/2017/12> (Dec. 7, 2017), discussed the decision at length. In especially relevant remarks, he noted that:

**Section 8.2 “patent Policy” of the JEDEC Manual discusses an agreement or refusal to license as follows:**

## **8.2.4 RAND Patent Licensing Commitment**

Subject to the terms and conditions of section 8.2.4, each Committee Member, as a condition of Participation, agrees to offer to license on RAND [“Reasonable and non-discriminatory licensing terms and conditions” per definition’s section 8.2.1] terms, to all Potential Licensees, such Committee Member’s Essential Patent Claims for the use, sale, offer for sale or other disposition of a portion of a product in order to be compliant with the required portions of a final approved JEDEC Standard issued during the period of membership in that Committee. The licensing commitment does not apply to Essential Patents of a Committee Member where notice of a Refusal to License has been given by the Committee Member in accordance with 8.2.3.1.

**The JEDEC Manual defines Essential Patent Claims as those “necessarily ... infringed” when practicing the standard, stating:**

**Essential Patent Claims:** Those Patent claims the use of which would necessarily be infringed by the use, sale, offer for sale or other disposition of a portion of a product in order to be compliant with the required portions of a final approved JEDEC Standard.

**NOTE Essential Patent Claims do not include Patent claims covering aspects that are not required to comply with a JEDEC Standard,** or are required only for compliance with sections that are marked “example,” “non-normative,” or otherwise indicated as not being required for compliance, or related to underlying enabling technologies or manufacturing techniques not specified in the standard.

## ITC No FRAND Defense Based on Alleged Discriminatory Licensing (cont'd.)

**The JEDEC Manual distinguishes between an “Essential Patent” and a “Potentially Essential Patent” based on whether the patent actually has essential patent claims and not simply claims reasonably believed to be essential:**

**Essential Patent:** A Patent containing one or more Essential Patent Claims.

**Potentially Essential Patent:** A Patent that is reasonably believed by a subject person to contain one or more Essential Patent Claims.

**Note that this case concerns the prior July 2015 version JM21R version of the JEDEC Manual and not the current November 2015 JM21S version of the JEDEC Manual; Judge Bullock’s decision in this case cites to Exhibit CX-0325 that is listed on Netlist’s exhibit list as “JEDEC Manual of Organization and Procedure JM21R (July 2015).”**



# ITC No FRAND Defense Based on Alleged Discriminatory Licensing (cont'd.)

## **RAND Defense In Public Interest Inquiry**

As an initial matter, ALJ Bullock noted that the parties did not address the RAND defense in the initial liability phase of the investigation. Rather, the parties addressed the RAND defense in the public interest phase. Further, ALJ Bullock observed that he was authorized by the Commission to consider “the statutory public interest factors set forth in 19 U.S.C. 1337(d)(1), (f)(1), (g)(1),” but none of the parties tied the RAND defense to any of those specific public interest factors. Nonetheless, he considered the RAND defense in the public interest inquiry since that is how the parties presented the defense. (ID at 181)

## **Essentiality**

ALJ Bullock ruled that the JEDEC RAND commitment applies only to SEP patent claims that are actually essential to the standard, not simply claims that are **“potentially” essential (i.e., claims one reasonably believes are essential)**, stating:

**“Thus, the JEDEC Manual articulates a system where committee members are required to disclose “potentially essential patents” to the other JEDEC committee members, but attaches a RAND licensing obligation only to those patent claims that are actually essential to a final approved JEDEC standard. Thus, a necessary pre-requisite to any determination that Complainant has violated a RAND licensing obligation is a showing that the asserted patents in this investigation are actually standard essential. If the asserted patents are not essential to a JEDEC standard, [patent owner] Netlist does not have a RAND licensing obligation for those patent claims according to the terms of the JEDEC Manual. [ID at 182]**

## ITC No FRAND Defense Based on Alleged Discriminatory Licensing (cont'd.)

In this case, ALJ Bullock had decided that the patent claims are not infringed. **If the patents are not infringed, then they cannot be essential and any RAND obligation is “purely hypothetical”:**

**“In the absence of an infringement finding, as here, any RAND obligation on Netlist’s part is purely hypothetical, and cannot form a factual basis for foregoing or delaying an exclusion order on the basis of the public interest.**

But ALJ Bullock acknowledged that the Commission may disagree with his finding that the patents are not infringed, in which case the RAND obligation may be relevant. **Importantly, a patent that is infringed is not necessarily essential to the standard. So there should be some showing that infringed patent claims are essential to the standard.**

In this case, **Hynix submitted evidence** that the patent owner **Netlist** asserted in interrogatory’s, deposition testimony and elsewhere **that the patents were essential to the JEDEC standard**. Further, **the patent owner Netlist does not appear to dispute essentially**. ALJ Bullock, therefore, ruled that the patents may be considered essential to the JEDEC standard if the Commission finds that the patents are infringed. (ID at 184).

# ITC No FRAND Defense Based on Alleged Discriminatory Licensing (cont'd.)

## Implementer's Burden To Prove RAND Defense

ALJ Bullock ruled that “the burden to prove an affirmative defense based on a breach of RAND obligations lies with Respondents [Hynix].” He rejected Hynix’s argument that the JEDEC Manual placed the burden on the patent owner to show that its licensing was “demonstrably free of any unfair discrimination.” . . . **ALJ Bullock observed, however, that there is some inconsistency in the manual.** Specifically, the Licensing Assurance/Disclosure Form “section 8.2.5, by its own terms, only refers to ‘terms and conditions that are free of any unfair discrimination’ (ID at 193) — i.e., uses only the term “free” and not “demonstrably free” of any unfair discrimination. Hynix’s expert did not address that inconsistency.

In any event, ALJ Bullock ruled that **the JEDEC Manual did not purport to address which party bears the burden of proof in a RAND dispute. And the JEDEC Manual could not be used to set aside the ITC’s practice of “placing the burden of proof on the party advancing a RAND defense.” (ID at 193).**

# ITC No FRAND Defense Based on Alleged Discriminatory Licensing (cont'd.)

## Patent Owner Did Not Breach RAND Commitment

ALJ Bullock ruled that the implementer Hynix failed to show that patent owner Netlist breached its RAND commitment.

First, ALJ Bullock rejected Hynix's argument that patent owner Netlist was required, but failed, to offer the same "effective rate" to Hynix that Netlist gave to Samsung under the JDLA. (ID at 195) The JDLA agreement went beyond a mere license grant and had strategic partnership and other terms that Hynix's expert erroneously assumed had no value.

The evidence showed that, at the time the JDLA agreement was entered with Samsung, patent owner Netlist "believed it was receiving valuable consideration from having Samsung sign on as a strategic partner." (ID at 196) The JEDEC RAND commitment "surely cannot mean" that Netlist must offer the same JDLA terms without receiving the strategic partnership benefits that Netlist contemplated when entering the JDLA.

# ITC No FRAND Defense Based on Alleged Discriminatory Licensing (cont'd.)

ALJ Bullock thus summarized his ruling on the RAND defense as follows:

**In sum, Respondents have failed to tie their RAND arguments to a recognizable affirmative defense, a scenario that the Commission has previously noted with disapproval.** Assuming the RAND arguments are breach of contract arguments, the undersign finds that the underlying contract—the JEDEC Manual—**lacks sufficient clarity to enforce its terms against Complainant [patent owner Netlist], which the Commission has also noted as a reason a RAND argument may fail.** And finally, even assuming that the RAND agreement is related to a cognizable affirmative defense, and that the terms of the JEDEC Manual are sufficiently definite to be enforceable, the undersigned finds that **Respondents** have failed to establish unfair discrimination based on the evidence of record.  
[ID at 196-197]

## ITC: Patents Not Essential to LTO-7 Standard

The U.S. International Trade Commission (“ITC”) **reviewed some parts of the September 2017 Initial Determination and Recommended Determination on remedy by administrative law judge (“ALJ”) Shaw concerning patents alleged to be essential to the LTO Consortium’s Linear Tape Open (“LTO”) standard for high-capacity, single-reel magnetic tape storage.**

**ALJ Shaw found that the claims of one patent alleged to be essential to the LTO-7 Standard were valid and infringed, but that claims of two other alleged essential patents were not infringed. He found that none of the asserted patent claims were essential to the LTO-7 Standard. He also rejected Sony’s defenses that Fujifilm had breached an agreement with the LTO Consortium to license its essential patents to third-parties like Sony.** Based on those rulings, ALJ Shaw further recommended that a limited exclusion order should be entered and that Sony’s public interest arguments about the claims being essential to the LTO-7 standard did not require tailoring or curbing such an exclusion order.

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

Long, “ITC to consider ALJ’s decision and recommended exclusion order on alleged SEPs that ALJ found were not essential to the LTO-7 Standard (337-TA-1012 Fujifilm v. Sony),” Essential Patent Blog, <https://www.essentialpatentblog.com/2017/12> (Dec. 19, 2017), **noted several key points in beginning his review of the case:**

### Initial Clarifications

**First, the publicly available information indicates this case does not involve a FRAND commitment—i.e., a commitment to license essential patent claims on fair, reasonable and non-discriminatory terms (“FRAND”). Rather, the accused infringer, Sony, argues that Fujifilm entered a licensing agreement with the LTO Consortium to license third-parties on some form of non-discriminatory terms. We do not know from the ITC decision what are the actual alleged terms** (the full agreement is not publicly available) and **ALJ Shaw’s decision nowhere refers to the alleged terms as being “FRAND”.** But **Judge Gardephe’s district court decision (discussed at the end of this blog post) indicates that a FRAND requirement was proposed and rejected for the LTO Agreement. Rather, the LTO7 Agreement adopted a standard of nondiscriminatory licenses under the patent owner’s “standard terms.”**

**Second, ALJ Shaw did not actually enter an exclusion order. He did** recommend that the full Commission enter an exclusion order, finding that Sony’s “**essentiality**” **argument did not provide a public interest that would require tailoring or curbing an exclusion order.** The ITC full Commission will consider ALJ Shaw’s recommendation, but they are not bound by it.

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

**Third, ALJ Shaw found that the patent claims were not essential to the LTO-7 standard.** Therefore, if the ITC Commission agrees with ALJ Shaw, then any exclusion order entered would not be based on an SEP (because the patent is not essential to the standard).

Fourth, there have been other investigations where the ALJ recommended exclusionary relief on an alleged SEP. And the full Commission itself has decided to enter exclusionary relief a few years ago on alleged FRAND committed SEPs: The 794 Investigation between Samsung and Apple; but the U.S. International Trade Representative (“USTR”) Froman disapproved that exclusionary order. (See our Aug. 3, 2013 post). **The ITC Commission has artfully dodged addressing SEP issues since then, finding one reason or another to resolve the investigation without addressing SEP issues considered by the ALJ. So this case does provide another opportunity for the full Commission to address some SEP issues.**



## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

### Long first summarized ALJ Shaw's Initial Determination:

ALJ Shaw considered whether asserted claims of three patents were infringed and essential to the LTO-7 Standard. He ultimately found that only one patent was infringed, and no claims were essential to the LTO-7 Standard:

- '612 Patent Claims 1, 2, 4, 5, 7 and 9-11 (all claims infringed except Claims 9-11)
- '106 Patent Claims 1, 2, 5 and 6 (no claims infringed)
- '805 Patent Claims 3 and 10 (no claims infringed)

He also rejected Sony's defenses that were premised on Fujifilm's AP-75 Agreement somehow obligating Fujifilm to license to Sony patents that are essential to the LTO-7 Standard, which defenses were:

- Breach of Contract
- Patent Misuse
- Implied License and Patent Exhaustion
- Waiver

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

### **Sony's Breach of Contract Defense — The AP-75 Agreement**

**Sony raised a breach of contract defense based on the Fujifilm AP-75 Agreement that Fujifilm entered with the LTO Consortium. Sony also entered its own AP-75 Agreement with the LTO Consortium.**

Sony argued that the Fujifilm AP-75 Agreement required Fujifilm to grant Sony certain rights. **Sony argues that (a) Fujifilm breached a nondiscriminatory licensing requirement in § 8.2 of the AP-75 Agreement by refusing to license Sony and (b) Fujifilm breached a forum selection clause in § 11.11 of the Agreement by suing Sony in the ITC, rather than in a New York court.**

ALJ Shaw found that Sony's breach of contract arguments do not apply **because the asserted claims were not essential to the** LTO-7 Standard. (ID at 364). The decisions summary of Sony, Fujifilm and ITC Staff arguments on this point are heavily redacted and their post-trial briefs currently are not publicly available, so its near impossible to tell what the arguments were. The ITC Staff argued that "Sony has not shown that a breach of contract is a defense to patent infringement" and ALJ Shaw states in footnote 109 that he "agrees with the Staff's analysis of Sony's arguments." But we don't know what those arguments or analysis were.

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

With respect to the forum selection clause, ALJ Shaw found there was no breach because “Sony is not a party to Fujifilm’s AP-75 agreement.” He also found that “Sony is not a third-party beneficiary for purposes of § 11.11 [of the AP-75 Agreement], because § 8.2 limits the rights of third-party beneficiaries to obtain a license.” (ID at 368-69).

### **Sony’s Patent Misuse Defense**

Sony argued that Fujifilm was misusing its alleged essential patents “by failing to offer Sony a license” to them.

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

**ALJ Shaw found that Sony had not shown by a preponderance of the evidence that “Fujifilm impermissibly broadened the physical or temporal scope of its patents, in a manner that has anticompetitive effect,” stating:**

Sony does not cite any evidence specific to its patent misuse defense, and [ALJ Shaw] previously determined that Fujifilm had not breached § 8.2 of AP-75 (when Sony argued that it had an irrevocable right to license Fujifilm’s patents). Accordingly, [ALJ Shaw] has determined that Sony has not shown Fujifilm misused its patents. [ID at 372].

### **Sony’s Waiver Defense**

**Sony argued that “Fujifilm knowingly waived its right to injunctive or other exclusionary relief against willing licensees, by failing to offer its standard-essential patent claims under standard and non-discriminatory terms, and to conclude a license on such terms.”** (ID at 372). The ITC Staff argued that exhibits relied on by Sony “do not show that FUJIFILM intentionally relinquished or abandoned any known right.” The heavy redaction in the decision makes it unclear what exhibits those were (presumably one is the Fujifilm AP-75 Agreement). **ALJ Shaw concluded that “Sony has not shown that these two exhibits are clear and convincing evidence that Fujifilm relinquished its rights.”** (ID at 373).

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

### **Sony's Implied License and Exhaustion Defense**

Sony argued that the same behavior underlying its other defenses gives rise to the doctrines of implied license and patent exhaustion.

**ALJ Shaw ruled that Sony had not proved its defense under either a preponderance or clear and convincing evidence standard.** He found that Section 8.2 of the AP-75 Agreement “provides third parties (such as Sony) **only an option to license essential patents, not an implied license to them.**” Further, “**Sony has not identified an authorized sale of a product that would give rise to exhaustion.**”

## ITC: Patents Not Essential to LTO-7 Standard (cont'd)

In a November 8, 2017 IAM Law Blog post, “All eyes on the ITC as decision looms on case that could open the door to SEP injunctions in the U.S.” (<http://www.iam-media.com/Blog/Detail.aspx?g=acebac3d-8f05-45fw-b2c6-dfca3f0bee00>), it was noted that:

**“Courts and agencies in the U.S. have traditionally refused to grant injunctive relief in cases involving SEPs. This has led to a rise in SEP holdouts.** Running contrary to this trend, in the 1st September Initial Determination and Recommended Remedy in Investigation No 337-TA-1012, ALJ Shaw recommended a limited exclusion order (LEO) for a patent the respondent Sony alleged was subject to reasonable and non-discriminatory (RAND) terms. **How the Commission addresses the issue could make the ITC the preferred venue for RAND and SEP patent enforcement.**

In prior investigations, the patent holder offered a licence prior to filing suit and, thus, the issue was whether the offer was reasonable. In the instant Investigation, Sony alleged that complainant Fujifilm “never offered the respondent, Sony, any license” to the SEPs prior to suit (Sony Public Interest Submission at 3). **The problem for Sony was that this failure to offer a licence is not a defence at the ITC.**

## ITC: Patents Not Essential to LTO-7 Standard (cont'd)

**ALJ Shaw addressed the SEP issue by first analysing essentiality. The ALJ found that it was the respondent Sony's burden to show by a preponderance of the evidence that the asserted claims are essential to the standard.** In analysing essentiality, the ALJ took the position that the standard had to require all elements of the asserted claims (ID at 127-128 & 206). **Because the respondent failed to show essentiality, the affirmative defence of breach of the non-discriminatory licensing clause by refusing to licence and breach of forum selection clauses did not apply** (ID at 364).

**But the decision went beyond a mere disagreement on essentiality. The ALJ agreed with the Staff position that "Sony has not shown that breach of contract is a defense to patent infringement"** (ID at 366-7 and FN 109). More importantly, the ID held that whether or not complainant Fujifilm breached its SEP contract, and should therefore be enjoined from prosecuting the ITC investigation, is an issue for the appropriate district court to decide (ID at 369). It is not an issue for the ITC. **Thus, just as the ITC does not issue stays for IPR proceedings, the ITC will not stay or preclude imposing a limited exclusion order because of an alleged breach of SEP obligations. Rather, holdouts will be forced to seek court intervention to enjoin a complainant from enforcing the alleged SEP.**

The SEP issue is contained in Sony's petition for review and is also raised in the context of public interest. The Commission's 8th December 2017 decision on review is a potential game changer for SEP holders, as well as holdouts, who have attempted to benefit from the relatively few enforcement options that SEP holders have.

Wild, id. (emphasis added).

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

### **Judge Gardephe Denies Anti-Suit Preliminary Injunction Against the ITC Action**

Interestingly, in July 2016, Sony brought an action against Fujifilm in the Southern District of New York bringing claims that include breach of contract, anti-competitive conduct and patent infringement. Sony also moved the court to enter a preliminary injunction that would enjoin Fujifilm from continuing its litigation of the instant ITC investigation based on the same or similar licensing and forum selection provisions of the AP-75 Agreement considered by Judge Shaw. Judge Gardephe denied Sony's motion, ruling that Sony had not shown that it was likely to succeed in establishing that it was a third-party beneficiary entitled to enforce the forum selection clause that would require litigating in New York court, rather than in the ITC.



# ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

## LTO-7 Standard Background

**Judge Gardephe reviewed the creation of the LTO Consortium to create an “open” standard that would permit different manufacturers of magnetic tape to make compatible products.** The companies that formed the consortium—IBM, HP and Seagate (now Quantum)—are commonly referred to as the Technology Provider Companies (“TPCs”). Both Sony and Fujifilm were not TPCs, but were early manufacturers of LTO products that had agreed to cross-license their patents.

**In September 2015, the TPCs released a revised LTO-7 Agreement, which apparently is the operable agreement at issue here.** A separate LTO-7 Agreement apparently is entered between the TPCs and each specific licensee, who is referred to as a “Format Specification Participant” or “FSP”. Among other things, the LTO-7 Agreement concerns licensing essential patents on “standard and nondiscriminatory terms.”

Footnote 2 of Judge Gardephe’s decision provides the terms of Section 8.2 (that were redacted from ALJ Shaw’s decision):

“FSP [i.e., licensee, which is a Format Specification Participant] agrees to grant to other parties, who have entered into an LTO7 Tape Media License Agreement (Agreement Package AP-75) ... (such other parties hereinafter “Other FSPs”, such agreements hereinafter “Other FSP Agreements”) with the [TPCs] to use the LTO7 Format, the right to obtain, at any time, and from time to time, during the term of this Agreement, a license of the broadest scope which FSP has the right to grant at any time during such term, but of no greater scope than to make, have made, use, import, have imported and sell LTO7 tape product and LTO7 tape product components that are the subject of, and as defined in, the applicable Other FSP Agreement with the [TPCs]), under **nondiscriminatory FSP standard terms and conditions**. Said right shall be with respect to **Essential Patent Claims** (including corresponding patents of other countries) with a priority date prior to the termination of this Agreement, under which patents, or the applications thereof, FSP or any of its Affiliates has the right, at any time during the term of this Agreement, to grant licenses to third parties (other than Affiliates). Said right of Other FSPs shall be exercisable with respect to any such **Essential Patent Claims** whether or not issued and whether or not the applications therefor exist at the time such right is exercised. The effective date of said license agreement shall be a date determined by the requesting Other FSP, as early as the date on which the **Other FSP first used the subject matter of the patent or patent application. Other FSPs are intended third party beneficiaries of this Section 8.2, with the power to enforce it directly.** [Order at 4-5 n.2 (emphasis added)]”

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

Footnote 3 of Judge Gardephe's decision further provides the LTO-7 Agreement's Section 1.6 definition of "Essential Patent Claims":

**"Essential Patent Claims"** shall mean those patent claims, regardless of when or where the patents are filed for or issued, which related directly to the LTO7 Format, as set forth in the LTO7 Format Document, and **which must of necessity be practiced for compliance with the LTO7 Format** in the making, using, or selling of an LTO7 Tape Product or an LTO7 Tape Product Component. [Order at 5 n.3 (emphasis added)]"

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

In September 2015, both Sony and Fujifilm signed the LTO-7 Agreement. They also entered licensing negotiations, but could not reach an agreement. In May 2016, Fujifilm filed the ITC investigation that is the subject of the blog post. Fujifilm also sued Sony in Tokyo.

### **Preliminary Anti-Suit Injunction Decision**

Sony filed an anti-suit injunction in this New York case that sought to enjoin Fujifilm from continuing its ITC and Tokyo actions, arguing that Fujifilm's infringement claims in those cases are based on Sony's use of patents that Fujifilm is required to license to Sony under the LTO-7 Agreement. Sony apparently focused its argument on the forum selection clause requiring Fujifilm's infringement claim to be litigated in a New York court.

Fujifilm replied that Sony was a third-party beneficiary of only one provision in the LTO-7 Agreement (the Section 8.2 License provision above) and not the Section 11.11 forum selection provision. Further, the forum selection clause only applies to disputes under the LTO7 Agreement and not the ITC or Tokyo infringement actions, which are not "in connection with" the LTO7 Agreement. Further, the injunction would lead to an "absurd result" that this New York court would determine infringement of a foreign patent.

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

Judge Gardephe decided to apply Federal Circuit law regarding anti-suit against the ITC litigation (noting that Federal Circuit law might not apply, but the parties agreed it does) and to apply Second Circuit law regarding anti-suit against the Tokyo action. The preliminary injunction standard under both Federal Circuit and Second Circuit law includes considering the likelihood of success on the merits—i.e., the likelihood that Sony will prevail on its claim that the forum selection clause requires litigating in New York court. (Order at 9)

**Judge Gardephe then considered Sony's arguments that it was entitled to enforce the Section 11.11 forum selection clause because (1) it was a third-party beneficiary of that clause and (2) the LTO7 Agreement is part of a "global transaction".** In response, Fujifilm essentially argued that Sony was not a third-party beneficiary, because some sections of the LTO7 Agreement specifically granted third-party beneficiary rights, which implies that such rights are not granted for other provisions that do not mention third-party beneficiary rights. **Judge Gardephe noted arguments on either side of the issue and ultimately ruled that "The Court cannot find — at this stage of the litigation — that Sony has shown a likelihood of success on the merits of its claim that third-party beneficiaries of the licensing section are also implied third-party beneficiaries of the forum selection clause."** (Order at 15).

Judge Gardephe **also rejected Sony's "global transaction" argument**, which generally argues that several documents that are part of the same transaction should be read and interpreted together as though there were a single legal instrument.

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

On Commission Review, in March 2018, **the Commission issued a Final Determination, in which it affirmed ALJ Shaw's ruling that the 3 patents in suit were not essential to the LTO-7 standard:**

The Commission **has determined to** affirm with modification the Final ID's finding that the asserted claims of the '612, 106, and '805 patents **are not essential to the LTO-7 Standard**. In particular, with respect to the '106 patent, the Commission has determined not to reach the issue of whether the LTO-7 Standard requires a tape having a magnetic layer that contains an abrasive. The Commission has determined to otherwise adopt the Final ID's findings that the LTO-7 Standard does not require practice of the asserted claims of the '612, 106, and '805 Patents. The Commission has determined not to reach any other issues concerning Sony's essentiality defenses. [Notice at 5]

**The last statement about not reaching any of Sony's essentiality defenses presumably refers to Sony's breach of contract, patent misuse, implied license, patent exhaustion, and waiver defenses, all of which were premised on the patent claims being essential to the LTO-7 standard.**

## ITC: Patents Not Essential to LTO-7 Standard (cont'd.)

The ITC further found that there was no violation of those patents, because they were not infringed or were invalid. The ITC did decide there was a violation regarding another patent at issue in the investigation: the '891 Patent, which was not alleged to be essential to a standard. The ITC issued a limited exclusion order and cease/desist order based on infringement of that '891 Patent.

## ITC: Misuse As A Defense, FRAND / SEP

Administrative Law Judge (ALJ) Lord at the U.S. International Trade Commission (ITC) recently issued an Order, in April 2018, **striking patent misuse claims against Philips Lighting (Philips) raised by WAC Lighting and other respondents that were premised on Philips filing its Complaint in the ITC without making a license available “on standard (reasonable) and non-discriminatory terms.”** This ruling provides incremental guidance on the specificity needed to plead a competition law claim based on standard essential patents (SEPs), including allegations of specific facts showing the anticompetitive effect of alleged improper SEP licensing activity.

ALJ Lord described patent misuse as a narrow doctrine concerning impermissible broadening of the patent grant that has anticompetitive effect, stating:

Patent misuse requires that the alleged infringer show that the patentee has impermissibly broadened the physical or temporal scope of the patent grant with anticompetitive effect. **The doctrine is narrow in scope and has largely been confined to a handful of specific practices by which the patentee seemed to be trying to extend his patent grant beyond its statutory limits. Patent misuse consists of leveraging the power of a patent to exact concessions from a licensee that are not fairly within the ambit of the patent right.**

## ITC Misuse As A Defense, FRAND / SEP (cont'd.)

... **Congress in section 271(d) of the Patent Act has enumerated five types of activities that cannot be deemed misuse.** As construed by the Federal Circuit, section 271(d) confines patent misuse with respect to certain licensing practices, to conduct having anticompetitive effects. The anticompetitive effects must be related to the patent in suit. They must be shown to squeeze out viable potential competition from the relevant market. [Order at 10-11 (internal citations and quotations omitted)]

### **ALJ Lord identified three categories of the patent misuse defense:**

- 1. Tying arrangements in which a patentee conditions a license under the patent on the purchase of a separable, staple good, which are *per se* anticompetitive.**
- 2. Seeking to enforce patent rights against infringement or contributory infringement, which cannot constitute patent misuse under § 271(d)(3).**
- 3. A third set of practices that fall somewhere in the middle. [Order at 11]**



## ITC Misuse As A Defense, FRAND / SEP (cont'd.)

**ALJ Lord found that the allegations in this case fell in the third category**, which are not *per se* unlawful, but are subject to a rule of reason analysis. The distinction of *per se* unlawful and rule of reason “is that the latter does not compel the licensee to use any particular technology covered by any of the licensed patents.” [Order at 11-12] Under the rule of reason analysis, “package licensing arrangements do not constitute patent misuse unless ... they broaden the scope of the patent by imposing an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature and effect.” [Order at 12]

Long, “ALJ Lord dismisses SEP licensing-based patent misuse defenses (ITC Inv. No. 1081, Philips v. Feit Electric)”; Essential Patent Blog, <https://www.essentialpatentblog.com/2018/04> (April 9, 2018), summarized ALJ Lord’s holding and reasoning:

## ITC Misuse As A Defense, FRAND / SEP (cont'd.)

### **ALJ Lord found that the conclusory allegations by Respondents in this case failed to raise specific allegations of anticompetitive effect:**

- **Feit Allegations:** “Feit Electric is informed and believes, and based thereon, alleges that Philips uses its economic might to bully third parties to accept illegal patent licenses of the patents-in-suit, among others, upon the threat of expensive patent litigation. In doing so, Philips Lighting broadens the scope of the patent grant with anticompetitive effect.”
- **WAC’s Allegations:** “Does not contain even Feit’s barebones allegation of anticompetitive effect.”
- **Satco Allegations:** “Complainants require licensees to pay royalties for the entire portfolio, regardless of whether products infringe with improper anti-competitive effect.”

ALJ Lord found that “respondents make no specific factual allegations concerning how the market has been restrained.” She rejected Feit’s excuse that information it needed to plead the defense was held by Philips, because Feit did not explain why such facts were not available to it. She also rejected Feit’s argument that Philips’ practices are “inherently anticompetitive,” because that argument “conflicts with case law.” [Order at 12-13]

## ITC Misuse As A Defense, FRAND / SEP (cont'd.)

ALJ Lord found that Satco's broad allegation of patent misuse arising from standard setting activity lacked specificity, because it "identifies no particular patents, no particular standards to which those patents are relevant, no action by Philips declaring those patents to be essential, and no allegations that such standards-essential patents are at issue in this investigation." [Order at 13]. She similarly found lacking WAC's related allegations that it is entitled to a license on RAND terms "[t]o the extent that it has infringed a standards-essential patent." Such allegation had "[n]o specific information as to any particular asserted patent in relation to any particular standard." [Order at 13].

Even assuming that the general circumstances pled could raise a patent misuse defense, the pleadings fail to allege sufficient facts to satisfy ITC Rule 210.13(b), which states: "Affirmative defenses shall be pleaded with as much specificity as possible in the response." In this case, the pleadings "lack factual content."

**ALJ Lord denied the respondents general request to re-plead with more specificity at the early stage of the investigation, because they had not shown what alternative theories or facts that they would re-plead could not have been included in their original response.** The court did, however, say that "Respondents may seek to do so later if they can meet the specificity required under ITC Rule 210.13(b)."

## 6. Defenses: Waiver, Equitable Estoppel, Misuse

## Defenses Arising from Failure to Disclose SEP

In *Sycamore IP Holdings LLC v. Telepost Communications America, LLC* Civil Action No. 2-16-cv-00588 (ED Tex 2016), Motion for Summary Judgment, Unenforceability (Feb. 16, 2018) [Bryson, J., by designation] the court addressed summary judgment motions based on waiver, equitable estoppel and misuse, to wit:

“The court denied plaintiff’s motion for summary judgment that its data transmission patent was not barred by waiver or equitable estoppel based on a named inventor’s failure to disclose his provisional application when he proposed it to a standard-setting committee: ‘Even if the [standard-setting organization’s] patent policy did not impose a duty to disclose, other conduct by [the inventor] could give rise to a defense of waiver. **At the least, [his] representations to . . . members of the [standards] working group that [plaintiff] would not charge royalties to chip vendors who supported integrating [his] encoding scheme into the standard and that there would not be ‘big royalties in any case’ raise triable questions of fact of the existence of express waiver.** As [plaintiff] now seeks royalties on products made by same chip vendors that supported [the inventor’s] proposed encoding scheme, such conduct could be sufficient to satisfy the defendants’ burden to show conduct ‘so inconsistent with an intent to enforce [plaintiff’s] rights as to induce a reasonable belief that such right has been relinquished.’ (page 58); **further, the court granted plaintiff’s motion for summary judgment that its data transmission patent was not barred by equitable estoppel based on its failure to disclose to defendants that it had a patent that might be covered by the applicable standards:** ‘[T]he misleading conduct alleged by [defendants] consists only of [plaintiff’s] failure to volunteer information about a patent it held while it was conducting

## Defenses Arising from Failure to Disclose SEP (cont'd.)

everyday business transactions unrelated to the patent. **Under these circumstances, a patent that might be covered by the applicable standards:** '[T]he misleading conduct alleged by [defendants] consists only of [plaintiff's] failure to volunteer information about a patent it held while it was conducting everyday business transactions unrelated to the patent. **Under these circumstances, [plaintiff's] silence cannot give rise to a viable defense of equitable estoppel.'** (page 59), and **granted plaintiff's motion for summary judgment that its data transmission patent was not unenforceable for patent misuse based on a named inventor's failure to disclose his provisional application when he proposed it to a standard-setting committee:** **'The defendants' asserted defense of patent misuse is based solely on [the inventor's] purported violation of his duty to disclose the provisional patent to the [standards] working group. Even assuming that [the inventor] had such a duty and a violation of that duty had anticompetitive effects, the evidence would be insufficient to support a defense of patent misuse, as there would be an absence of any factual allegation that [plaintiff] 'impermissibly broadened the physical or temporal scope of the patent grant,' particularly given the fact that the [patent] had not issued at the time of the allegedly anticompetitive conduct.'**" (page 61)

## Miscellaneous FRAND-Related Rule 12 and 56 Motions

In *Optics Wireless Technology, LLC v. Huawei Technologies Co., Ltd.* Civil Action No. 2-17-cv-00123 (ED Tex 2017), Motion for Summary Judgment and to Dismiss, For Lack of Subject Matter Jurisdiction (July 4, 2018), Mag. J. Payne recommended denying plaintiff's motion for summary judgment on defendant's FRAND claim because there were genuine disputes of material fact ["The motion asks the court to declare, as a matter of law, that [plaintiff's] global FRAND offer was fair, reasonable, and nondiscriminatory. **Trial needs to occur to resolve a number of factual questions. These include whether [plaintiff's] offers made during negotiations, as well as its damages claim, are consistent with the FRAND obligation.** There is also a genuine dispute about whether the asserted patents are essential to the L.T.E. standard." (page 10)], and granting defendant's motion to dismiss the portion of plaintiff's FRAND claim that related to foreign law. "[Plaintiff] seeks a declaratory judgment that it has complied with its obligations arising from declaring its patents essential to various standards, and any applicable laws, during their negotiations with [defendant] concerning a worldwide license under [plaintiff's] standards essential patents.' . . . **Federal Circuit precedent led another court to say that 'it is almost always an abuse of discretion' to assume supplemental jurisdiction over a foreign patent infringement claim. . . [Plaintiff's] arguments are less about what the law is and more about fairness. One argument is that foreign courts are increasingly making global FRAND determinations, and it would be unfair if United States courts did not follow that trend. . . . Another argument is that [defendant] has asked this court for the very same declaration [plaintiff] is seeking, and as a result [defendant] is estopped from disputing jurisdiction. But a party cannot confer subject-matter jurisdiction on a federal court through estoppel."** (page 14)]

## Enforcement Estoppel from Failure to Disclose SEP – Momentum Pharmaceuticals, Inc. v. Amphastar Pharmaceuticals Inc. (D.Mass 2018)

**Two days after Amphastar received FDA approval to market a generic version of Momenta’s pharmaceutical Lovenox, Momenta sued Amphastar for infringing a patent directed to the manufacture of the pharmaceutical. A jury found the patent infringed but invalid and unenforceable because the patent owner was estopped from enforcing the patent.** Momenta participated on an advisory panel for the United States Pharmacopeia (USP), a scientific standard-setting organization, which began looking for test compounds with specific properties. **Momenta did not disclose the patent at issue to USP, and during litigation, Amphastar argued that caused the patent to become unenforceable under the doctrines of waiver and estoppel.**

The court noted that a patent owner who breached a duty to disclose patent information to a standard-setting organization **may have implied waiving its rights to enforce the patent and may be estopped from enforcing the patent.** **Determining whether a duty to disclose exists involves a two-step process:** (1) evaluating whether the policies from the standard-setting organization unambiguously impose such a duty; **and (2)** if the policies are ambiguous, evaluating whether the participants in the standard-setting organization understood those policies to impose a duty. USP’s policies (1) required participants to disclose all employment, professional organization, and memberships, (2) barred individuals involved in expert committees from voting on matters in which they have a financial interest, and (3) required participants from disclosing “**other** professional or financial interests” that would result in the “appearance of conflict of interest.”



## Enforcement Estoppel from Failure to Disclose SEP – Momentum Pharmaceuticals, Inc. v. Amphastar Pharmaceuticals Inc. (D.Mass 2018) (cont'd.)

The court found USP's policies ambiguous and found that because Momenta's employees had already disclosed Momenta as a place of employment, they did not have to disclose it as "other professional or financial interest." Nonetheless, the language regarding the "appearance of a conflict of interest" was broad enough to include disclosure of interests in intellectual property. Turning to the participants' understanding of USP's policies, and, after evaluating the witnesses' credibility who testified on this issue, the court accepted one witness's testimony that the policy require disclosure. Momenta then argued that disclosure was not required because the test set forth in the patent was not mandatory under the standard. Relying on the jury infringement verdict, the court disagreed because use of the patented method might be necessary to comply with the standard. In the standard-setting context, a remedy should apply to products that comply with the standard and have an obvious connection with the asserted patent. So Momenta could not enforce the patent against procedures that complied with the standard but was not necessarily prevented from enforcing the patent against procedures that did not comply with the standard. If the accused infringer is prejudiced by reasonably inferring that the participant will not enforce its patents, the participant may be equitably estopped from enforcing its patents. In the standard-setting context, a participant who fails to comply with the standard setting organization's duty to disclose patent information may be found to have indicated that it would not enforce such patents. Here, the court found Momenta engaged in such misconduct. Determining Amphastar's witnesses were more credible, the jury and court found that Amphastar relied on the standard to develop its processes and invest in new products, and it would be prejudiced if Momenta were permitted to enforce its patent claims against such new products. So Momenta was estopped from enforcing the patent against Amphastar's procedures that complied with the standard.

## Enforcement Estoppel from Failure to Disclose SEP – Momentum Pharmaceuticals, Inc. v. Amphastar Pharmaceuticals Inc. (D.Mass 2018) (cont'd.)

Paul et al., “Failing to Comply with a Standard Setting Organization’s Policies May Prevent a Patent Owner from Enforcing its Patents”, Lexology, <https://www.lexology.com/library> (March 6, 2018). See also, Long “Waiver and Estoppel bar enforcement of undisclosed drug manufacturing patent” (Momenta v. Amphastar), Essential Patent Blog, <https://www.essentialpatentblog.com/2018/> (April 11, 2018) (“Judge Gorton of the U.S. District Court of Massachusetts recently entered an order granting a motion by Amphastar Pharmaceuticals (Amphastar) that bars Momenta Pharmaceuticals, Inc. (Momenta) from enforcing a patent against certain drug manufacturing control processes **based on the equitable doctrines of waiver and estoppel that arose from Momenta’s failure to disclose a pending patent application to the standard setting organization (SSO) United States Pharmacopia (USP) when deliberating on a USP National Formulary (USP-NF) standard. This case found a duty to disclose a pending patent application that “reasonably might be necessary” to practice that standard based on the participants’ understanding of the SSO’s ambiguous conflict of interest policy that required participants to disclose financial or other interests “that may result in a conflict of interest or the appearance of interest.”** This case also provides insight on tailoring equitable relief when waiver or estoppel are found: the court ruled that the patent was unenforceable against two infringing processes used by the infringed that practiced the standard, but the patent was enforceable against a third process that fell outside of the standard (if the patent otherwise is valid and infringed.”)

## Enforcement Estoppel from Failure to Disclose SEP – Momentum Pharmaceuticals, Inc. v. Amphastar Pharmaceuticals Inc. (D.Mass 2018) (cont'd.)

Contreras commented on this case in his paper, an earlier version of which appeared in the Patently O Blog (June 29, 2018); the Abstract states:

*“Momena Pharmaceuticals, Inc. v. Amphastar Pharmaceuticals, Inc. (D.Mass 2018) involves the alleged deception of a standards-development organization (SDO) by the holder of a patent essential to a standard relating to the manufacture of the drug enoxaparin. **The SDO’s rules regarding disclosure of standards-essential patents (SEPs) were found to be ambiguous, yet, as in Qualcomm v. Broadcom (Fed. Cir. 2008), the district court held that participant expectations created an affirmative obligation to disclose SEPs to the SDO.** Following the SEP holder’s assertion of the undisclosed patent against a competing generic manufacturer of enoxaparin, the alleged infringer successfully raised defenses of waiver and estoppel against enforcement of the patent. The alleged infringer also brought antitrust claims against the SEP holder, alleging monopolization in violation of the Sherman Act. **The case is interesting because it raises issues that were seemingly settled in the information and communication technology (ICT) sector a decade ago, but in the new setting of pharmaceuticals manufacturing. As such, it may give courts an unexpected opportunity to revisit the DC Circuit’s controversial decision in Rambus v. FTC (D.C. Cir. 2008), which found no antitrust liability for an allegedly deceptive failure to disclose SEPs to an SDO.**”*

## Implied Waiver Defense - Failure to Disclose Patent Application re SEP

In *Core Wireless Licensing S.A.R.L. v. Apple Inc.*, Appeal No. 17-2102, slip op (Fed. Cir. Aug. 16, 2018), the Federal Circuit, **in reversing (in part) a district court's rejection of an implied waiver defense, concluded that a patent may be unenforceable if the patent owner failed to disclose a prior patent application.**

Core Wireless sued Apple for infringement of its patents related to improvements in the way mobile devices communicate with base stations. **For one of the patents, Apple asserted that the patent was unenforceable due to an implied waiver. The trial court held a short supplemental bench trial to specifically address the issue.**

In **1997 and 1998**, European Telecommunications Standards Institute (ETSI) developed technical proposals to address a problem of propagation delay in GPRS networks. **The inventor of the patent, a Nokia employee, prepared an invention report for Nokia that described the invention's technical attributes. The invention report stated that the functionality in the patent was not yet stated in the GPRS specifications.** The report asserted that Nokia's competitors would likely want to use the invention because it would be added to the GPRS specification. **Nokia submitted the proposal to the ETSI working group. Ultimately, ETSI rejected Nokia's proposal in favor of another.**

## Implied Waiver Defense - Failure to Disclose Patent Application re SEP (cont'd.)

The same month Nokia submitted its proposal to ETSI, it filed a Finnish patent application based on the invention, to which the asserted US patent claims priority. **The Finnish application was not disclosed to ETSI.** Apple argued that Nokia had an obligation to disclose the Finnish patent application to ETSI when it advanced its proposed revision of the standard. **Apple asserted that since the Finnish application was not disclosed to ETSI, Nokia waived its right to enforce the patent. Since Nokia waived its right, Apple asserted that Core Wireless, the successor-in-interest to the patent, had no right to sue.**

The trial court issued an order addressing the implied waiver issue in a single paragraph, finding that Nokia did not have a duty to disclose the Finnish application for two reasons: “(1) Nokia’s proposal was rejected; and (2) the patent claims were not finalized until 2002. Nokia disclosed the patent in 2002, shortly after it could point to the contours of its [intellectual property rights] with specificity because the claims were allowed.” **The district court also noted that Apple presented no evidence that an ETSI member or other entity interpreted Nokia’s failure to disclose the Finnish patent as evidence that Nokia relinquished its patent rights,** and ultimately rejected Apple’s theory of implied waiver. Apple appealed.

## Implied Waiver Defense - Failure to Disclose Patent Application re SEP (cont'd.)

The Federal Circuit rejected the trial court's finding that Nokia **did not have a duty to disclose its patent application because its proposal was rejected as unsupported by the evidence**. Rather, as the Court noted, **“ETSI's intellectual property rights policy states that the disclosure requirement attaches to a member ‘submitting a technical proposal’ if that party has intellectual property that ‘might’ be essential ‘if that proposal is adopted.’”** As the Court noted, **the “district court's interpretation of the policy would undermine the very purpose of disclosure,” i.e., to permit the standards-setting decision makers to make an informed choice about whether to adopt a particular proposal.**

Rather, an ETSI member's duty to disclose a patent application on particular technology **attaches at the time of the proposal and is not contingent on ETSI ultimately deciding to include that technology in an ETSI standard**. The Federal Circuit further concluded that the trial court **erred in limiting the ETSI disclosure requirement to issued patents, finding that it expressly applied to applications as well.**

## Implied Waiver Defense - Failure to Disclose Patent Application re SEP (cont'd.)

Also, the Federal Circuit found the trial court's determination that there was no evidence that the ETSI members understood Nokia to have intended to waive its patent rights to be irrelevant: "there is no requirement under the implied waiver doctrine that a third party must interpret the patentee's conduct as constituting a waiver of its rights to enforce the patent; such analysis is more relevant to equitable estoppel."

The Federal Circuit **remanded the matter back to the trial court for it to consider whether Nokia benefited from the failure to disclose**, noting that "in some circumstances courts have held that an equitable defense will not be recognized if the offending party did not gain a benefit from its wrongdoing." **It also directed the court to consider the basic fairness of the equitable remedy in terms of whether Nokia/Core Wireless' conduct was sufficiently egregious to justify a finding of implied waiver.**

Long, "Federal Circuit provides guidance on implied waiver defense applied to failure to disclose foreign patent application to SDO *Core Wireless v. Apple*," Essential Patent Blog, <https://www.essentialpatentblog.com/2018/08>, commented that:



# Implied Waiver Defense - Failure to Disclose Patent Application re SEP (cont'd.)

This decision provides insight into several areas, including:

- Applying the equitable doctrine of implied waiver to the duty to disclose intellectual property rights (IPR) to standard setting bodies. Among other things, the decision indicates that there may **not be** a requirement to show **reliance on** the implied waiver.
- The importance of looking to the specific standard setting body's IPR Policy at issue and providing evidence for interpreting that policy.
- The **difference** between disclosing patents that "**may be**" essential to the standard and a FRAND commitment that arises because the patent "**actually is**" essential to the standard.
- **Failure to disclose is not a "gotcha" defense**; rather, you must show that the patent owner obtained some unfair advantage by its misconduct in not disclosing the patent.



## Implied Waiver Defense - Failure to Disclose Patent Application re SEP (cont'd.)

As with many decisions, **this case is fairly fact-specific as far as interpretation of the ETSI IPR Policy.** Only the patent challenger (Apple) provided testimony on interpretation of the ETSI Policy without any rebuttal evidence beyond the language of the IPR Policy itself. The Federal Circuit indicated that its decision was based on the specific record evidence-and lack of evidence-before it.

Regarding the fact of a patent application having been withheld, not a patent, and the failure to adopt Nokia's proposal, Long noted that:

**ETSI Rejection of Proposal.** First, the rejection of Nokia's proposal did not of itself relieve Nokia of its duty to disclose. Under ETSI's IPR Policy, members submitting a technical proposal must disclose IPR "that 'might' be essential 'if that proposal is adopted'". . .

Here, the named inventor testified that his proposal and the one adopted in the standard are "different only because it made his idea 'optional.'" [Op. at 20] Further, "there is no ground for dispute that Nokia's proposal, if adopted, would have made its patent standards-essential."

## Implied Waiver Defense - Failure to Disclose Patent Application re SEP (cont'd.)

**Pending Application. Second, there was no testimony that ETSI's IPR Policy on disclosure exempted pending patent applications and Apple's expert's unrebutted testimony was that the IPR Policy did not exempt pending applications. Further, the ETSI IPR Policy "by its terms encompassed applications."**

Apple's expert testified that, although the Finnish patent authority treats patent applications as confidential, "ETSI's policy applied to unpublished patent applications without regard to whether they were confidential." There is no trial testimony to support a contrary reading of ETSI's IPR Policy.

## Equitable Defense of Misuse Based on FRAND / SEPs Fails

In *St. Lawrence v. Motorola*, Judge Gilstrap **rejected the equitable defense of patent misuse** in a case involving standard essential patents (SEPs) subject to a commitment to license them on fair, reasonable and non-discriminatory (FRAND) terms.

**Motorola Mobility LLC (Motorola) alleged that Saint Lawrence Communications LLC (St. Lawrence or SLC) was guilty of patent misuse by, among other things, requiring Motorola to take a worldwide license to FRAND-committed SEPs, using the threat of injunctive relief in Germany to coerce licensing of those SEPs, entering different license terms with different licensees and not disclosing effective royalties from licensing the SEPs under a patent pool when negotiating individual licenses.**

**This decision is another indication that competition law claims asserted against SEPs may not prevail when patent owners have followed traditional patent enforcement and licensing strategies or even if they breach of a FRAND commitment.** Rather, there must be something more egregious or deceptive with the particular patent owner's conduct at issue to give rise to competition law claims that are required to address harm to competition beyond harm that can be addressed by more traditional patent or contract law remedies — e.g., a contract remedy for breach of a FRAND commitment or limits on patent remedies based on a FRAND commitment.

## Equitable Defense of Misuse Based on FRAND / SEPs Fails (cont'd.)

### **This Lawsuit.**

**In 2015, St. Lawrence, which had assumed an ETSI FRAND commitment on purchasing the patents in suit, sued Motorola, asserting that Motorola's HD Voice phones infringed those patents on AMR-WB speech compression technology. Motorola's Answer included a patent misuse defense and allegation that St. Lawrence's damages claims may also be limited by FRAND principles.**

**By party agreement, Judge Gilstrap conducted a jury trial on all issues in the case except equitable issues, which would be handled by post-trial briefing.** In March 2017, the jury returned a verdict finding that Motorola willfully infringed all five asserted patents, that the patent claims were not invalid and that awarded damages of \$9,177,483 (an effective royalty of 39 cents per mobile phone). (The jury heard arguments and evidence about St. Lawrence's FRAND commitment.)

## Equitable Defense of Misuse Based on FRAND / SEPs Fails (cont'd.)

**No Enhancement for Willful Infringement.** In post-trial motions, Judge Gilstrap issued an Order that denied St. Lawrence's request to enhance the damages award based on the jury's finding of willful infringement. Judge Gilstrap found that enhancement was not appropriate because the record did not show "the type of egregious conduct that is characteristic of cases where enhancement is warranted."

### Equitable Defenses

The court handled the equitable defenses post trial.

Judge Gilstrap **described the patent misuse equitable defense** as follows based on *Princo v. ITC*, 616 F.3d 1318, 1328 (Fed. Cir. 2010) (en banc):

"[T]he key inquiry under the patent misuse doctrine is whether, by imposing the condition in question, the patentee has impermissibly broadened the physical or temporal scope of the patent grant and has done so in a manner that has anticompetitive effects. [Op. at 12]"

Judge Gilstrap **applied a clear and convincing evidence burden of proof**, which is the same burden required for the equitable defense of unclean hands, rather than applying a preponderance of the evidence burden that would be easier to satisfy. (He found that Motorola's defense fails under either burden of proof, in any event.)

## Equitable Defense of Misuse Based on FRAND / SEPs Fails (cont'd.)

### No Patent Misuse For Alleged Breach of FRAND Commitment

**Judge Gilstrap rejected Motorola's argument that past cases "stand for the proposition that a breach of FRAND obligations constitutes patent misuse."** [Order at 13-14 (referring to *Broadcom v. Qualcomm*, 501 F.3d 297 (3d Cir. 2007); *Multimedia Patent Trust v. Apple*, No. 10-CV2618-H, 2012 WL 6853471 (S.D. Cal. Nov. 9, 2012); *Apple v. Motorola Mobility*, No. 11-cv-178-BBC, 2011 WL 7324582 (W.D. Wis. June 7, 2011); and *UTStarcom v. Starent Networks*, No. 07 CV 2582, 2008 WL 5142194 (N.D. Ill. Dec. 5, 2008)]. **Further, "the Federal Circuit has cautioned against a broad application of the patent misuse doctrine" and "the only time Congress has spoken on the judicially created doctrine of misuse, it circumscribed the doctrine."** [Order at 14-15]

Judge Gilstrap reviewed the parties negotiations. Motorola apparently argued that St. Lawrence improperly sought licenses under the threat of injunction, **leading Judge Gilstrap to find no evidence that such threats actually influenced the licensing negotiations:**

"However, Motorola did **not** establish that prospective licensees who were under the threat of an injunction actually paid substantially more than companies who were not.

**Motorola also did not establish that the threat of an injunction actually caused licensees to be coerced into taking a license. In fact, Motorola was enjoined by a court in Germany based on patents related to the Asserted Patents, yet it persisted in not taking a license to the Asserted Patents. [Order at 11]"**

## Equitable Defense of Misuse Based on FRAND / SEPs Fails (cont'd.)

Judge Gilstrap ruled there was no evidence or authority that St. Lawrence seeking injunctions in Germany “impermissibly broadened the physical or temporal scope of the patent grant.” [Order at 15-16]. **Rather, even if “seeking injunctions in Germany constituted a breach of SLC’s [St. Lawrence’s] FRAND obligations,” such alleged breach “is not determinate of patent misuse and here it is not indicative of SLC broadening the scope of its patent rights.”** [Order at 16]. Further, “Motorola did not establish that SLC’s efforts to seek injunctions in Germany harmed competition.” [Order at 16].

Judge Gilstrap also ruled there was no patent misuse based on the patent owner seeking different rates and terms with different licenses under different circumstances, stating:

“Similarly, the Court is not persuaded that SLC [St. Lawrence] engaged in patent misuse by negotiating different rates and terms for different licensees when presented with different circumstances. **To hold as such would tell patent owners that their first license for a FRAND encumbered patent must also be their last, tying the hands of patent owners and future licensees who may not be similarly situated.** [Order at 16-17]”

Judge Gilstrap **also rejected Motorola’s argument that patent misuse arose from alleged misrepresentations during license negotiations, such as not alerting potential licensees about the effective royalty rate based on licenses under the W-CDMA patent pool. Even if that was true, such conduct “would not rise to the level of a patent misuse because Motorola did not demonstrate that this conduct harmed competition.”** [Order at 17]

## Equitable Defense of Misuse Based on FRAND / SEPs Fails (cont'd.)

### No Patent Misuse By Tying

Judge Gilstrap also rejected Motorola's argument that patent misuse arose from St. Lawrence requiring some licensees to obtain a single license under both U.S. and German patents. Judge Gilstrap **described patent misuse tying as a two step inquiry**: 1. Does the patent holder have market power in a clearly defined market? 2. Is the conduct at issue is either per se misuse, or misuse under the rule of reason? [Order at 17]

### Judge Gilstrap indicated that *per se* misuse from patent tying is unlikely:

"[T]he Federal Circuit has expressed skepticism that a patent-to-patent tying arrangement should be treated as per se misuse. In particular, **the Federal Circuit has explained that "while grouping patents together in package licenses has anticompetitive potential, it also has potential to create substantial procompetitive efficiencies such as clearing possible blocking patents, integrating complementary technology, and avoiding litigation."** [Order at 18-19]

### He found that there was no *per se* patent misuse in this case given, for example, the procompetitive efficiencies of worldwide licensing:

"SLC's [St. Lawrence's] pursuit of worldwide licenses achieves many of the procompetitive efficiencies that the Federal Circuit identified in *U.S. Phillips [v. ITC]*, 424 F.3d 1179 (Fed. Cir. 2005)] and emphasized again in *Princo*. For example, seeking a worldwide license helps both parties avoid the extraordinary transaction costs of litigating or licensing a global patent portfolio on a country-by-country or patent-by-patent basis. [Order at 19-20]"



## Equitable Defense of Misuse Based on FRAND / SEPs Fails (cont'd.)

Judge Gilstrap, therefore, applied a “rule of reason” analysis where “the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature and effect.” [Order at 20] **Motorola identified three alleged anticompetitive effects flowing from the global licensing practice:**

- “Extracting more money from licensees than they would have paid for just licenses to the U.S. or German patents.
- Foreclosing development of workarounds of St. Lawrence’s foreign patents.
- Harming other licensee’s ability to compete with [REDACTED].”

**Judge Gilstrap found no patent misuse under the rule of reason. First, in his factual determinations, Judge Gilstrap ultimately found that “Motorola did not establish that SLC’s [St. Lawrence’s] licensing conduct, including its practice of seeking worldwide licenses, actually harmed competition.” [Order at 11] Further, Motorola had not shown that the alleged anticompetitive harm “outweighed the potential benefits” of global licensing.**

## Equitable Defense of Misuse Based on FRAND / SEPs Fails (cont'd.)

### Defer Ruling on FRAND Limit on Damages

**Judge Gilstrap declined to rule as an equitable matter on Motorola's argument that St. Lawrence violated its FRAND commitment by seeking damages at trial that "disregarded the rates paid in the W-CDMA patent pool, and instead relied on SLC's [St. Lawrence's] 'tinkered with [REDACTED] license and SLC's injunction-induced licenses.'" [Order at 21].** The jury awarded damages after hearing extensive evidence whether the license sought and to be awarded Motorola was FRAND, so the court will rule on any FRAND limit challenge as part of the typical post trial motions parties file to challenge the jury's verdict. Those motions currently are pending before the court.

## 7. Competition Law Counterclaims

## Competition Claims Against SEP Holder Dismissed

As reported by Long, “Magistrate Judge Fallon re comments dismissing competition claims against SEP holder (*Godo Kaisha IP Bridge v. TLC et al*),” Essential Patent Blog, <https://www.essentialpatentblog.com/2018/03> (March 5, 2018), Magistrate Judge Fallon recently recommended dismissing competition law counterclaims brought by TCT Mobile (TCT) against Godo Kaisha IP Bridge 1 (IP Bridge) and Panasonic; Judge Bataillon has now adopted that ruling. **Those counterclaims were based on alleged improper conduct relating to standard essential patents (SEPs) on European Telecommunications Standards Institute (ETSI) 2G, 3G and 4G wireless standards that IP Bridge acquired from Panasonic after those standards were adopted.** While the standards were under development, Panasonic had committed to license the SEPs on fair, reasonable and non-discriminatory (FRAND) terms. **TCT’s competition law counterclaims generally concerned allegations that:**

- “Panasonic made FRAND commitments it did not intend to keep in order to induce the standards body to keep Panasonic’s technology in the standards;
- After the standards were adopted, Panasonic transferred the patents to IP Bridge which offered to license the patents on terms that were not FRAND, and

## Competition Claims Against SEP Holder Dismissed (cont'd.)

- There was some type of improper concerted action between Panasonic and IP Bridge (this aspect is redacted and unclear).”

This case also finds that an antitrust injury-in-fact cannot arise solely from a patent owner filing an infringement lawsuit on FRAND-committed SEPs. That’s because a successful FRAND defense by the accused infringer will lead to remedies consistent with the FRAND commitment and, in any event, any relief ultimately granted by the court would be lawful.

**This decision concerns a Rule 12(b)(6) motion to dismiss causes of action based on the initial pleadings.** Such motions are difficult to win because of the deference the court must give to the challenged pleading — e.g., the court considers whether TCT states a “plausible” claim if the court assumes (without deciding) that all factual allegations TCT raises are true and draws all reasonable inferences in TCT’s favor. **Courts are even more reluctant to grant a Rule 12(b)(6) motion against competition law claims, which may be factually complex and require information in the hands of the alleged wrong-doer that can be obtained only in discovery.** In this case, however, TCT apparently had almost a year of discovery and two attempts to plead its competition law claims, which may have provided the court more comfort in its dispositive ruling here regarding the amended counterclaims.

## Competition Claims Against SEP Holder Dismissed (cont'd.)

Mag. Judge Fallon ruled that TCT failed to state causes of action under the Sherman Act for several reasons.

### Relevant Market and Market Power

TCT had the burden to plead facts establishing (1) the relevant product market and (2) the relevant geographic market. (Op. at 9). TCT plead that the relevant market was:

“Relevant Technology Markets represented by the 2G, 3G [i.e., W-CDMA], and 4G [i.e., LTE] telecommunications standards when 3GPP and ETSI incorporated Panasonic’s SEPs, including the [patents-in-suit]. [Op. at 10]”

Judge Fallon ruled, however, that “standards are not markets and do not represent particular products” and TCT “fails to identify any products, explain the geographic market for such products, the products’ interchangeability, or any cross-elasticity of demand.” (Op. at 10-11). **Judge Fallon also rejected TCT’s argument that it need only show that “the patent was declared essential by an SSO”** [Note: Standards bodies generally do not declare a patent to be essential. What may have been meant here is that the prior patent owner **Panasonic** filed a declaration with the standards body declaring that these patents **may be essential to the standard and/or IP Bridge may have asserted that the patents actually are essential.**]:

## Competition Claims Against SEP Holder Dismissed (cont'd.)

**“TCT improperly aggregates all three telecommunication standards together with no explanation of how devices complying with one of the identified standards would be in the same market (or interchangeable) as devices complying with another identified standard, or a combination thereof. Nor does TCT allege that the relevant market is congruent with the patents-in-suit. [Op. at 12]”**

**Judge Fallon also rejected TCT’s conclusory assertion that the patent owner “automatically has market power with respect to entire standards comprising thousands of technologies based on ownership of three SEPs.” (Op. at 13):**

**“[T]here are no allegations of the purported role that Panasonic’s SEPs have in conferring market power in TCT’s alleged market. The amended counterclaims do not explain the specific connection between the alleged market and Panasonic’s SEPs, or indicate how Panasonic’s SEPs relate to any other products within the alleged market. [Op. at 12-13]”**

## Competition Claims Against SEP Holder Dismissed (cont'd.)

### No Anticompetitive Behavior

Judge Fallon explained that antitrust injury must be “to competition itself” and “not just a single competitor.” (Op. at 13).

He observed that the court’s prior grant of the first motion to dismiss rejected TCT’s argument “that the very act of demanding non-FRAND royalties for use of a SEP and/or seeking an injunction for infringement of such a patent may give rise to anticompetitive harm.” (Op. at 13). Further, “IP Bridge did not make any false promises to ETSI,” but acquired the patents after the standard was adopted. The court would not “expand the *Broadcom* decision to reach violations of FRAND commitments occurring after the standard’s adoption.” Finally, TCT did not allege “that Panasonic dictated the terms IP Bridge offered to license the patents after the patent transfer.” Therefore, TCT failed to allege “any anticompetitive behavior that harmed competition under the Sherman Act.” (Op. at 14-15).



## Competition Claims Against SEP Holder Dismissed (cont'd.)

### Section 1 of the Sherman Act

#### TCT was required to plead two elements for its Section 1 Claim:

- “1. that the alleged wrong-doer was a party to a contract, combination or conspiracy; and
2. that the conspiracy imposed an unreasonable restraint on trade. [Op. at 15]”

**Action by just the alleged wrong-doer (“unilateral activity”) is not sufficient; TCT must show “a unit of purpose or a common design and understanding, or a meeting of minds in an unlawful arrangement” between the alleged wrong-doer and at least one other entity.**

Judge Fallon found that “TCT **does not identify any agreement** to conspire, any exercise of market power by the conspiracy, or how the conspiracy allegedly exercised such power in an anticompetitive manor.” (Op. at 17). **Judge Fallon ruled that allegations that IP Bridge was seeking “a supra-FRAND rate” “cannot constitute anticompetitive activity under Section 1 because it is, at most, unilateral action on the part of IP Bridge.”**

## Competition Claims Against SEP Holder Dismissed (cont'd.)

### Section 2 of the Sherman Act

**TCT was required to plead two elements for its Section 2 Claim:**

- “1. the possession of monopoly power in the relevant market, and
2. a showing that the monopolist achieved monopoly power through anticompetitive conduct. Anticompetitive conduct generally is conduct to obtain or maintain monopoly power as a result of competition on some basis other than the merits and does not include conduct that merely harms competitors without harming the competitive process itself. [Op. at 18-19]”

**TCT alleged that Panasonic made FRAND licensing commitments that it did not intend to keep. But there was no allegation that IP Bridge made such commitments and the court already ruled that it would not expand the *Broadcom* decision to cover alleged FRAND violations by IP Bridge that occurred after the standards were adopted. (Op. at 20).**

**TCT also failed to allege specific facts showing FRAND:**

“TCT simply assumes that Panasonic’s declarations to ETSI were fraudulent. TCT does not make any allegations that Panasonic ever refused to license the patents on FRAND terms, nor colluded with IP Bridge to do so. [Op. at 21]”

## Competition Claims Against SEP Holder Dismissed (cont'd.)

### No Injury In Fact

To sustain a Sherman Act claim, **TCT was required to plead an antitrust injury in fact showing:** 1. harm of the type the antitrust laws were intended to prevent; and 2. an injury to TCT which flows from that which makes the alleged wrong doer's acts unlawful. [Op. at 22]

Judge Fallon found that **TCT failed to allege an injury in fact:**

“The court agrees with IP Bridge that “TCT appears to rely on the court or jury creating an antitrust injury in the context of this litigation through the award of a supra-FRAND damages award.” **However, if TCT is successful with its FRAND defense, then TCT will not be awarded any damages at greater-than-FRAND rates. Or, if the court or jury imposes damages at higher than FRAND rates, then such damages would be lawfully awarded. Either way, there is no antitrust injury.**

**TCT argues that IP Bridge and Panasonic have engaged in a “hold up,” forcing TCT to defend itself in this suit. However, this is not an injury. If TCT's FRAND defense is valid, then no supra-FRAND damages will result. If TCT's FRAND defense is invalid, then the court can only impose lawful relief. [Op. at 22]**