KING & SPALDING

Client Alert

ITC Section 337 Practice Group

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Latest Developments On Injunctive Relief For Infringement Of FRAND-Encumbered SEPs

This memorandum is directed to the current state of the case law in the U.S. International Trade Commission (ITC or "Commission"), the U.S. Federal Trade Commission (FTC) and the U.S. District Courts for parties seeking to obtain injunctive relief for FRAND-encumbered standard-essential patents (SEPs). (The term "FRAND" is further defined herein and refers to a fair, reasonable and non-discriminatory license commitment.) The memorandum also addresses steps an SEP holder may consider before seeking an exclusionary remedy in the ITC.

EXECUTIVE SUMMARY

A. Current State Of The Case Law

- **ITC**: By Letter of August 3, 2013, U.S. Trade Representative (USTR) Michael Froman, acting by delegation of authority from the President, notified the Commission of the President's decision to disapprove the Commission's June 4, 2013 determination to issue an exclusion order and cease and desist order on a FRAND patent in *Certain Electronic Devices, Including Wireless Communication Devices, Portable Music And Data Processing Devices, And Tablet Computers*, Investigation No. 337-TA-794 ("the 794 investigation")—the first time the Commission had ever issued exclusionary relief on a FRAND-encumbered SEP. This is also the first time since 1987 that a President has disapproved a Commission exclusion order for policy reasons. In this instance, the substantial concerns, which the August 3, 2013 USTR letter states "I strongly share," involve the potential harms that can result from owners of SEPs engaging in "patent hold-up."

However, the President's decision makes it clear that an exclusion order may still be an appropriate remedy in some circumstances for FRAND-encumbered SEPs. The decision cites to the January 8, 2013 Policy Statement issued by the Department Of Justice (DOJ) and U.S. Patent and Trademark Office (USPTO), which "explains that, to mitigate against patent hold-up, exclusionary relief from the Commission based on

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FRAND-encumbered SEPs should be available only on the relevant factors described in the Policy Statement." Those factors include, for example:

> if a putative licensee refuses to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine F/RAND terms, an exclusion order could be appropriate. Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder. An exclusion order also could be appropriate if a putative licensee is not subject to the jurisdiction of a court that could award damages.

The Policy Statement further advises that "[t]his list is not an exhaustive one. Rather, it identifies relevant factors when determining whether public interest considerations should prevent the issuance of an exclusion order based on infringement of a F/RAND-encumbered standards-essential patent or when shaping such a remedy."

At first glance, the President's decision appears to harmonize the exclusionary relief available to the Commission with respect to FRAND-encumbered SEPs with the decision reached by the FTC in *In re Motorola Mobility LLC and Google, Inc.*, Docket No. C-4410 (*see* below). However, as shown below, the language in the FTC's Decision and Order in Google/Motorola may be more restrictive. For example, the FTC's Decision and Order requires that the potential licensee's refusal be "in writing or in sworn testimony" and that "challenging the validity, value, Infringement or Essentiality of an alleged infringing FRAND Patent does not constitute a statement that a Potential Licensee will not license such FRAND Patent."

Moreover, the language of the January 8, 2013 DOJ/USPTO Policy Statement relied on by the President may be more expansive than the Decision and Order in Google/Motorola in stating that an exclusion order may still be appropriate where "a putative licensee. . . refuses to engage in a negotiation to determine F/RAND terms. . . . Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder."

- **FTC**: On July 22, 2013, the FTC finalized its Decision and Order in *In re Motorola Mobility LLC and Google, Inc.*, Docket No. C-4410, permitting Motorola/Google to seek Covered Injunctive Relief only in the following limited circumstances where a potential licensee: "1. is outside the jurisdiction of the United States District Courts …; 2. has stated in writing or in sworn testimony that it will not license the FRAND Patent on any terms; PROVIDED THAT for the purposes of this paragraph, challenging the validity, value, Infringement or Essentiality of an alleged infringing FRAND Patent does not constitute a statement that a Potential Licensee will not license such FRAND Patent; 3. refuses to enter a License Agreement covering the FRAND Patent on terms that have been set in the Final Ruling of a Court or through Binding Arbitration; or 4. Does not provide the written confirmation requested in a FRAND Terms Letter within thirty (30) days… PROVIDED, HOWEVER, that Respondents shall not assert in any Court that such written confirmation constitutes a specific agreement to license on any particular terms."

- **<u>U.S. District Courts</u>**: The U.S. District Courts have generally declined injunctive relief holding that, in light of a FRAND commitment, an SEP holder has not shown it has suffered irreparable harm. *Microsoft v. Motorola*, 2012 WL 5993202 (W.D. Wash. Nov. 30, 2012) (In light of its commitment to license on FRAND terms, "Motorola has not shown it has suffered an irreparable injury or that remedies available at law are inadequate."); *see also Apple v. Motorola*, Civil Action No. 1:11-cv-08540 (N.D. Ill. June 22, 2012) ("I don't see how, given [Motorola's] FRAND [commitment], I would be justified in enjoining Apple from infringing the '898 [Patent] unless Apple refuses to pay a royalty that meets the FRAND requirement."); *Realtek v. LSI/Agere*, Case No. C-12-03451 (N.D. Cal. May 20, 2013) (Holding breach of contract where *LSI/Agere* sought injunctive relief before offering a license, on FRAND terms or otherwise, and issuing preliminary injunction barring *LSI/Agere* from enforcing, or seeking to enforce any exclusion order issued by co-pending ITC Investigation No. 337-TA-837 pending a determination of FRAND issues and *LSI/Agere's* compliance therewith by the District Court.)

We note, however, that the District Court in the Western District of Wisconsin declined to find a breach of contract, based on Motorola's pursuit of injunctive relief despite being subject to a FRAND commitment. The District Court found that the contract at issue was "not clear" as to whether it prohibited injunctive relief and declined to rule on a FRAND royalty rate because the prospective licensee *Apple* refused to be bound by a rate determined by the court. *Apple v. Motorola*, Civil Action No. 11-cv-178-bbc (W.D. Wisc. Octo. 29, 2012). Both *Apple v. Motorola* cases are currently pending on appeal before the Federal Circuit.

B. <u>Steps An SEP holder May Consider Before Seeking An Exclusionary Remedy In The ITC</u>

For an SEP holder who is seeking injunctive relief in an ITC proceeding, the following are steps that an SEP holder may consider before filing a Complaint and/or to develop a comprehensive factual record supporting these steps during the course of an investigation:

Step 1: Investigate Standard Setting Organization's (SSO's) Rules to evaluate whether SEP holder is subject to FRAND commitment, including the scope of such commitment (*i.e.*, whether entire patent(s) or certain claims are subject to such **commitment**), and whether its right to seek injunctive relief is limited, *e.g.*, by express language in SSO policy prohibiting patent owner from seeking injunctive relief or by a forum selection clause.

- *In re Innovation IP Ventures, LLC Patent Litigation*, 2013 WL 3874042, *7 (N.D. Ill. 2013) (The bylaws of the SSO at issue, IEEE, included language that "plainly contemplate that some claims, but not others, in a particular patent may be standard-essential.")

- In the 794 investigation, Commission focused on whether ETSI IPR Policy included language "that would prohibit patent owners from seeking injunctive relief" for SEPs, but found several attempts to include such language had been unsuccessful

- 19 U.S.C. §1337(c) (". . . the Commission may. . . on the basis of an agreement between the private parties to the investigation, including an agreement to present the matter for arbitration, terminate any such investigation. . ."); *see, e.g.*, Wireless Communication Chips, Inv. No. 337-TA-614 (investigation terminated in favor of arbitration)

Step 2: Barring no such limitation, make a good faith *initial* license offer before seeking injunctive relief. In the 794 investigation, the Commission held (Op. at 60-61) that "an initial offer need not be the terms of a final FRAND license" nor include a "specific fair and reasonable royalty rate" and "could encompass a range of reasonable terms," including "an offer to cross-license both parties' patents." Commissioner Pinkert's Dissent in the 794 investigation also provides some noteworthy guidance, such as that a FRAND offer should not require licenses to non-standard essential patents.

- May be evidence to avoid a *Realtek* Order (*Realtek v. LSI/Agere*, Case No. C-12-03451-RMW (N.D. Cal.) (holding breach of FRAND obligation and issuing preliminary injunction barring ITC exclusion order)
- May be evidence to rebut a potential affirmative defense asserted in ITC proceeding based on breach of contract, estoppel, waiver, implied license and/or unclean hands
- May be evidence to avoid possible Notice designating investigation for 100-Day ID Procedure. Commission's new 100-Day ID Procedure Pilot Program announced June 24, 2013, advises that the Procedure is "not limited to the issue of domestic industry." (In recent investigation *Certain Electric Fireplaces*, Inv. Nos. 337-TA-991/826, Commission left open that breach of contract could constitute unfair act under Section 337.)

Step 3: Evaluate whether exclusionary relief from the Commission on FRAND-encumbered SEP is available based on relevant factors described in January 8, 2013 DOJ/USPTO Policy Statement in accordance with the August 3, 2013 USTR notice letter in the 794 investigation, such as, for example:

- If a putative licensee refused to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine FRAND terms, an exclusion order could be appropriate. Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be FRAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder.
- An exclusion order also could be appropriate if a putative licensee is not subject to the jurisdiction of a court that could award damages.

Step 4: In advance of filing an ITC Complaint, prepare evidentiary support that the statutory public interest factors do not preclude issuance of an exclusion order, including:

- Alternative competitive articles would still be available to meet the demand for the accused product and negate the impact, if any, on public health and welfare
- There will be no material cost or delay to consumers in supplying alternative competitive articles to meet demand

- Exclusion will have no material adverse impact on competitive conditions in the U.S. economy
- There was no U.S. production of the accused product or there will be no material adverse impact on such production
- There will be no material adverse impact on the production of like or directly competitive articles in the U.S.
- Addressing the standards-essential nature of the patent at issue if contested by the patent holder and the presence or absence of patent hold-up or reverse hold-up as per the August 3, 2013 USTR notice letter in the 794 investigation
- Addressing whether the patent at issue covers "a relatively minor element of a complex multi-component device" and denying access to the device will significantly increase switching costs to consumers as per Commissioner Pinkert's Dissent

Step 5: In advance of filing an ITC Complaint, prepare evidence addressing potential tailored exclusion order issues, such as:

- Repair and replacement of infringing products purchased by innocent parties prior to issuance of exclusion order
- Requests to delay entry of exclusion order based on, *inter alia*, accommodating third party interests such as mobile phone carriers switching to alternatives; additional time needed to agree upon FRAND royalty, *etc.*
- Certification(s) to facilitate importation of noninfringing product(s)

Step 6: Continue good faith efforts to negotiate during investigation.

- Continued refusal of proposed licensee to negotiate may be evidence supporting potential reverse patent hold-up
- Continued refusal of proposed licensee to pay any royalties, or at least until after conclusion of litigation, may be evidence supporting potential reverse patent hold-up
- If possible, reach "memorandum of understanding"—relied upon (Op. at 59) by Commission in 794 investigation as evidence of good faith negotiation

As previously mentioned, any one or all of the foregoing steps are steps that an SEP holder may consider before seeking injunctive relief in the ITC. The foregoing list of steps is not intended to be and should not be relied upon as legal advice that any one or all of the foregoing steps are required steps for an SEP holder to consider before seeking an exclusionary remedy in the ITC.

I. Background: Standard-Setting Organizations And FRAND Commitments[1]

Technical standards play an important role in modern technology. This is especially true where technologies converge across industries, resulting in highly complex products such as smartphones and tablets. These products involve the interaction of telecommunications, Internet hardware and software, and polished user interfaces. Standards allow data to flow across all of these potential interfaces in an efficient way. The benefits can be seen in the relative ease of connecting a USB-compatible device versus the relative difficulty of finding a compatible power adapter for a laptop.

SSOs are often responsible for creating these standards and propagating them across industries. Many potential standards could accomplish a particular goal, and SSOs are tasked with choosing a workable standard that can achieve wide adoption. Because a primary concern of SSOs is to encourage industry adoption, the organizations are typically made up, at least in part, of individuals representing different companies in the industry.

This arrangement has proved very effective. The industry players, who have relevant expertise, are able to give input and improve the standard that is ultimately approved. The SSOs, by including the industry, are able to increase the odds that the same industry players will be ready and willing to quickly adopt the standard. And consumers benefit from the quick propagation of standards through lower prices and a wider array of useful products.

Including the industry players also gives rise to certain challenges. For example, if an industry participant in an SSO owns the rights to patents that cover technology that is essential to the standard ("standard-essential patents," or "SEPs"), the participant arguably has an incentive to influence the SSO to adopt a standard that relies on its technology. If the standard is adopted, the participant may then be positioned to charge exorbitant prices for use of the patented technology (in effect, for use of the standard). This "hold-up" can reduce competition and raise prices for consumers as other members of the industry are forced to either pay the high prices or abandon the standard.

SSOs have solved this problem to some extent through internal policies. Many SSOs require any industry players who participate in the standard-setting process to notify the organization of any patents that could potentially be standard-essential to any standard the organization ultimately adopts. If the organization does adopt a standard that is covered by a participant's patent or patents, the industry participant is required under many agreements to license its technology under "reasonable and non-discriminatory" licensing arrangements. These SSO policies are called "FRAND" or "RAND" commitments, and they have become widespread among such organizations.

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[1] We note that Background Section I of this memorandum is substantially taken from an article entitled "Standard-Essential Patents and Exclusion Orders: Weighing the Public Interest" authored by King & Spalding summer associate Tom Randall (Class of 2012), under the supervision of the authors of this memorandum. The article received an award from the ITC Trial Lawyers Association during its Annual Meeting in November 2012.

If a competitor wishes to use a standard that is covered by a standard-essential patent, the patent holder is required under its FRAND commitment to negotiate a fair and reasonable royalty rate. If a competitor refuses to pay a fair and reasonable price, the SEP-holder can seek damages in court for patent infringement. This arrangement, when it helps companies avoid the courtroom, allows the SEP-holder to collect a fair and reasonable sum for the use of its technology while also reducing the possibility of hold-up.

(A) Hold-up And Injunctive Relief

The threat of hold-up can persist when SSO policies do not specify which remedies are available to SEP-holders. While patentees bound by FRAND commitments can sue competitors for damages in court if a competitor refuses to pay a fair and reasonable price, they might still be able to hold-up a competitor under threat of an injunction.[2]

The potential for hold-up through injunctions was greatly lessened in 2006 with the Supreme Court's decision in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). In *eBay*, the court held that patentees, like other plaintiffs seeking injunctions, are not categorically entitled to injunctive relief. Instead, they must satisfy the traditional four-part test, including showing that monetary damages are inadequate to compensate for the injury.[3]

To meet the *eBay* standard, patentees have to show that monetary damages are inadequate to compensate for the infringement, and the patentee will suffer irreparable harm. This can be very difficult to show when the patentee has already agreed that fair and reasonable licensing royalties under a RAND commitment *are* adequate compensation.

Judge Posner of the Seventh Circuit (sitting by designation in the Northern District of Illinois) recently issued an opinion to this effect in *Apple, Inc. v. Motorola, Inc.*, 2012 WL 2376664 (N.D. Ill. June 22, 2012). Motorola, whose patents were designated standard-essential and covered by a FRAND commitment, sought a permanent injunction. Judge Posner was not persuaded, stating that "[b]y committing to license its patents on FRAND terms, Motorola committed to license the [patent] to anyone willing to pay a RAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent." *Id.* at 12.

Further, courts have articulated an exacting standard for injunctions where the patented feature constitutes only a relatively small portion of the infringing device. In *Apple v. Samsung Elecs. Co., Ltd.*, 678 F.3d 1314, 1324 (Fed. Cir. 2012), on appeal from a Federal District Court, the Federal Circuit held that a patentee must show a "causal nexus" between the alleged infringement and the irreparable injury required for an injunction. There cannot be an irreparable injury if "consumers buy that product for reasons other than the patented feature." *Id.* The court held that Apple failed to show such a causal nexus with regard to its patented smartphone design aesthetics. Since SEPs often cover

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[2] Chief Justice Roberts' concurrence in *eBay v. MercExchange* pointed to this effect explicitly: "[A]n injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent." 547 U.S. 388, 396 (2006) (Roberts, C.J., concurring).

[3] Under *eBay*, patentees, like all plaintiffs seeking injunctions, must show: (1) the patentee has suffered irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the patentee and the alleged infringer, injunction is warranted; and (4) the public interest would not be disserved by a permanent injunction. 547 U.S. at 391.

only a single feature of any downstream device, this rule makes injunctions more difficult to obtain in Federal District Court.

(B) Hold-up And Exclusion Orders

The precedent set in Federal District Courts regarding the application of the *eBay* standard does not bind the Commission, however.[4] As a result, patentees arguably have an increased incentive to seek exclusion orders at the Commission where they previously might have sought permanent injunctions in Federal District Courts. In the 794 investigation, the Commission noted (Op. at 113 n. 23) the "hold-up" versus "reverse hold-up" phenomena. The Commission stated that many commentators assert that issuing an exclusion order (or any form of injunctive relief) based on infringement of a FRAND encumbered patent enhances the patentee's ability to engage in hold-up, which in turn would make patent owners reluctant to participate in SSOs, ultimately reducing interoperability, innovation and consumer choice. Other commentators argue the opposite: that denying owners of FRAND encumbered patents access to injunctive remedies gives implementers the incentive to engage in so-called reverse hold-up, with similarly adverse effects on SSOs, interoperability, innovations and consumer choice.

The Commission found that there was no evidence submitted by the parties or commentators that either result occurred in the market in the 794 investigation. The Commission refused to engage in policy making to determine whether the risk of hold-up outweighs the risk of reverse hold-up when it issues an exclusion order based on infringement of FRAND-encumbered patents, leaving such determination to the President, should he so choose.

In the August 3, 2013 USTR letter notifying the Commission of the President's disapproval of the Commission's issuance of exclusionary relief on a FRAND patent in the 794 investigation, USTR cited to the January 8, 2013 Policy Statement of the DOJ/USPTO expressing "substantial concerns, which I strongly share, about the potential harms that can result from owners of standards-essential patents ('SEPs') who have made a voluntary commitment to offer to license SEPs on terms that are fair, reasonable and non-discriminatory ('FRAND'), gaining undue leverage and engaging in 'patent hold-up.'" USTR also noted that, at the same time, technology implementors can also cause potential harm by engaging in "reverse hold-up ('hold-out'), *e.g.*, by constructive refusal to negotiate a FRAND license with the SEP owner or refusal to pay what has been determined to be a FRAND royalty." USTR underscored that the parties develop a comprehensive factual record at the Commission on the public interest factors in such cases, including on "the presence or absence of patent hold-up or reverse hold-up."

The following Section II addresses the current state of the case law concerning parties seeking injunctive relief for FRAND-encumbered patents in the ITC, FTC and U.S. District Courts.

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[4] *Spansion, Inc. v. Int'l Trade Comm'n*, 629 F.3d. 1331, 1359 (Fed. Cir. 2010) ("Given the different statutory underpinnings for relief before the Commission in Section 337 actions and before the district courts in suits for patent infringement, this court holds that *eBay* does not apply to Commission remedy determinations under Section 337.").

II. Current State Of The Case Law On Obtaining Injunctive Relief For Infringement Of FRAND-Encumbered SEPs

Based on the President's decision of August 3, 2013, disapproving the Commission's determination to issue an exclusion order and cease and desist order on a FRAND patent in the 794 investigation, it appears at first glance that the availability of exclusionary relief in the ITC on FRAND-encumbered SEP patents has now been harmonized with the FTC's decision in *In re Motorola Mobility LLC and Google, Inc.*, Docket No. C. The President's decision cites to the January 8, 2013 DOJ/USPTO Policy Statement, which "explains that, to mitigate against patent hold-up, exclusionary relief from the Commission based on FRAND-encumbered SEPs should be available only on the relevant factors described in the Policy Statement," such as, for example, "if a putative licensee refuses to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine F/RAND terms. . . . An exclusion order also could be appropriate if a putative licensee is not subject to the jurisdiction of a court that could award damages." These examples seem to be along the same lines as the FTC's Final Decision and Order in Google/Motorola permitting Google/Motorola to seek injunctive relief where a potential licensee is "outside the jurisdiction of the United States District Courts" or "has stated in writing or in sworn testimony that it will not license the FRAND patents on any terms" or "refuses to enter a License Agreement covering the FRAND Patent on terms that have been set in the Final Ruling of a Court or through Binding Arbitration." However, the language in the Google/Motorola Decision and Order may be more restrictive in requiring the potential licensee's refusal to be "in writing or by sworn testimony" and further providing that "for the purposes of this paragraph, challenging the validity, value, Infringement or Essentiality of an alleged infringing FRAND Patent does not constitute a statement that a Potential Licensee will not license such FRAND Patent."

Moreover, the language of the January 8, 2013 DOJ/USPTO Policy Statement relied on by the President may be more expansive than the Decision and Order in Google/Motorola in stating that an exclusion order may still be appropriate where "a putative licensee. . . refuses to engage in a negotiation to determine F/RAND terms. . . . Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder." The DOJ/USPTO Policy Statement goes on to state that "This list is not an exhaustive one. Rather, it identifies relevant factors when determining whether public interest considerations should prevent the issuance of an exclusion order based on infringement of a F/RAND-encumbered standards-essential patent or when shaping such a remedy."

With respect to U.S. District Courts, the *eBay* standard, particularly the irreparable harm factor, which does not apply to remedy determinations in the ITC, appears to be making it even more difficult to obtain injunctive relief for FRAND-encumbered SEPs. The recent decisions in *Microsoft v. Motorola*, 2012 WL 5993202 (W.D. Wash. Nov. 30, 2012) (in light of its commitment to license on FRAND terms, "Motorola has not shown it has suffered an irreparable injury …") and *Apple v. Motorola*, Civil Action No. 1:11-cv-08540 (N.D. Ill. June 22, 2012) ("To begin with Motorola's injunction claim, I don't see how, given FRAND, I would be justified in enjoining Apple from infringing the [designated standard-essential patent] unless Apple refuses to pay a royalty that meets the FRAND requirement.") support this conclusion.

The following is a more detailed discussion of the current state of the case law in the ITC, FTC and U.S. District Courts.

(A) ITC

Before addressing the pertinent ITC case law concerning the issue of exclusion orders in investigations involving FRAND-encumbered SEP patents, we note that whether a District Court denies injunctive relief based on the *eBay* standard, including the irreparable harm factor, is not applicable to the ITC. *See, e.g.*, *Spansion, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010) (holding that *eBay* does not apply to remedy determinations in the ITC under Section 337). Section 337 authorizes the Commission to grant an exclusion order and/or cease and desist order when an imported article is shown to infringe a valid and enforceable U.S. patent subject only to considering the effect of such order on the statutory public interest factors set forth in Section 337(d)(1), (e)(1), (f)(1) and (g)(1): "the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers. . . ." The statute does not contain any special provisions or carve-outs for SEPs. Moreover, SEPs have been asserted in numerous investigations (*see, e.g.*, Investigation Nos. 577, 578, 601, 613, 669, 745, 752, 753 and 794), but to our knowledge, not once has the Commission concluded it lacks the authority to issue an exclusion order solely because an asserted standard essential patent is subject to a FRAND commitment. In fact, the President's August 3, 2013 decision in the 794 investigation cites to the January 8, 2013 DOJ/USPTO Policy Statement which states that "An exclusion order may still be an appropriate remedy in some circumstances, such as where the putative licensee is unable or refuses to take a FRAND license and is acting outside the scope of the patent holder's commitment to license on FRAND terms."

1. 745 Investigation (Complainant: Motorola; Respondent: Apple)

In *Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745 ("the 745 Investigation"), the FRAND-based defenses raised by the respondent were ultimately rendered moot. Complainant Motorola alleged that various Apple iPhone, iPad, and other devices infringed several Motorola patents, which were generally directed to various aspects of mobile communication devices. Two of the Motorola patents, Nos. 6,246,697 ("the '697 patent") and 5,636,223 ("the '223 patent") were the subject of FRAND commitments to ETSI and the IEEE, respectively.

In its response to the complaint, Apple included a defense of "Estoppel/Unclean Hands" based on allegations that Motorola had supposedly failed to disclose the application underlying one of the patents to ETSI in a timely manner and that "Apple [had] invested billions of dollars in products and technologies in reliance on Motorola's promises regarding the Declared Essential Patents." On March 11, 2011, Apple filed certain FRAND-based counterclaims and immediately removed them to the Western District of Wisconsin. (*See* discussion of this district court case *supra*.)

In the Initial Determination of April 24, 2012, ALJ Pender found no violation of Section 337 with respect to the '223 patent but did find a violation with respect to the '697 patent. With respect to Apple's allegations of estoppel and unclean hands relating to the '697 patent, ALJ Pender found, applying the standard of *Qualcomm v. Broadcom*, 548 F.3d 1004 (Fed. Cir. 2008), that Motorola's alleged conduct "does not even approach the wantonness" that characterized the patent-holder's behavior in that case. Inv. No. 337-TA-745, Initial Determination on Violation of Section 337 and Recommended Determination on Remedy and Bond, April 24, 2012 (public version) at 142-152.

On September 17, 2012, the Commission reviewed ALJ Pender's Initial Determination and found no violation of Section 337 with respect to three of the four patents in the case, including both the '223 patent and the '697 patent, and on December 18, 2012, ALJ Pender, on remand, found no violation with respect to the last remaining patent. ALJ Pender's determination on remand was affirmed by the Commission on April 26, 2013, on different grounds.

2. 752 Investigation (Complainant: Motorola; Respondent: Microsoft)

In *Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof*, Inv. No. 337-TA-752 ("the 752 Investigation"), Motorola Mobility alleged that Microsoft's Xbox platform infringes various Motorola patents related to the H.264 video coding standard and security aspects of the 802.11 wireless communications standard. Microsoft raised several equitable defenses based on the existence of FRAND commitments that Motorola apparently made to two SSOs (the ITU for H.264 and the IEEE for 802.11). The public version of the Initial Determination in this Investigation discussed Microsoft's arguments relating to these defenses in detail and ultimately dismissed all of them.

Microsoft argued that the "equitable" remedy of an exclusion order must yield to the legal, contractual obligations that Motorola assumed in making its FRAND commitments. In support, Microsoft cited a prior ITC investigation featuring an underlying dispute about a cross-licensing agreement between the parties. There, the Commission had stated that "an injunction may not issue against the beneficiary of a promise, which, if enforced, would be inconsistent with the suit for an injunction." ALJ Shaw distinguished that precedent, however, by noting that it involved "mutual obligations" between the parties, in contrast to Microsoft's status as a "beneficiary" of Motorola's "unilateral assurances to SSOs."

Based on Motorola's assurance to the SSOs, Microsoft also asserted defenses of implied license and waiver of equitable remedies. ALJ Shaw dismissed the implied license defense, noting evidence that Motorola licenses only its essential patents "after negotiations, which were often lengthy negotiations." He also rejected the waiver defense, noting that Microsoft agreed that this defense and implied license are "two sides of the same coin" in the ITC context, where the only available remedies are equitable.

Finally, Microsoft asserted a defense of equitable estoppel. Microsoft alleged that, with the FRAND commitments in the background, Motorola made "sham" license offers that it knew Microsoft would not accept. ALJ Shaw found that these offers constituted a "misleading communication," thus satisfying the first of three elements of equitable estoppel in a patent case. He also found that Microsoft would be materially prejudiced by an exclusion order, satisfying the third element. ALJ Shaw found a lack of evidence for the second element, however, that Microsoft reasonably relied on Motorola's FRAND promises, and therefore dismissed the equitable estoppel defense as well.

ALJ Shaw issued his Initial Determination in the 752 Investigation on April 23, 2012, holding that five of the patents in suit had been infringed. Among the claims the ALJ held to be valid and infringed were certain claims of three of the four Motorola patents said to be encumbered with FRAND obligations. (One of these patents was later dropped from the case on Motorola's motion.) On June 29, 2012, the Commission issued a Notice that it would review the Initial Determination, and also remanded the 752 Investigation to ALJ Shaw with respect to certain issues.

On January 8, 2013, five days after the FTC announced that it had entered into a Consent Order with Motorola parent Google (described below), Motorola moved to terminate the 752 Investigation as to the two remaining FRAND-encumbered patents.

3. 794 Investigation (Complainant: Samsung; Respondent: Apple)

On June 4, 2013, the Commission issued a Notice of its Final Determination in *Certain Electronics Devices, Including Wireless Communication Devices, Portable Music And Data Processing Devices, And Tablet Computers*, Investigation No. 337-TA-794 ("the 794 Investigation"), finding, *inter alia*, that Apple's iPhone 4, iPhone 3GS, iPad 3G, iPad 3 and iPad 2 3G models infringe Samsung's '348 patent. The Commission issued both a limited exclusion order and cease and desist order barring Apple from importing the models for sale in the U.S. before June 3, 2015. After postponing its ruling in March and again in May so that it could consider comments from the companies and public on the potential public harm of a ban, the Commission determined that "the public interest factors enumerated in section 337(d)(1) and (f)(1) do not preclude issuance of the limited exclusion order and cease and desist order" and that "Samsung's FRAND declarations do not preclude that remedy." The Commission also found that Apple failed to prove an affirmative defense based on Samsung's FRAND declarations. Commissioner Pinkert dissents on public interest grounds from the determination to issue an exclusion order and cease and desist order (*see infra* at 33).

The Commission published its Opinion in the 794 investigation on July 5, 2013. One of the most pertinent portions of the Commission's Opinion (at 41-65) relates to its denial of Apple's affirmative defense based on Apple's allegations that: (1) Samsung forfeited any right to obtain an exclusion order when Samsung made a FRAND commitment for the '348 patent; and (2) the '348 patent is unenforceable because Samsung failed to timely disclose the patent to ETSI. Another pertinent portion of the Commission's Opinion (at 107-117) relates to the Commission's findings that the public interest factors do not preclude the remedial orders, which were tailored by the Commission to include a 2 year refurbishing provision for infringing handsets to accommodate U.S. consumers, but not delayed to accommodate potentially affected carriers.

With respect to the first point of Apple's affirmative defense, the Commission made it clear (Op. at 46, 51) that there is no binding legal authority: (1) prohibiting the Commission from investigating a violation of Section 337 based on infringement of patents subject to a FRAND undertaking; and (2) requiring that the Commission only address infringement of standard-essential patents in the exceptional scenarios such as where a potential licensee has refused to pay a royalty after a U.S. court has determined that royalty to be FRAND, or where no U.S. court has jurisdiction over the potential licensee in order to set a FRAND rate. The Commission stated that such an approach would make the Commission a forum of last resort, when all other remedies have failed, and would be contrary to the Commission's enabling statute: Section 337 provides for remedies, including exclusion orders, that are "in addition to" any monetary damages or injunctive relief available from any other forum. *See* 19 U.S.C. §1337(a)(1).

The Commission went on to make the following findings regarding the ETSI Policy and Samsung's FRAND commitment (Op. at 43-44):

- During development of the Universal Mobile Telecommunications Standard (UMTS), Samsung participated in ETSI working groups and proposed and advocated for the standardization of certain technologies to perform functions included in the standard;

- ETSI's IPR Policy requires a participant to "timely inform ETSI of ESSENTIAL IPRs it becomes aware of";

- ETSI's IPR Policy requires that when an ESSENTIAL IPR is brought to the attention of ETSI, "ETSI shall immediately request the owner to give within three months an undertaking in writing that it is prepared to grant irrevocable licenses [*sic*] on fair, reasonable and non-discriminatory [*i.e.*, FRAND] terms";

- In December 1998, Samsung submitted a general IPR licensing declaration to ETSI stating that if some of its technical proposals are incorporated into the UMTS, it would make that IPR available on FRAND terms;

- On December 31, 2003, Samsung disclosed to ETSI a list of IPRs, including the U.S. patent application for the '348 patent, in a Declaration stating that "it believes that the IPRs may be considered ESSENTIAL to the Standards" and that Samsung declares " that they are prepared to grant irrevocable licenses under the IPRs on terms and conditions which are in accordance with" FRAND terms;

- The construction, validity and performance of the Declaration shall be governed by the laws of France.

The Commission also found that the ETSI IPR Policy does not expressly prohibit patent owners from seeking injunctive relief.

Notwithstanding the foregoing factual findings, including Samsung's identification of the '348 patent application as an SEP to ETSI and declaration that it was prepared to license the patent on FRAND terms, the Commission criticized Apple (Op. at 48) for not properly arguing "any recognized affirmative defense" under breach of contract, promisory estoppel, laches or fraud. The Commission further noted that "Apple has not even identified the basic elements necessary to prove a contract: the parties, the offer, the acceptance, the consideration and definite terms." The Commission therefore questioned whether Samsung had a FRAND obligation for a number of reasons including: (1) Samsung "presented no evidence of how 'the laws of France' would view Samsung's obligations" with respect to SEPs; and (2) although Samsung's declaration states that it believes the '348 patent is an SEP, Apple disputed Samsung's contention and no evidence was presented comparing the "asserted claims. . . to the technical disclosures of the ETSI standards."

Nevertheless, the Commission went on to assume, "for the sake of thoroughness" (Op. at 52), Samsung had a legally enforceable obligation to grant FRAND licenses under the '348 patent and assess whether Samsung was in breach of that obligation because Samsung did not negotiate in good faith with Apple, *citing North Star Steel Co. v. U.S.*, 477 F.3d 1324, 1332 (Fed. Cir. 2007) ("an 'agreement to agree', imposes an obligation on the parties to negotiate in good faith.”). The Commission ultimately concluded that Apple has not proved a failure by Samsung to negotiate in good faith, making several important findings to support its conclusion (Op. at 60-63):

- “an initial offer need not be the terms of a final FRAND license because the SSO intends the final license to be accomplished through negotiation,” *i.e.*, an initial offer need not include a “specific fair and reasonable royalty rate”

- “the evidence supports a conclusion that a portfolio cross-license offer is typical in the industry and reasonable”

- “an offer to cross-license both parties’ patents may be consistent with a FRAND obligation”

- “A FRAND license could encompass a range of reasonable terms. . . may involve a balancing payment to Samsung. . . may involve Samsung making a balancing payment. Both types of agreements may be reasonable, depending on the two portfolios at issue and each party’s respective volume of sales”

- Apple had no intention of paying Samsung any royalties until after conclusion of litigation

- We find the issues in this investigation may be resolved without making dispositive pronouncements about whether the *Georgia-Pacific* factors should be adopted *in toto* to determine compliance with a FRAND obligation.

With respect to the second point of Apple’s affirmative defense, Apple asserted that Samsung’s ’348 patent is not enforceable because it did not “timely” disclose the patent to ETSI. As mentioned above, in December 1998, Samsung submitted a general IPR licensing declaration that it would offer FRAND licenses but did not disclose the ’348 patent application until December 31, 2003. *Citing* to *Qualcomm v. Broadcom*, 548 F.3d 1004, 1010 (Fed. Cir. 2008), the Commission quoted (Op. at 64) the Federal Circuit’s concern that by failing to disclose IPR to an SSO, a patent holder is in position to “holdup” industry participants. The Commission recognized that a court may apply the equitable doctrine of waiver when it finds the participant’s conduct “was so inconsistent with an intent to enforce its rights as to induce a reasonable belief that such right has been relinquished.” *Id.* at 1020.

Notwithstanding the foregoing, the Commission denied (Op. at 65-66) Apple’s affirmative defense finding, *inter alia*, that the 1998 prospective announcement and the fact that Samsung has licensed its SEPs, including the ’348 patent, to more than 30 companies shows that the “hold-up” concern is not present here. The Commission further noted that ETSI itself cannot agree on what “timely” disclosure means.

Notably, the Commission’s determination to issue exclusionary relief in the 794 investigation was disapproved by the President on August 3, 2013, just prior to the deadline of the 60-day Presidential Review Period. This is the first time since 1987 that the President has disapproved a Commission exclusion order. The 5 prior Presidential disapprovals were all in the 1970s and 1980s. *See* Presidential Disapproval of April 22, 1978, Fed. Reg. 177898 (Inv. No. 337-TA-20); Presidential Disapproval of June 22, 1981, 46 Fed. Reg. 32361-01 (Inv. No. 337-TA-82); Presidential Disapproval of July 9, 1982, 47 Fed. Reg. 29919-02 (Inv. No. 337-TA-99); Presidential Disapproval of Jan. 11, 1985, 50 Fed. Reg. 1655-01 (Inv. No. 337-TA-185); and Presidential Disapproval of Dec. 3, 1987, 52 Fed. Reg. 46011-02 (Inv. No. 337-TA-242).

Specifically, by Letter of August 3, 2013, U.S. Trade Representative Michael Froman, acting by delegation of authority from the President, notified the Commission of the President's decision to disapprove the Commission's June 4, 2013 determination to issue an exclusion order and cease and desist order on a FRAND patent. Under 19 U.S.C. §1337(j), the President is required to engage in a policy evaluation of the Commission's determinations to issue exclusion and cease and desist orders within a 60-day review period. The President may disapprove a determination on policy grounds, approve a determination, or take no action and allow the determination to come into force upon expiration of the 60-day review period. If the President disapproves such determination then "effective on the date of such notice, such determination. . . shall have no force or effect."

The President's decision stated that the January 8, 2013 DOJ/USPTO Policy Statement expressed substantial concerns, "which I strongly share, about the potential harms that can result from owners of standards-essential patents ('SEPs') . . . engaging in 'patent hold-up.'" The decision goes on to state that the Policy Statement "explains that, to mitigate against patent hold-up, exclusionary relief from the Commission should be available only on the relevant factors," such as, for example:

> if a putative licensee refuses to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine F/RAND terms, an exclusion order could be appropriate. Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder. An exclusion order also could be appropriate if a putative licensee is not subject to the jurisdiction of a court that could award damages.

By way of background leading to the President's decision, Apple had filed a request to the United States Trade Representative (USTR), the President's delegate, to overturn the exclusion order issued in the 794 investigation on June 4, 2013. USTR decided to undertake a full review of this issue. Apple's Written Submission to the USTR dated June 19, noted Commissioner Pinkert's dissent and that Commissioner Aranoff explicitly invited the President to "decid[e] whether to disprove the remedy the Commission is issuing today."

Apple's Written Submission stated, *inter alia*, that the Commission's decision in the 794 investigation is in conflict with the White House's task force recommendation to harmonize the standard to obtain ITC exclusion orders with the *eBay* factors test for injunctive relief in the U.S. District Courts. Apple proposed that: "Given the special considerations that attend FRAND patents, the public interest dictates that the ITC could properly issue an exclusion order on a FRAND patent only in limited circumstances—such as where the accused infringer is a foreign entity not subject to jurisdiction in a United States court, or where the alleged infringer had refused to pay FRAND royalties *set by a court or arbiter*. " (Emphasis supplied). Thus, Apple proposed that a FRAND royalty be determined first by a court or arbiter, before injunctive relief can be sought, essentially removing the ITC as a forum for adjudicating SEPs subject to a FRAND commitment.

Alternatively, in its Submission to USTR filed on June 19, 2013, Samsung proposed that "standard essential patents subject to a FRAND commitment should not be eligible for an injunction or exclusion order except in those cases where the implementer of a standard is clearly unwilling to license SEPs on FRAND terms." Samsung went on to explain "that SEPs should be eligible for an injunction or exclusion order only in those cases where the implementer, like Apple here, is unwilling to engage in licensing negotiations or neutral arbitration to arrive at a FRAND license."

Samsung made a point of advising USTR that "Samsung placed a generous, FRAND-compliant offer for a license including the '348 patent on the table well before the ITC's decision, the ITC validated that offer, and it still stands. While Apple can accept that offer at any time and avoid the 794 exclusion order, Samsung did not present it as a 'take it or leave it' option." Samsung also pointed out that, on the otherhand, "in a recent brief to the Commission, Apple publicly declared that 'Apple should not have to pay any royalty at all for a license including the '348 patent…. By any definition, Apple is an unwilling licensee of Samsung's declared essential patents." Samsung's position is that a bright-line rule prohibiting exclusion orders for SEP infringement would encourage a problem known as "reverse hold up" characterized by Apple's stance as an unwilling licensee.

Samsung also presented evidence that: (1) the limited impact of the exclusion order dispels any economic concerns; and (2) the exclusion order will have no impact on public health, welfare, US production or foreign relations. With respect to the first point, Samsung asserted that the ITC's limited exclusion order only applies to two commercially available Apple products: the GSM versions of its iPhone 4 mobile telephone and iPad 2 tablet computer. Samsung contended that the impact of the withdrawal of these two products will be far smaller than the impact of the recently approved exclusion orders against Motorola (337-TA-744) and HTC (337-TA-710). Samsung relied on Apple's assertions in the 710 investigation that "The mobile communications industry is intensely competitive, and thus the exclusion of HTC's [Android smartphones] (which constitute a small share of the industry) will have no material impact on competitive conditions" and "numerous manufacturers could easily replace the relatively small market share of HTC's Infringing Products, if excluded." Samsung also pointed out that "the ITC has protected consumers who currently own the excluded products by including an exception to the exclusion order permitting refurbished articles imported on or before June 3, 2015 for use as a replacement for identical articles that were imported prior to the date of the LEO."

With respect to the second point, Samsung asserted that "The limited range of excluded Apple devices negates any impact on public health and welfare, because a number of alternative devices (including non-excluded Apple products) can replace the E911 functionality and health and safety applications that may be run on the GSM iPhone 4 and iPad 2. There will be no shortages of substitute products to consumers, physicians of first responders, and neither of the excluded products is even capable of broadband 4G connectivity needed to run more sophisticated health and safety applications."

Samsung also asserted that all of the excluded Apple products are manufactured in China and there is no US production of smartphones or tablets in the US to be impacted. In addition, Samsung asserted that the exclusion will not impact US foreign relations with China any more than the recent exclusion of Motorola and HTC smartphones, which are also manufactured in China. There remain plenty more Chinese manufactured electronic devices (including those made for Apple) that will not be impacted by the LEO.

Utimately, the President disapproved the Commission's determination to issue an exclusionary remedy on a FRAND patent in the 794 investigation. At first glance, the President's decision appears to harmonize the exclusionary relief available to the Commission with respect to FRAND-encumbered SEPs with the decision reached by the FTC in *In re Motorola Mobility LLC and Google, Inc.*, Docket No. C-4410 (*see* below). However, as mentioned above, a comparison of the language in the FTC's Decision and Order in Google/Motorola shows that it is more restrictive than the language in the January 8, 2013 DOJ/USPTO Policy Statement cited in the President's August 3, 2013 Decision.

The President's decision further makes clear that in future cases involving SEPs, the Commission should thoroughly examine the public interest factors both at the outset of a proceeding and when determining a particular remedy is in the public interest. The Commission should also "seek proactively to have the parties develop a comprehensive factual record related to these issues in the proceedings before the Administrative Law Judge during the formal remedy phase of the investigation…, including information on the standards-essential nature of the patent at issue if contested by the patent holder and the presence or absence of patent hold-up or reverse hold-up… [and] make explicit findings on these issues to the maximum extent possible." USTR advised "I will look for these elements in any future decisions involving FRAND-encumbered SEPs that are presented for policy review."

On June 9, 2013, Apple filed a Motion for Stay requesting the Commission to stay enforcement of the limited exclusion order and cease and desist order until the Federal Circuit decides Apple's appeal. Apple's Motion for Stay and any appeal to the Federal Circuit of the remedy issue is now moot in view of the President's decision. *Duracell Inc. v. U.S.I.T.C.*, 778 F.2d 1578 (Fed. Cir. 1985) (disapproval not appealable.)

(B) <u>FTC (And January 8, 2013 DOJ/USPTO Policy Statement)</u>

In June 2012, the FTC submitted statements in both the 745 and 752 investigations. In these statements, the FTC noted that "ITC issuance of an exclusion or cease and desist order in matters involving RAND-encumbered SEPs, where infringement is based on implementation of standardized technology, has the potential to cause substantial harm to U.S. competition, consumers, and innovation." The FTC identified the problem, as, in part, that "the threat of an exclusion order would allow a patentee to obtain unreasonable licensing terms despite its RAND commitment. . . ." The FTC concluded by stating that "In cases that address RAND-encumbered SEPs, the FTC urges the ITC to follow the requirements of Sections 337(d)(1) and (f)(1) and consider the impact of patent hold-up on competitive conditions and United States consumers."

The FTC further made a few notable suggestions, stating "For example, the ITC could find that Section 337's public interest factors support denial of an exclusion order unless the holder of the RAND-encumbered SEP has made a reasonable royalty offer. For example, in the [752 investigation], the ALJ found that 'the royalty rate of Motorola, of 2.25%, both as to its amount and the products covered, could not possibly have been accepted by Microsoft." The FTC also noted that "Alternatively, the ITC could delay the effective date of its Section 337 remedies until the parties mediate in good faith for damages for past infringement and/or an ongoing royalty for future licensed use, with the parties facing the respective risks that the exclusion order will (i) eventually go into effect if the implementer refuses a reasonable offer or (ii) be vacated if the ITC finds that the patentee has refused to accept a reasonable offer." The FTC cited to prior ITC precedent (*Certain Personal Data and Mobile Communications Devices and Related Software*, Inv. No. 337-TA-710) for such an approach. In the 710 investigation, the Commission stayed the remedy for 4 months in consideration of market competitiveness.

On January 8, 2013, the DOJ joined with the USPTO in issuing a statement that strongly urged the ITC to apply the statutory public interest factors to cases where the holder of an SEP, having made a FRAND commitment, seeks an exclusion order. The joint statement identified the following circumstances in which such an exclusion order might be appropriate (Policy Statement at 7-8 (internal footnotes omitted)):

> An exclusion order may still be an appropriate remedy in some circumstances, such as where the putative licensee is unable or refuses to take a FRAND license and is acting outside the scope of the patent holder's commitment to license on FRAND terms. For example, if a putative licensee refuses to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine F/RAND terms, an exclusion order could be appropriate. Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder. An exclusion order also could be appropriate if a putative licensee is not subject to the jurisdiction of a court that could award damages. This list is not an exhaustive one. Rather, it identifies relevant factors when determining whether public interest considerations should prevent the issuance of an exclusion order based on infringement of a F/RAND-encumbered standards-essential patent or when shaping such a remedy.

In addition, the FTC and DOJ each testified (http://www.judiciary.senate.gov/hearings) in July 2012 in support of their positions at a Senate Judiciary Committee hearing on "Oversight of the Impact on Competition of Exclusion Orders to Enforce Standard-Essential Patents." The FTC testimony, presented by FTC Commissioner (now Chairman) Edith Ramirez, discussed in greater detail the points raised in the FTC's Statements on the Public Interest filed in the 745 and 752 Investigations. Commissioner Ramirez concluded that "[t]he FTC believes that the ITC has the authority under its public interest obligations to. . . deny an exclusion order if the holder of the RAND-encumbered SEP has not complied with its RAND obligation," and suggested that if the ITC finds it does not have this authority, Congress should consider amending Section 337. Prepared Statement of FTC Before U.S. Senate Committee on the Judiciary, Washington, D.C., July 11, 2012, p. 14. The DOJ testimony, presented by then-acting head of the Antitrust Division Joseph Wayland, included a review of recent Antitrust Division investigations of technology industry transactions where "potential anticompetitive use of F/RAND encumbered standard-essential patents" was an issue. Regarding the ITC, Mr. Wayland made the specific suggestion that one set of circumstances in which an exclusion order might be deemed not in the public interest would be where "the value or importance of the infringed patent to the assembled good is dwarfed by the overall value of the assembled good or the patented aspect is not important to the operation of the good." Statement of Joseph Wayland, Acting Assistant Attorney General, Antitrust Division, before the Senate Committee on the Judiciary, Washington, D.C. , July 11, 2012, p. 10. (The FTC made a similar statement in its public interest statements, *supra*, to the ITC: "The resulting imbalance between the value of patented technology and the rewards for innovation may be especially acute where the exclusion order is based on a patent covering a small component of a complex multicomponent product.")

Based on a Consent Agreement for settlement purposes only, on July 22, 2013, the FTC finalized its Decision and Order in *In re Motorola Mobility LLC and Google, Inc.*, Docket No. C-4410, permitting Motorola/Google to seek Covered Injunctive Relief only in the following limited circumstances where a potential licensee: "1. is outside the jurisdiction of the United States District Courts …; 2. has stated in writing or in sworn testimony that it will not license the FRAND Patent on any terms; PROVIDED THAT for the purposes of this paragraph, challenging the validity, value, Infringement or Essentiality of an alleged infringing FRAND Patent does not constitute a statement that a Potential Licensee will not license such FRAND Patent; 3. refuses to enter a License Agreement covering the FRAND Patent on terms that have been set in the Final Ruling of a Court or through Binding Arbitration; or 4. Does not provide the written confirmation requested in a FRAND Terms Letter within thirty (30) days… PROVIDED, HOWEVER, that Respondents shall not assert in any Court that such written confirmation constitutes a specific agreement to license on any particular terms." The FTC initially issued a draft Decision and Order on January 3, 2013, and following a public comment period, the FTC made technical modifications to several provisions in the Decision and Order, including those pertaining to the arbitration process to resolved disputes over FRAND terms.

(C) U.S. District Courts

1. *Microsoft v. Motorola* (W.D. Wash. And 9th Cir.)

In *Microsoft v. Motorola*, 696 F.3d 872 (9th Cir. 2012), Motorola (the declared standard-essential patent holder) sent Microsoft an offer to license certain of its declared standard-essential patents. *Id.* at 877. Microsoft, believing that the offer was unreasonable, instigated a breach of contract action in the U.S. District Court for the Western District of Washington alleging that Motorola's unreasonable offer was a *per se* breach of its RAND obligations. *Id.* at 878. Meanwhile, Motorola sought an injunction in Germany to bar Microsoft from selling the allegedly infringing products in Germany. *Id.* at 879. Microsoft then moved the District Court for a temporary restraining order (TRO) and preliminary injunction to enjoin Motorola from enforcing any injunctive relief it might receive from the German court until the district court ruled on the FRAND issues. *Id.* at 880.

First, the District Court held that Motorola entered into binding contractual commitments to the IEEE and International Telecommunications Union (ITU) and to Microsoft (as a third-party beneficiary to the contract) to license its declared essential patents on FRAND terms and must do so, but denied summary judgment on the issue of whether Motorola's allegedly unreasonable offer letters were a *per se* breach of its FRAND obligations. *Id.* at 878-79. Second, the District Court issued an anti-suit injunction barring Motorola from "enforcing any injunctive relief it may receive in the German Action." *Id.* at 880 (*citing* the district court order of May 14, 2012, Case No. 10-1823, Dkt. No. 318 (W.D. Wash.)). The District Court held that the anti-suit injunction would "remain in effect until [the District Court] is able to determine whether injunctive relief is an appropriate remedy for Motorola to seek with respect to Microsoft's alleged infringement of Motorola's standard-essential patents.'". *Id.*

Motorola appealed the anti-suit injunction to Ninth Circuit, and the Ninth Circuit affirmed under an abuse of discretion standard. Id. at 885. In so affirming, the Ninth Circuit first upheld "[t]he district court's conclusions that Motorola's RAND declarations to the ITU created a contract enforceable by Microsoft as a third-party beneficiary. . ., and that this contract governs in some way what actions Motorola may take to enforce its ITU standard-essential patents (including the patents at issue in the German suit)" were not legally erroneous. *Id.* at 884. The Ninth Circuit explained that "Motorola, in its declaration to the ITU, promised to 'grant a license to an unrestricted number of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions to use the patented material necessary' to practice the ITU standards" and "*implicit in such a sweeping promise is, at least arguably, a guarantee that the patent-holder will not take steps to keep would be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made.*" *Id.* (emphasis added). The Ninth Circuit then affirmed the anti-suit injunction, holding: "[T]he district court did not abuse its discretion in determining that Microsoft's contract-based claims, including its claim that the RAND commitment precludes injunctive relief, would, if decided in favor of Microsoft, determine the proprietary of the enforcement by Motorola of the injunctive relief obtained in Germany." *Id.* at 885. The Ninth Circuit further stated that "even if Motorola did not breach its contract,. . . *injunctive relief against infringement is arguably a remedy inconsistent with the licensing commitment.*" *Id.* (emphasis added).

In November 2012, the District Court finally determined that any form of injunctive relief was improper because, in light of its commitment to license on FRAND terms, "Motorola has not shown it has suffered an irreparable injury or that remedies available at law are inadequate." *Microsoft v. Motorola*, 2012 WL 5993202, at *7-8 (W.D. Wash. Nov. 30, 2012). This decision "enjoin[ed] Motorola from seeking injunctive relief against Microsoft with respect to Motorola's [relevant] standard essential patent portfolios," which include the German patents and obviated the need for the anti-suit injunction. *Id.* at 8.

The District Court went on to determine a FRAND royalty in this case. On April 25, 2013, the District Court published its 207-page Findings of Fact and Conclusions of Law on its FRAND rate-setting decision.

2. *Apple v. Motorola* (N.D. Ill)

In October 2010, Apple sued Motorola for infringement of three patents. Apple accused Motorola's mobile devices, such as smartphones and associated software and in particular Motorola's Droid devices, of infringement. Apple sought an injunction against further infringement as well as compensatory damages. Motorola countersued, alleging that various Apple iPhone, iPod, iPad, and other products infringed six of its own patents. Motorola also sought an injunction and damages. Following a *Daubert* hearing on May 16, 2012, Judge Posner (of the Seventh Circuit, sitting by designation) excluded the testimony of the parties' chief damages experts, effectively denying both parties their respective claims for monetary relief. At Apple's request, Judge Posner scheduled "a traditional injunction hearing" to deal with the parties' respective claims for injunctive relief. This determination was to be based on the *eBay* factors, but Judge Posner specifically instructed Motorola to be prepared to address "the bearing of FRAND on [its] injunction analysis."

Following the injunction hearing, Judge Posner issued an Opinion and Order dismissing all claims of both parties with prejudice. *Apple v. Motorola*, Civil Action No. 1:11-cv-08540 (N.D. Ill. June 22, 2012). The section of the Court's opinion dealing with injunctive relief began:

> [Regarding] Motorola's injunctive claim, I don't see how, given [Motorola's] FRAND [commitment], I would be justified in enjoining Apple from infringing the '898 [Patent] unless Apple refuses to pay a royalty that meets the FRAND requirement. How could

> [Motorola] be permitted to enjoin Apple from using an invention that it contends Apple *must* use if it wants to make a cell phone with UMTS telecommunications capability – without which it would not be a cell *phone*.

Apple evidently rejected a prior Motorola offer of a “FRAND” license at 2.25 percent royalty rate. Even if this were true (the parties disputed the details of their negotiation and why it broke down), according to Judge Posner, it did not excuse Motorola from “comply[ing] with its FRAND obligations” and did not mean that Motorola was entitled to an injunction rather than damages.

The parties appealed Judge Posner’s decision to the Federal Circuit which is still pending. No. 12-1548, filed July 30, 2012. Among the many *amicus* briefs submitted is one filed by the FTC on December 4, 2012. The FTC said that its interest is to “seek[] to ensure that any ruling in this case takes into account the competition policy issues associated with injunctions as a remedy for infringement of a standard-essential patent.” The FTC brief explained in substance “that the district court properly applied *eBay* in determining that Motorola was not entitled to an injunction” due to Motorola’s FRAND licensing commitment with respect to the asserted patent. **[We are continuing to monitor Appeal No. 12-1548]**

3. *Apple v. Motorola* (W.D. Wisc.)

This case arose as a series of counterclaims filed by Apple against Motorola stemming from the ITC 745 investigation (*infra*) of Apple that had been initiated by Motorola. (Counterclaims filed at the ITC are removed to Federal District Court.) Apple’s counterclaims included claims for breach of contract based on Motorola’s pursuit of injunctive relief in light of its FRAND licensing commitments to the IEEE and ETSI. Examining those FRAND commitments, District Court Judge Crabb concluded:

> There is no language in either the ETSI or IEEE contracts suggesting that Motorola and the standards-setting organizations intended or agreed to prohibit Motorola from seeking injunctive relief. In fact, both policies are silent on the question of injunctive relief. . . . I conclude that any contract purportedly depriving a patent owner of that right should clearly do so. The contracts at issue are not clear. Therefore, I conclude that Motorola did not breach its contracts simply by requesting an injunction and exclusionary order in its patent infringement actions.

Apple v. Motorola, Civil Action No. 11-cv-178-bbc, *slip op.* (W.D. Wis. Oct. 29, 2012). The Court also dismissed Apple’s antitrust claims pursuant to the *Noerr-Pennington* doctrine, which grants antitrust immunity to a party’s actions in petitioning the government. Finally, the Court dismissed all of Apple’s remaining claims, particularly including claims for declaratory relief in which Apple had asked the Court to “declare” a FRAND rate for Motorola’s patents. Regarding these claims, the Court concluded that, based on statements made by Apple shortly before the start of a scheduled trial, Apple had not agreed to be bound by a rate determined by the Court, but was only “seeking a ceiling on the potential license rate that it could use for negotiating purposes.” As this arrangement essentially asked the Court to assist Apple in negotiating a FRAND licensing rate without putting the parties’ dispute to rest, the Court declined to rule on Apple’s request for a declaration of the appropriate FRAND rate.

On December 5, 2012, Judge Crabb entered judgment in favor of Motorola, and on January 4, 2013, Apple appealed to the Federal Circuit. No. 13-1150. Motorola cross-appealed, and, on January 25, 2013, filed a motion to dismiss the case or transfer it to the Seventh Circuit Court of Appeals, on the grounds that the Federal Circuit lacks jurisdiction because "the claims in Apple's complaint sound in antitrust and contract law" rather than patent law. On May 3, 2013, the Federal Circuit denied Motorola's motion to dismiss or transfer and ordered the parties to address the Federal Circuit's jurisdiction in their briefs. Apple's Opening Brief is due by July 23, 2013; Motorola's Response Brief by November 5, 2013; Apple's Reply Brief by December 19, 2013; and Motorola's Reply Brief by January 6, 2014. **[We are continuing to monitor Appeal No. 13-1150]**

4. *Realtek v. LSI/Agere* (N.D. Cal.)

On June 29, 2012, Plaintiff Realtek commenced an action in the District Court for the Northern District of California (N.D. Cal. Case No. C-12-03451) asserting that Defendant's LSI/Agere breached their FRAND licensing obligations by initiating ITC investigation *Certain Audiovisual Components and Products Containing Same*, Inv. No. 337-TA-837 ("the 837 investigation") naming Realtek as a respondent and seeking an exclusion order to enjoin Realtek from infringing two SEP patents essential to the IEEE 802.11 standard. On May 20, 2013, District Court Judge Ronald M. Whyte issued an Order granting Plaintiff Realtek's motion for summary judgment that Defendants LSI and Agere breached their licensing obligation by failing to offer a license with respect to their asserted standard-essential patents on FRAND terms or otherwise *before* seeking an exclusion order in the pending ITC investigation. Judge Whyte further issued a preliminary injunction barring Defendants from enforcing, or seeking to enforce, any exclusion order with respect to the asserted patents pending a determination of the FRAND issues and Defendants' compliance therewith by the District Court and denied Defendants' motion to stay the District Court case pending the ITC investigation. Judge Whyte noted that there is no dispute that Defendants entered into a binding contract with IEEE to license their declared standard-essential patents and that the breach of contract holding is limited to "where defendants did not even attempt to offer a license, on 'RAND' terms or otherwise, until after seeking injunctive relief." He also found that the preliminary injunction serves the public interest by "mak[ing] clear that commitments to make patents available on reasonable terms matters." Finally, in denying Defendants' motion to stay, Judge Whyte emphasized that a District Court's decision on monetary relief, including a FRAND royalty, is different from the ITC's consideration of FRAND obligations "in the context of deciding whether" to issue an exclusion order.

On May 31, 2013, LSI/Agere filed a motion seeking certification for an interlocutory appeal to the Ninth Circuit to "review … the question of whether LSI's commitments to the IEEE created an unstated, inherent contractual provision precluding LSI from seeking injunctive relief." LSI/Agere's motion was denied on July 12, 2013.

In addition, on July 18, 2013, ALJ Shaw issued an Initial Determination in the 837 investigation finding that Realtek's products do not infringe LSI/Agere's asserted patents. Realtek filed a notice on July 27, 2013, seeking a status conference to discuss the impact of the ITC's ruling on the District Court action—ALJ Shaw's decision should render moot Judge Whyte's issuance of a preliminary injunction barring Defendants from enforcing, or seeking to enforce, any exclusion order with respect to the asserted patents pending a determination of the FRAND issues and Defendants' compliance therewith by the District Court. **[We are continuing to monitor further developments in this action]**

5. <u>Innovation IP Ventures Patent Litigation (N.D. Ill.)</u>

On July 26, 2013, Judge James F. Holderman of the United States District Court for the Northern District of Illinois issued the first of its kind Opinion that "addressed the question of whether asserted patent claims are standard-essential." *In re Innovation IP Ventures, LLC Patent Litigation,* 2013 WL 3874042, *27 n. 2 (N.D. Ill. 2013). Plaintiff and patent holder Innovation IP Ventures, LLC ("Innovation") initially sued numerous commercial users of wireless internet network technology that allegedly infringe its patents and was itself the subject of subsequent declaratory judgment actions filed by the manufacturers (Cisco, Motorola, SonicWALL, Netgear and HP) of devices used by the accused wireless internet network users to implement the technology. The cases were consolidated by the Judicial Panel on Multidistrict Litigation in the above-referenced case before Judge Holderman.

Innovation was subject to a FRAND commitment based on Letters of Assurance provided by Innovation's predecessors to license patents Innovation believes will read on devices operating under the 802.11 WLAN standard. The dispute concerned whether the entire asserted patents were subject to the FRAND commitment or whether only certain claims of each asserted patent were subject to the FRAND commitment, and how to identify those claims. The Court noted that the impact of the FRAND obligation is a damages question, and that the parties are entitled to a jury determination on that issue. However, both parties waived that right and agreed that the Court should decide all FRAND-related issues in summary proceedings and, if necessary, a bench trial. The Court expressed hope that addressing the impact of the FRAND obligation damages issue first may thus aid settlement of the dispute.

The Court held that, although the Letters of Assurance which promised to license patents gave some support that the entire patents are subject to the FRAND commitment, the specific claims of the asserted patents that cover standard-essential subject matter require identification because the bylaws of the SSO at issue, IEEE, included language that "plainly contemplate that some claims, but not others, in a particular patent may be standard-essential." *Id.* at *7. The Court ultimately defined what claims are standard essential and subject to the FRAND commitment as follows (*Id.* at *10):

> "In summary, the IEEE Bylaws' definition presents a two-part test. To prove that a patent claim is standard-essential, an accused infringer must establish by a preponderance of the evidence that (1) at the time of the standard's adoption, the only commercially and technically feasible way to implement a particular mandatory or optional portion of the normative clauses of the standard was to infringe the patent claim; FN5 and (2) the patent claim includes, at least in part, technology that is explicitly required by or expressly set forth in the standard (*i.e.*, that the patent claim does not recite only Enabling Technology)."

In a lengthy Opinion, the Court went on to analyze the parties' agreed technology categories and whether the patent claims require such technology and such technology is explicitly required by or expressly set forth in the standard. *Id.* at *13-26.

Notably, the Court also held that it was the accused infringer's burden by a preponderance of the evidence to establish what claims of the asserted patent are standard essential because the assertion of FRAND is "like an affirmative defense on which the Defendants bear the burden of proof … [and] limits their damages if they are found to infringe." *Id.* at *7. (**Note:** This is an interesting issue because arguably it should be the SEP holder who should have the burden to establish what claims are not subject to the FRAND commitment, since the SEP holder is the party who made the commitment in the first place and should have the burden to identify asserted patent claims that are not subject to that commitment.)

Another interesting issue is that the Court made it clear that the Letters of Assurance were binding contractual commitments made by Innovatio's predecessors to IEEE and they can be enforced by the Defendants as potential users of the 802.11 standard and third party beneficiaries of the agreement. The Court also seemed to imply that if the IEEE bylaws did not include the language contemplating that only some claims of a patent could be standard essential, then based on a Letter of Assurance with general language promising to license patents, the entire patents would be subject to the FRAND obligation. **[We are continuing to monitor this pending litigation]**

(D) Arbitration

The U.S. District Courts and ITC will also consider the rules of the particular SSO at issue. Some SSOs provide forum selection rules governing disputes over FRAND issues. *See Zoran Corp. v. DTS, Inc.*, 2009 WL 160238, at *1 (N.D. Cal. Jan. 20, 2009) (noting that the Blue-Ray Disc Association requires its members to arbitrate certain disputes concerning a member's compliance with its FRAND obligations); *see also, e.g.*, *VITA Standards Organization-Policies and Procedures* §10 (rev. 2.7 Nov. 27, 2011), available at www.vita.com/home/VSO/VSO.html (requiring that maximum royalties be disclosed and that parties agree to arbitration).

In circumstances where an SSO policy or an agreement between the parties includes a forum selection clause, *e.g.*, requiring that the dispute be resolved by binding arbitration, the U.S. District Court or ITC proceeding will be stayed or terminated, respectively, for FRAND determination in arbitration. *See* Federal Arbitration Act 9 U.S.C. §3 ("any issue referable to arbitration under an agreement in writing. . . shall on application of one of the parties stay the trial of the [federal district court] action. . . .); 19 U.S.C. §1337(c) (". . . the Commission may. . . on the basis of an agreement between the private parties to the investigation, including an agreement to present the matter for arbitration, terminate any such investigation. . ."); *see, e.g.*, *Wireless Communication Chips*, Inv. No. 337-TA-614 (investigation terminated in favor of arbitration). The same issues in dispute must be the subject of the arbitration clause, as the Federal Circuit recently remanded an ITC case terminated in favor of arbitration, noting "it's important that frivolous arguments of arbitrability cannot be used to derail ITC proceedings and prevent the ITC from satisfying its statutory obligation to provide timely relief." *InterDigital Communications LLC v. ITC*, Case No. 2012-1628.

(E) Summary of Case Law on Injunctive Relief for Infringement of FRAND-Encumbered SEPs

In view of the foregoing current state of the case law on injunctive relief for infringement of FRAND-encumbered SEPs, we prepared the attached Appendix which organizes the cases within the following categories: Scenario 1 (No offer by SEP holder, on FRAND terms or otherwise, before SEP holder seeks injunctive relief); Scenario 2 (Offer by SEP holder before seeking injunctive relief: a. offer unreasonable; b. initial good faith offer declined by potential licensee subject to preserving noninfringement, invalidity and unenforceability defenses through appeal; and c. refusal by potential licensee to pay what has been determined to be a FRAND royalty); Scenario 3 (right to seek injunctive relief prohibited by: a. express language in SSO Policy; or b. Forum Selection Clause (*i.e.*, Binding Arbitration)); and Scenario 4 (potential licensee outside the jurisdiction of the United States District Courts).

III. Steps An SEP Holder May Consider Before Seeking An Exclusionary Remedy In The ITC

Even though the President disapproved the Commission's determination to issue exclusionary relief in the 794 investigation based on a FRAND patent, the President's decision makes it clear that an exclusion order may still be an appropriate remedy in some circumstances, such as if a putative licensee refuses to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine FRAND terms. This Section of the Memorandum addresses the steps an SEP holder may consider before seeking an exclusionary remedy in the ITC.

The primary hurdles to overcome in order to obtain such a remedy are: (1) a potential affirmative defense based on breach of contract, estoppel, waiver, implied license, and/or unclean hands; and (2) the statutory public interest factors which may preclude such a remedy. The published version of the Commission's Opinion in the 794 investigation issued on July 5, 2013, as well as the President's decision (USTR August 3, 2013 Letter) disapproving the Commission's determination to issue an exclusionary remedy provide guidance with respect to the considerations that should be addressed concerning these two hurdles. Moreover, the Brief of OUII on Issues Under Review and on Remedy, the Public Interest, and Bonding dated December 3, 2012 (794 Investigation) provides some additional information discussed in more detail below.

Specifically, an SEP holder may consider the following six steps before seeking an exclusionary remedy in the ITC to assist in overcoming these two hurdles. The first three steps, summarized below, assess the scope of the SEP holder's FRAND commitment to investigate whether it has a basis for proceeding with a request for an exclusionary remedy in the ITC and also may assist in overcoming the first hurdle, *i.e.*, a potential affirmative defense based on breach of contract, estoppel, waiver, implied license and/or unclean hands, as well as a possible motion for early adjudication based on such defense:

> **Step 1:** Investigate SSO's Rules to evaluate whether SEP holder is subject to FRAND commitment, including the scope of that commitment, and whether its right to seek injunctive relief is limited;
>
> **Step 2:** Make a good faith initial license offer; and
>
> **Step 3:** Evaluate whether an exclusionary remedy is available based on the relevant factors set forth in the January 8, 2013 DOJ/USPTO Policy Statement, including that the potential licensee is unable to or refuses to take a FRAND license, or refuses to even negotiate for a FRAND license or is not subject to jurisdiction in a court that could award damages.

The next two steps are directed to the second hurdle, i.e., the statutory public interest factors, and preparing evidentiary support that such factors do not preclude issuance of an exclusion order (**Step 4**) as well as to address potential tailored exclusion order issues (**Step 5**). The President's decision underscored that the Commission should make "explicit findings" on the public interest issues, "including information on the standards-essential nature of the patent at issue if contested by the patent holder and the presence or absence of patent hold-up or reverse hold-up," and that USTR "will look for these elements in any future decisions involving FRAND-encumbered SEPs that are presented for policy review."

Finally, not to be overlooked, and consistent with the President's message to "develop a comprehensive factual record related to these issues in the proceedings before the ALJ," **Step 6** is directed to an SEP holder continuing its good faith efforts to negotiate during an investigation.

(A) Rebutting A Potential Affirmative Defense Based On Breach Of Contract, Estoppel, Waiver, Implied License And/Or Unclean Hands

Before filing a Complaint in the ITC seeking injunctive relief, an SEP holder should be prepared to rebut a potential affirmative defense based on breach of contract, estoppel, waiver, implied license and/or unclean hands.[5] This preparation can begin with an investigation of the SSO's rules to evaluate whether an SEP holder is subject to a FRAND commitment, the scope of that commitment (*i.e.*, whether entire patent(s) or certain claims are subject to such commitment), and whether its right to seek injunctive relief is limited. Barring no such limitation, an SEP holder that is subject to a FRAND commitment should make an initial good faith license offer before seeking injunctive relief. Of course, the relevant factors described in the January 8, 2013 DOJ/USPTO Policy Statement should also be evaluated to determine whether an exclusionary remedy is available.

[5] The ITC's new 100-Day ID Procedure, first implemented in the 874 investigation (to address the dispositive issue concerning the economic prong of the domestic industry) and further expanded to address other dispositive issues according to the launch of the ITC's "Pilot Program Will Test Early Disposition of Certain Section 337 Investigations" announced on June 24, 2013, could possibly be used to address the issue of a Complainant's breach of its FRAND commitment by failing to make an initial good faith license offer before seeking an ITC exclusion order. In the recent investigation Certain Electric Fireplaces, Inv. No. 337-TA-791/826, the Commission left open that a breach of contract could constitute an unfair act under Section 337. We further note that, although the Commission pointed out in its Opinion in the 794 investigation that ALJs have frequently denied motions for summary determination based on disputed facts regarding FRAND obligations (*see, e.g.*, *Certain Wireless Communications Equip., Articles Therein, and Products Containing Same*, Inv. No. 337-TA-577, Orders Nos. 21 and 23 (denying summary determinations as to affirmative defenses related to FRAND obligations); *Certain 3G Mobile Handsets*, Inv. No. 337-TA-613, Order No. 29 (same)), the President's disapproval of the Commission's decision in this investigation (August 3, 2013 USTR letter) may make this issue ripe for adjudication during a 100-Day ID Procedure since no offer would provide no opportunity for a putative licensee to refuse a FRAND license or engage in negotiation for a FRAND license; therefore, an exclusion order remedy may not be appropriate in such circumstances.

1. Evaluate SSO's Rules To Determine Whether An SEP Holder Is Subject To A FRAND Commitment, The Scope Of That Commitment And Whether Injunctive Relief Is Prohibited (Step 1)

A potential affirmative defense based on breach of contract, estoppel, waiver, implied license and/or unclean hands may be resolved based on the rules of the Standard Setting Organization. Some SSOs, including Bluetooth SIG, SD Card Association, WiFi Alliance, and WiMAX Forum, have adopted participation-based IPR policies. Under this type of IPR policy, simply joining the SSO, or a specific technical committee of the SSO, a participating company makes a general FRAND licensing commitment for all patents containing a claim that is in fact essential to the final standard. Such SSOs typically have IPR policies that include safeguards allowing participants to exclude certain essential claims by disclosing the patents containing those claims and declaring that the automatic commitment will not apply to them. Some participation-based IPR policies are FRAND-RF (royalty free, but with other FRAND terms), as is the case with the USB and W3C standards.

Other SSOs, in contrast, including the European Telecommunications Standards Institute (ETSI), take a different approach to these issues. ETSI is a private, not-for profit SSO that helps develop wireless telecommunications standards, including Universal Mobile Telecommunications System (UMTS) and Long Term Evolution (LTE), which are used in smartphones and other devices throughout the world. ETSI promulgates its IPR policies through several documents: the ETSI IPR Policy (which includes blank IPR Licensing Declarations forms), the ETSI Guide to IPRs, and the ETSI IPR Policy FAQ. *See* http://www.etsi.org/WebSite/AboutETSI/IPRsInETSI/IPRsinETSI.aspx.

Under the ETSI IPR Policy, an owner of IPR(s) that may be or may become essential to an ETSI standard is required to "timely inform ETSI of ESSENTIAL IPRs it becomes aware of." Clause 4.1 of ETSI IPR Policy. The owner is then requested to submit a declaration committing that, "to the extent that the IPR(s) are or become, and remain ESSENTIAL" with respect to a standard, the owner is "prepared to grant irrevocable licenses under its/their IPR(s) on terms and conditions which are in accordance with Clause 6.1 of the ETSI IPR Policy," namely FRAND terms and conditions. *ETSI IPR Policy* at 42-43. Clause 6.1 of the Policy states:

> When an ESSENTIAL IPR relating to a particular STANDARD is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an undertaking in writing that it is prepared to grant irrevocable licenses [*sic*[on fair, reasonable and non-discriminatory [*i.e.*, FRAND] terms.

The patent holder is further permitted to make the undertaking "subject to the condition that those who seek licenses agree to reciprocate." ESTSI IPR Policy at 42-43. Once such a declaration has been made, companies wishing to practice the standard may seek a license directly from the patent owner and enter into negotiations for such a license. *See, e.g., ETSI IPR Policy FAQ #6* ("It is necessary to obtain permission to use patents declared as essential to ETSI's STANDARDS."); *FAQ #7* ("To this end, the concerned firm has to enter into negotiation with the companies holding patents in order to obtain licenses for the use of the patented technology included in, and essential for the implementation of an ETSI STANDARD.")

ETSI was the SSO at issue in the 794 investigation. The Commission found (Op. at 93) that in December 1998, Samsung submitted a general declaration by ETSI that "if some of its technical proposals are incorporated into the UMTS, it would make that IPR available on FRAND terms." The Commission further found (Op. at 43-44) that on December 31, 2003, Samsung disclosed to ETSI the '348 patent application in a list of IPRs annexed to a declaration repeating that Samsung is prepared to grant licenses to the patent on FRAND terms:

> The SIGNATORY has notified ETSI that it is the proprietor of the IPRs listed in Annex 2 and has informed ETSI that it believes that the IPRs may be considered ESSENTIAL to the Standards listed above.
>
> The SIGNATORY and/or its AFFILIATES hereby declare that they are prepared to grant irrevocable licenses under the IPRs on terms and conditions which are in accordance with Clause 6.1 of the ETSI IPR Policy, in respect of the STANDARD, to the extent that the IPRs remain ESSENTIAL.
>
> The construction, validity and performance of the Declaration shall be governed by the laws of France.

As pointed out above, the language of the bylaws of the SSO should also be evaluated to determine whether the entire patent(s) or only certain claims of each patent are subject to the FRAND commitment. *See In re Innovation IP Ventures, LLC Patent Litigation*, 2013 WL 3874042, *7 (N.D. Ill. 2013) (IEEE bylaws included language that "plainly contemplate that some claims, but not others, in a particular patent may be standard-essential.")

The Commission next looked into (Op. at 47) whether ETSI's Policy prohibits patent owners from seeking injunctive relief and found that it does not:

> Apple's own witness testified that several attempts have been made to introduce language into the ETSI IPR Policy that would prohibit patent owners from seeking injunctive relief for standard-essential patents, but all such attempts have been unsuccessful. . . . Apple's own briefing admits the ETSI IPR Policy does not expressly forbid injunctions. . . . Public comments from Qualcomm also explain that ETSI members have consistently rejected attempts to curtail the ability of FRAND declarants to seek injunctive relief. In view of this record, we cannot accept Apple's argument that infringement of a declared-essential patent cannot be a violation of section 337.

Having not found that ETSI's Policy prohibits injunctive relief, the Commission then went on to criticize Apple for not identifying the basic elements for proving an affirmative defense based on breach of contract, estoppel, laches or fraud, including Apple's failure to apply the laws of France to determine Samsung's legal obligation as required by Samsung's FRAND declaration. Nevertheless, the Commission went on to assume Samsung had a legal obligation to undertake to license the '348 patent on FRAND terms and address whether Samsung satisfied that obligation by negotiating in good faith.

2. Barring No Such Limitation On Its Right To Seek Injunctive Relief, An SEP Holder Subject To A FRAND Commitment Should Make An *Initial* Good Faith License Offer Before Seeking Injunctive Relief (Step 2)

The Commission's Opinion in the 794 investigation provides some guidance on what constitutes an initial good faith license offer. The Commission held that an initial offer need not include a "specific fair and reasonable royalty rate" and "could encompass a range of reasonable terms," including an "offer to cross-license both parties' patents" (Op. at 60-63):

- "an initial offer need not be the terms of a final FRAND license because the SSO intends the final license to be accomplished through negotiation," *i.e.*, an initial offer need not include a "specific fair and reasonable royalty rate"
- "the evidence supports a conclusion that a portfolio cross-license offer is typical in the industry and reasonable"
- "an offer to cross-license both parties' patents may be consistent with a FRAND obligation"
- "A FRAND license could encompass a range of reasonable terms. . . may involve a balancing payment to Samsung. . . may involve Samsung making a balancing payment. Both types of agreements may be reasonable, depending on the two portfolios at issue and each party's respective volume of sales"

Commissioner Pinkert's Dissent also provides some noteworthy guidance such as that a FRAND offer should not require licenses to non-standard essential patents, which is neither fair nor non-discriminatory and raises the spector of price gouging.

3. Evaluate Relevant Factors Described In January 8, 2013 DOJ/USPTO Policy Statement For Determining Whether An Exclusionary Remedy Is Available (Step 3)

The President's decision makes it clear that an exclusion order may still be an appropriate remedy in some circumstances for FRAND-encumbered SEPs, citing to the January 8, 2013 DOJ/USPTO Policy Statement, which "explains that, to mitigate against patent hold-up, exclusionary relief from the Commission based on FRAND-encumbered SEPs should be available only on the relevant factors described in the Policy Statement." Those factors include, for example:

> if a putative licensee refuses to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine F/RAND terms, an exclusion order could be appropriate. Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder. An exclusion order also could be appropriate if a putative licensee is not subject to the jurisdiction of a court that could award damages.

The Policy Statement further advises that "[t]his list is not an exhaustive one. Rather, it identifies relevant factors when determining whether public interest considerations should prevent the issuance of an exclusion order based on infringement of a F/RAND-encumbered standards-essential patent or when shaping such a remedy."

Interestingly, in its Opinion in the 794 investigation, the Commission quoted (Op. at 62) Apple's submission to the Commission on April 10, 2013, which indicates that Apple has no intention of paying Samsung any royalties until after conclusion of litigation (Op. at 62):

> If the Commission were to determine that the '348 patent is valid, infringed, and enforceable – and it should not for all the reasons the ALJ found and Apple previously briefed – and if that judgment were affirmed on appeal, Apple would stand ready to pay FRAND royalties.

The Commission emphasized (Op. at 63) that Apple's position illustrates "the potential problem of so-called reverse patent hold-up":

> In reverse hold-up, an implementer utilizes declared-essential technology without compensation to the patent owner under the guise that the patent owner's offers to license were not fair or reasonable. The patent owner is therefore forced to defend its rights through expensive litigation. In the meantime, the patent owner is deprived of the exclusionary remedy that should normally flow when a party refuses to pay for the use of a patented invention.

However, the President still disapproved of the Commission's determination to award an exclusionary remedy. Perhaps further evidence should have been proffered supporting a "constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder."

OUII also submits that the rejection of a FRAND offer by an accused infringer will be a factor in the analysis but will generally not be determinative. A refusal by the accused infringer to pay any royalty may be an exception, in that it may be determinative. *See Apple*, 2012 WL 2376664 at *12 ("I don't see how, given FRAND, I would be justified from enjoining Apple from infringing the '898 *unless Apple refuses to pay a royalty that meets the FRAND requirement*") (emphasis added). Similarly, if a standard setting organization were to require a set royalty, for example, a refusal to pay that royalty might also be determinative. Most standard setting organizations, however, do not appear to have specific rules governing how FRAND royalties are calculated, or rules that govern the responsibilities of the parties with respect to the process. In such cases, OUII believes that it is reasonable to expect the parties to have negotiated concerning the proper amount of a FRAND royalty. According to OUII, it appears that ALJ Gildea applied essentially these principles in the 794 investigation when he determined as a factual matter that Samsung had not failed to offer licenses on FRAND terms (Final ID at 469-70) and the Commission came to the same result after analyzing the parties' negotiations mentioned above. Simply put, the key issue is not whether the first offer (or the first counter-offer) was rejected, but whether the patents were or would have been, depending on the course of the negotiations, available on FRAND terms. If this requirement is satisfied, then it is unlikely that a respondent will be able to prevail on a FRAND-based defense.

Notably, Judge Whyte in *Realtek v. LSI/Agere* clarified that a potential licensee is not refusing to accept a FRAND offer when the potential licensee preserves its patent infringement, invalidity and unenforceability defenses through appeal, stating: "there is no indication that Realtek is *not* willing to accept a RAND license. In fact, Realtek admits that it would accept a RAND license, as long as it may preserve its rights to appeal and to maintain its defenses at the ITC, the venue in which *defendants* elected to pursue their infringement claims. This court already determined that 'Realtek can simultaneously pursue a determination of the RAND royalty rate while denying infringement or asserting invalidity. . . .'" As mentioned above, the FTC's Decision and Order in Google/Motorola also expressly provides that "challenging the validity, value, Infringement or Essentiality of alleged infringing FRAND Patent does not constitute a statement that a Potential Licensee will not license such FRAND Patent."

4. <u>An SEP Holder Should Continue To Negotiate In Good Faith During Investigation (Step 6)</u>

In the 794 investigation, the Commission considered (Op. at 53-58) the parties' negotiations, including during the course of the investigation. The Commission instituted the investigation on July 27, 2011. Just prior to institution on July 25, 2011, Samsung sent Apple an offer to license all Samsung patents "that are essential to comply with past/current UMTS/WCDMA Standards. . . at a royalty of 2.4 percent for each relevant end product", including a license to the '348 patent and an indication of Samsung's preference for a negotiated cross-license agreement. The parties negotiations continued during the investigation, with the Commission emphasizing (Op. at 59) "the fact that representatives for both parties were able to reach a memorandum of understanding on February 7, 2013. . . indicates that Samsung is negotiating in good faith and. . . is playing in the same ballpark as Apple."

If it does become necessary for the Commission to determine whether an offer complies with a FRAND undertaking, OUII submits that the Commission should employ the same process that a District Court would use in deciding this issue. In this respect, the basic inquiry is whether the offer was "reasonable," and it is not unusual for a court to be called upon to determine a reasonable royalty. *See, e.g.*, *Microsoft Corp. v. Motorola, Inc.*, ___ F.Supp.2d ___, 2012 WL 5248439 at *4 (W.D. Wash. Oct. 22, 2012) ("[t]he court will first determine a RAND royalty rate (or RAND royalty range) at the November 13, 2012 trial"). OUII further submits that it will usually not be necessary to determine an exact royalty in order to decide whether an offer is reasonable—a reasonable royalty is a hypothetical construct, and the determination of what is "reasonable" will be upheld unless it is "so outrageously high or so outrageously low as to be unsupportable as an estimation of a reasonable royalty." *Energy Transportation Group, Inc. v. William Demant Holding A/S*, 697 F.3d 1342, 1356 (Fed. Cir. 2012), *quoting Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (*en banc*). Factors that can be used to make the determination of "reasonableness" are set out in *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970). *See, e.g.*, *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1317 (Fed. Cir. 2011) ("This court has sanctioned the use of the *Georgia-Pacific* factors to frame the reasonable royalty inquiry. Those factors properly tie the reasonable royalty calculation to the facts of the hypothetical negotiation at issue.").

In the 794 investigation, the Commission addressed (Op. at 63) the comments from the parties and the public concerning which factors in *Georgia-Pacific* "are most relevant to determining whether Samsung has offered to license the '348 patent to Apple on fair, reasonable, and non-discriminatory terms." The Commission summarized these comments in the Appendix to its Opinion finding that "no party or commentator urged the Commission to adopt the *Georgia-Pacific* factors *in toto* when analyzing a FRAND obligation." The Commission observed that (Op. at 63):

> our analysis. . . has some overlap with some of the *Georgia-Pacific* factors, particularly our examination of Samsung's other licenses, our discussion of Apple's offer to license its patent portfolio to Samsung, and our findings concerning the prevalence of portfolio cross-licensing in the mobile telephone industry. Beyond those observations, however, we find the issues in this investigation may be resolved without making dispositive pronouncements about the applicability of the *Georgia-Pacific* factors in determining compliance with a FRAND obligation.

(B) Establish Public Interest Factors Do Not Preclude Exclusion Order

The second hurdle to overcome in order to obtain injunctive relief based on FRAND-encumbered SEPs, is to establish that an exclusion order is not precluded by the statutory public interest factors (Section 337(d)(1), (e)(1), (f)(1), (g)(1)): the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers. The Commission's Opinion in the 794 investigation, Commissioner Pinkert's Dissent and the President's decision, respectively, provide some guidance regarding how to address the public interest factors when pursuing a Complaint for infringement of FRAND-encumbered SEPs in the ITC.

1. The Commission's Opinion In The 794 Investigation Holding That The Public Interest Factors Do Not Preclude An Exclusion Order

In its analysis of the public interest factors, the Commission narrowed its Opinion (at 108-09) to addressing only the devices actively being imported and sold by Apple: iPhone 4 (GSM model); and iPad 2 3G (GSM model). With respect to the first and third public interest factors, "(1) the public health and welfare" and "(3) the production of competitive articles in the U.S.", the Commission found (Op. at 109) that no party or public commentor raised evidence on these issues. Moreover, the Commission found that "[n]o competitive articles are now produced in the United States, and exclusionary relief in this investigation is not likely to change that fact."

With respect to the remaining two public interest factors, "(2) competitive conditions in the U.S. economy" and "(4) U.S. consumers," the Commission found (Op. at 109-110) that there is no dispute that a wide variety of smartphones and tablets, including products made by Apple, will still be available for U.S. consumers after the exclusion order is in effect. The Commission also found that there is no dispute as to the ability of Apple and its competitors to supply the consumer demand for the excluded products.

The Commission then addressed (Op. at 110-111) Apple's two arguments that alternatives would not be acceptable to consumers. First, Apple argued that the iPhone 4 served a "lowered price point" for consumers. But, the Commission found that other low price point smartphones are still available and Apple is free to adjust its prices of its noninfringing products to meet demand.

Second, Apple asserts that certain "apps" and right controlled content (*e.g.*, iTunes music) are not available on other devices. However, the Commission found that the most popular apps are available on other devices and a present user of an Apple device could transfer its apps and obtain the same right controlled content on other Apple devices in the future.

Finally, the Commission addressed (Op. at 111) that no carriers will be affected: all offer other Apple products; all offer other comparable products; and none submitted public interest statements indicating that they will be affected.

2. Tailoring The Remedy

Because all parties agreed that the exclusion order should have an exception for warranty service and repair to prevent harm to innocent parties, the Commission (Op. at 114) "determined to include a provision in the remedial orders that allows Apple to provide, for a period of two years, refurbished handsets as replacements for identical infringing handsets that were purchased prior to entry of an exclusion order."

The Commission also determined (Op. at 115) "that a certification provision will be the most appropriate way to address the issue of products containing Qualcomm chips, particularly because a visual inspection of an imported device by a Customs officer would not reveal the type of baseband processor the device contains," because there was no dispute that Apple's products that connect to a cellular network using a Qualcomm baseband processor should not be subject to the exclusion order.

Finally, Apple without objection from the IA, requested the Commission to delay the effective date of any remedial order by 5 months to allow carriers time to find alternatives to any excluded Apple product. Apple cited to the 710 investigation where carrier T-Mobile filed a brief advising of the harm unless an exclusion order is delayed by 4 to 6 months so that T-Mobile could test and switch to substitutes of HTC's excluded product and obtain FTC approval to do so. Because no affected carriers in the 794 investigation (AT&T, T-Mobile, GCI and CT Cube) provided comments to the Commission, the Commission declined (Op. at 116) to delay the exclusion order since there was no record of harm to carriers.

3. Commissioner Pinkert's Dissent Finding That The Public Interest Factors Should Preclude An Exclusion Order

In his Dissent (D1-8) to the Commission's public interest analysis, Commissioner Pinkert found that Samsung did not make a reasonable offer to Apple—Samsung's offer of a cross-license requiring licenses to non-FRAND-encumbered patents as a condition for licensing the '348 patent is neither fair nor non-discriminatory and raises the spector of price gouging. Commissioner Pinkert also found that the '348 patent covers a "relatively minor element of a complex multi-component device" and that denying access to apps in GSM which are uniquely available to Apple platforms will significantly increase switching costs to consumers.

For these reasons, Commissioner Pinkert found that remedial relief should have been precluded by the public interest factors, although he noted that "I have not adopted a blanket rule to the effect that relief under Section 337 is precluded under the public interest provisions whenever a FRAND obligation has been undertaken."

Similar to Commissioner Pinkert's finding in support of precluding an exclusion order, the then-acting head of the DOJ Antitrust Division Joseph Wayland made the specific suggestion that one set of circumstances in which an exclusion order might be deemed not in the public interest would be where "the value or importance of the infringed patent to the assembled good is dwarfed by the overall value of the assembled good or the patented aspect is not important to the operation of the good." Statement of Joseph Wayland, Acting Assistant Attorney General, Antitrust Division, before the Senate Committee on the Judiciary, Washington, D.C. , July 11, 2012, p. 10. (The FTC made a similar statement in its public interest statements, *supra*, to the ITC: "The resulting imbalance between the value of patented technology and the rewards for innovation may be especially acute where the exclusion order is based on a patent covering a small component of a complex multicomponent product.")

4. <u>The President's Disapproval Of The Exclusionary Remedy Based On Policy Reasons</u>

The President's decision (August 3, 3012 USTR Letter) in the 794 investigation disapproving the Commission's determination to issue an exclusionary remedy, mentions that "I strongly share" in the substantial concerns raised in the January 8, 2013 DOJ/USPTO Policy Statement concerning "hold-up." However, the President's decision notes that at the same time technology implementers can cause potential harm through "reverse hold-up." In requiring the Commission to "thoroughly and carefully" examine the public interest issues in FRAND-encumbered SEP investigations, the President specifically mentioned that a comprehensive record should be developed "on the standards-essential nature of the patent at issue if contested by the patent holder and the presence or absence of patent hold-up or reverse hold-up."

5. <u>Summary—Addressing The Public Interest Factors (Step 4) And Potential Tailored Exclusion Order Issues (Step 5)</u>

In view of the foregoing, an SEP holder should be prepared to address the public interest factors before filing a Complaint in the ITC. In advance of filing an ITC Complaint, the SEP holder may consider preparing evidentiary support that the statutory public interest factors do not preclude issuance of an exclusion order, including:

- Alternative competitive articles would still be available to meet the demand for the accused product and negate the impact, if any, on public health and welfare
- There will be no material cost or delay to consumers in supplying alternative competitive articles to meet demand
- Exclusion will have no material adverse impact on competitive conditions in the U.S. economy

- There was no U.S. production of the accused product or there will be no material adverse impact on such production

- There will be no material adverse impact on the production of like or directly competitive articles in the U.S.

- Addressing the standards-essential nature of the patent at issue if contested by the patent holder and the presence or absence of patent hold-up or reverse hold-up as per the August 3, 2013 USTR notice letter in the 794 investigation

- Addressing whether the patent at issue covers "a relatively minor element of a complex multi-component device" and denying access to excluded device will significantly increase switching costs to consumers as per Commissioner Pinkert's Dissent

The SEP holder may also consider preparing to address potential tailored exclusion order issues, such as:

- Repair and replacement of infringing products purchased by innocent parties prior to issuance of exclusion order

- Requests to delay entry of exclusion order based on, *inter alia*, accommodating based on carriers switching to alternatives; additional time needed to agree upon FRAND royalty, *etc.*

- Certification(s) to facilitate importation of noninfringing product(s)

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APPENDIX

Summary of Case Law on Injunctive Relief for Infringement of FRAND-Encumbered SEPs	
Scenario 1: No offer by SEP holder, on FRAND terms or otherwise, before SEP holder seeks injunctive relief	Breach of FRAND obligation; injunctive relief barred until FRAND obligation and compliance therewith determined by U.S. District Court/Arbitration. **U.S. District Courts:** Judge Whyte's decision in *Realtek Semiconductor Corp. v. LSI Corp. and Agere Systems LLC*, Case No. C-12-03451-RMW holding breach of FRAND obligation; issuing preliminary injunction barring LSI/Agere from enforcing any exclusion order or injunctive relief by ITC until court has determined FRAND obligation and compliance therewith; and denying stay pending parallel ITC proceeding. **ITC:** Although the issue regarding breach of FRAND obligation has not been addressed in a 100-Day ID Procedure, we note that in the recent investigation *Certain Electric Fireplaces*, Inv. Nos. 337-TA-791/826, the Commission left open that a breach of contract could constitute an unfair act under Section 337. We further note that, although the Commission pointed out in its Opinion in the 794 investigation that ALJs have frequently denied motions for summary determination based on disputed facts regarding FRAND obligations (*see*, *e.g.*, *Certain Wireless Communications Equip., Articles Therein, and Products Containing Same*, Inv. No. 337-TA-577, Orders Nos. 21 and 23 (denying summary determinations as to affirmative defenses related to FRAND obligations); *Certain 3G Mobile Handsets*, Inv. No. 337-TA-613, Order No. 29 (same)), the President's disapproval of the Commission's decision in this investigation (August 3, 2013 USTR letter) may make this issue ripe for adjudication during a 100-Day ID Procedure since no offer would provide no

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	opportunity for a putative licensee to refuse a FRAND license or engage in negotiation for a FRAND license; therefore, an exclusion order remedy may not be appropriate in such circumstances.
Scenario 2: Offer by SEP holder before seeking injunctive relief	
a. Offer unreasonable—**Note:** Whether an offer is "unreasonable" should take into account: (i) the President's disapproval of the Commission's decision in the 794 investigation (August 3, 2013 USTR letter) which references a "constructive refusal to negotiate a FRAND license" by insisting on terms clearly outside the bounds of what could reasonably be considered to be FRAND terms; (ii) the Commission's Opinion in the 794 investigation, where the Commission held that "an initial offer need not be the terms of a final FRAND license" nor include a "specific fair and reasonable royalty rate" and "could encompass a range of reasonable terms," including "an offer to cross-license both parties' patents;" and (iii) Commissioner Pinkert's Dissent in the 794 investigation which advises that a FRAND offer should not require licenses to non-standard essential patents.	Same as Scenario 1
b. Initial good faith offer declined by potential licensee subject to preserving noninfringement, invalidity and unenforceability defenses through appeal. *See Realtek v. LSI/Agere*, Case No. C-12-03451-RMW ("there is no indication that Realtek is *not* willing to accept a RAND license. In fact, Realtek admits that it would accept a RAND license, as long as it may preserve its rights to appeal and to maintain its defenses at the ITC, the venue in which *defendants* elected to pursue their infringement claims. This court already	U.S. District Courts and FTC support denial of injunctive relief. However, in the ITC, an exclusion order may still be appropriate, such as, for example, where a putative licensee engages in "reverse hold-up" by constructive refusal to negotiate a FRAND license with the SEP holder. **U.S. District Courts**: In *Microsoft v. Motorola*, the District Court denied injunctive relief to Motorola because, in light of its commitment to license on FRAND terms, "Motorola has not

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determined that “Realtek can simultaneously pursue a determination of the RAND royalty rate while denying infringement or asserting invalidity. . . .”)	shown it has suffered an irreparable injury or that remedies available at law are inadequate.” *Microsoft Corp. v. Motorola, Inc.*, 2012 WL 5993202, at *7-8 (W.D. Wash. Nov. 30, 2012); *see also Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913-14 (N.D. Ill. 2012) (Posner, J.) (“To begin with Motorola’s injunction claim, I don’t see how, given FRAND, I would be justified in enjoining Apple from infringing the [designated standard-essential patent] unless Apple refuses to pay a royalty that meets the FRAND requirement.”) In *Microsoft v. Motorola*, the District Court went on to determine a FRAND royalty. **ITC:** The President’s decision disapproving the Commission’s determination to issue an exclusionary remedy in the 794 investigation (August 3, 2013 USTR letter) references a putative licensee’s engaging in “reverse hold-up” by constructive refusal to negotiate a FRAND license with the SEP holder, “such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade a putative licensee’s obligation to fairly compensate the patent holder,” as an example of where an exclusion order may be appropriate. Unlike the FTC’s final Decision and Order in Google/Motorola referenced below, the President’s disapproval letter in the 794 investigation does not include language that challenging the patent’s validity, enforceability and infringement does not constitute a refusal to license on FRAND terms. **FTC:** FTC’s July 23, 2013 final Decision and Order in *In re Motorola Mobility LLC and Google Inc.* states that “challenging the validity, value, Infringement or Essentiality of an alleged infringing FRAND Patent does not constitute a statement that a Potential Licensee will not license

Summary of Case Law on Injunctive Relief for Infringement of FRAND-Encumbered SEPs	
	such FRAND Patent." Therefore, Covered Injunctive Relief is prohibited in such circumstances.
c. Potential Licensee refuses to pay what has been determined to be a FRAND royalty	Injunctive relief may be warranted in U.S. District Courts, ITC and FTC. **U.S. District Courts:** "[A]n injunction may be warranted where an accused infringer of a standard-essential patent outright *refuses* to accept a RAND license." *Realtek v. LSI/Agere*, Case No. C-12-03451-RMW, *citing*, *Apple v. Motorola*, 869 F. Supp. 2d at 913-14; DOJ Joint Policy Statement at 7; ("[I]f a potential licensee refuses to pay what has been determined to be a F/RAND royalty, or refuses to engage in a negotiation to determine F/RAND terms, an exclusion order would be appropriate.") **ITC**: The President's disapproval of the Commission's decision in this investigation (August 3, 2013 USTR letter) cites the January 8, 2013 Policy Statement of the DOJ and USPTO that "licensee refuses to pay what has been determined to be a FRAND royalty" as an example where an exclusion may still be an appropriate remedy. **FTC:** FTC's July 23, 2012 final Decision and Order permits Google/Motorola to seek Covered Injunctive Relief where, *inter alia*, a potential licensee: "(3) "refuses to enter a License Agreement covering the FRAND Patent on terms that have been set in the Final Ruling of a Court or through Binding Arbitration. . . ."
Scenario 3: Right to seek injunctive relief prohibited by: **a.** express language in SSO Policy; or **b.** Forum Selection Clause (*i.e.*, Binding Arbitration)	**a.** No injunctive relief in the U.S. District Courts and the ITC. *See Apple v* Motorola, Civil Action No. 11-cv-178-bbc (W.D. Wisc. Oct. 29, 2012) (contract at issue was "not clear" as to whether it prohibited injunctive relief); 794 investigation

Summary of Case Law on Injunctive Relief for Infringement of FRAND-Encumbered SEPs	
	(Commission focused on whether ETSI IPR Policy included language "that would prohibit patent owners from seeking injunctive relief," but found several attempts to include such language had been unsuccessful). **b.** Both U.S. District Court and ITC proceedings will be stayed or terminated, respectively, for FRAND determination in arbitration. **<u>U.S. District Courts</u>:** Stay under Federal Arbitration Act 9 U.S.C. §3 ("any issue referable to arbitration under an agreement in writing. . . shall on application of one of the parties stay the trial of the action. . . . .") **<u>ITC</u>:** Stay under Section 337(c) (". . . the Commission may. . . on the basis of an agreement between the private parties to the investigation, including an agreement to present the matter for arbitration, terminate any such investigation. . ."); *see, e.g.*, Wireless Communication Chips, Inv. No. 337-TA-614 (investigation terminated in favor of arbitration).
<u>Scenario 4</u>: Potential Licensee outside the jurisdiction of the United States District Courts	Injunctive relief may be warranted **<u>ITC</u>:** The President's disapproval of the Commission's decision in this investigation (August 3, 2013 USTR letter) cites the January 8, 2013 Policy Statement of the DOJ and USPTO that "[a] exclusion order also could be appropriate if a putative licensee is not subject to the jurisdiction of a court that could award damages." **<u>FTC</u>**: FTC's July 23, 2012 Decision and Order permits Google/Motorola to seek Covered Injunctive Relief where, *inter alia*, a potential licensee: "1. is outside the jurisdiction of the United States District Courts; a Potential Licensee shall be considered within the jurisdiction of the United States District Courts if the Potential

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	Licensee itself or any parent or other entity with control over such Potential Licensee is within the jurisdiction of the United States District Courts. . . .”