

***PUBLIC VERSION***

**UNITED STATES INTERNATIONAL TRADE COMMISSION  
Washington, DC**

**Before the Honorable E. James Gildea  
Administrative Law Judge**

**In the Matter of**

**CERTAIN ELECTRONIC DEVICES,  
INCLUDING WIRELESS  
COMMUNICATION DEVICES, PORTABLE  
MUSIC AND DATA PROCESSING  
DEVICES, AND TABLET COMPUTERS**

**Investigation No. 337-TA-794**

**BRIEF OF THE OFFICE OF UNFAIR IMPORT INVESTIGATIONS ON ISSUES  
UNDER REVIEW AND ON REMEDY, THE PUBLIC INTEREST, AND BONDING**

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## I. INTRODUCTION

Pursuant to the Commission's Notice of November 19, 2012, the Office of Unfair Import Investigations ("OUII") respectfully submits this Brief on the Issues Under Review and on Remedy, the Public Interest, and Bonding. *See Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794, Notice of Comm'n Det. to Review Final Initial Det. (Nov. 19, 2012), 77 Fed. Reg. 70,464 (Nov. 26, 2012) ("Comm'n Notice"). In this investigation, Complainants Samsung Electronics Co., Ltd. and Samsung Telecommunications America, LLC ("Samsung") have accused Respondent Apple, Inc. ("Apple") of violating Section 337 by selling for importation into the United States, importing, or selling in the United States after importation, certain electronic devices that infringe one or more asserted claims of the following patents: United States Patent Nos. 7,706,348 ("the '348 Patent"), 7,486,644 ("the '644 Patent"), 6,771,980 ("the '980 Patent"), and 7,450,114 ("the '114 Patent").

The Initial Determination found no violation of Section 337 of the Tariff Act of 1930. Initial Det. on Violation of Section 337 & Recommended Det. on Remedy & Bond at 609-10 (Sept. 14, 2012) ("Final ID"). Specifically, the Administrative Law Judge ("Judge") found that the Apple accused products do not infringe any asserted claim of any of the four patents at issue, and that a domestic industry does not exist with respect to any of the four asserted patents. *Id.* at 606-09. The Judge further found that the '114 patent was invalid as anticipated under 35 U.S.C. § 102 and for obviousness under 35 U.S.C. § 103, but that the remaining three asserted patents were not invalid. *Id.* at 607-08.

The Commission's Notice indicates that the Commission has determined to review the Judge's determination of no violation in its entirety. The Notice included four questions directed to "the parties to the investigation, interested government agencies, OUII, and any other

interested parties[,]” and an additional nine questions directed solely to the parties to the investigation. Comm’n Notice at 3. OUII hereby responds to the Commission’s thirteen questions, and submits its views on the issues of remedy, the public interest, and bonding.

## **II. STANDARD OF REVIEW**

The Commission reviews the issues identified in its notice of review under a *de novo* standard. See *Certain Polyethylene Terephthalate Yarn & Products Containing Same*, Inv. No. 337-TA-457, Comm’n Op. at 9, USITC Pub. 3550 (Oct. 2002). Commission practice in this respect is consistent with the Administrative Procedure Act: “The Commission is not an appellate court, but is the body responsible for making the final agency decision. On appeal, only the Commission’s final decision is at issue.” *Certain Bearings & Packaging Thereof*, Inv. No. 337-TA-469, Comm’n Op. at 6, USITC Pub. 3736 (Dec. 2004). Upon review, “the Commission may affirm, reverse, modify, set aside or remand for further proceedings, in whole or in part, the initial determination of the administrative law judge. The Commission may also make any findings or conclusions that in its judgment are proper based on the record in the proceeding.” 19 C.F.R. § 210.45(c).

## **III. RESPONSES TO QUESTIONS POSED BY THE COMMISSION**

- 1. Does the mere existence of a FRAND undertaking with respect to a particular patent preclude issuance of an exclusion order based on infringement of that patent? Please discuss theories in law, equity, and the public interest, and identify which (if any) of the 337(d)(1) public interest factors preclude issuance of such an order.**

OUII respectfully submits that the mere existence of an undertaking to license a patent on fair, reasonable and non-discriminatory (“FRAND”) terms does not by itself preclude issuance of an exclusion order. Instead, the question of whether an exclusion order is appropriate must be decided based on the facts of each individual investigation. The record in this investigation, for example, shows that the asserted patents are not actually “essential” to the industry standard, thus

removing one of the primary arguments against issuing relief (*i.e.*, the argument that issuing an injunction or exclusion order would permit “patent hold-up”). Moreover, a blanket prohibition on exclusion orders would effectively vitiate one of the fundamental objectives of Section 337 – in many instances, it would leave domestic industries without any remedy against foreign importers of infringing products. Finally, OUII notes that the statutory public interest factors deal with the potential adverse effect of excluding the products in question. The mere existence of a FRAND undertaking is largely irrelevant to this issue. OUII therefore believes that there should be no general rule barring exclusion orders in investigations concerning a FRAND patent.

First, this investigation demonstrates why the question of whether a FRAND commitment bars relief at the Commission must be determined on an investigation-by-investigation basis. One of the primary policy arguments made against exclusion orders in the case of FRAND patents is the possibility of “patent hold-up,” *i.e.*, that the patentee may use the fact that an entire industry is “locked in” to a standard to extract supra-competitive royalties for patents essential to that standard. *See, e.g.*, Third Party United States Federal Trade Commission’s Statement on the Public Interest, Inv. No. 337-TA-745, EDIS Doc. ID 482234 (June 6, 2012) (“FTC 745 Comments”). Indeed, Apple repeated this argument in its initial public interest submission in this investigation. *See* Respondent Apple Inc.’s Submission Pursuant to the Commission’s Request for Statements on the Public Interest, EDIS Doc. ID 495139 at 3-4 (Oct. 22, 2012) (“Apple PI Submission”). Here, however, the evidence shows that the claims of the ’348 and ’644 patents asserted in this investigation, and as to which Samsung is seeking an exclusion order, are not actually essential to the practice of the industry standards at issue. Under the proper claim construction, neither of the parties practices the asserted claims of the ’644 patent. Final ID at 86-111, 557-58. Moreover, OUII submits that while, under the proper claim

construction, the accused products and some of the domestic industry products practice at least claims 82-84 of the '348 patent, *see* OUII Pet. for Review at 8-9, 11-13 (Oct. 1, 2012), other domestic industry products do not.<sup>1</sup> Thus, there is no risk of “patent hold-up” – the patent holder cannot extort supra-competitive royalties because the alleged infringer does not need to practice the patents in order to comply with the industry standard. In other words, one of the main “public interest” arguments against exclusion orders for standard essential patents is inapplicable to this investigation because the asserted claims, regardless of whether they are subject to a FRAND commitment, are not actually standard essential.<sup>2</sup>

More generally, OUII also submits that a rule barring an exclusion order in any investigation involving a patent allegedly subject to a FRAND commitment would be contrary to the text and purposes of Section 337. As the Commission explained many years ago, “Congress enacted section 337 because in many instances foreign individuals or firms committed unfair acts to the detriment of an American industry are beyond the *in personam* reach of the U.S. courts and not amenable to a suit for money damages or injunctive relief.” *Certain Steel Rod Treating Apparatus and Components Thereof*, Inv. No. 337-TA-97, USITC Pub. No. 1210, Comm’n Action and Order app. B at 7 (Jan. 1982). Although the present investigation involves two large multinational corporations, other Commission investigations have involved smaller foreign companies based in countries with weak intellectual property regimes and having no presence in the United States. In these situations, a domestic company would have no way to collect a

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<sup>1</sup> The evidence shows that the domestic industry products using Qualcomm processors [ ], not the 10-bit TCFI input required by the asserted claims. Hearing Tr. at 1254:23-1257:15 (Min); JXM-1 at 46:44-45 ('348 patent). *See* responses to Questions 3 and 8 below.

<sup>2</sup> OUII is of the view that there has potentially been a violation of Section 337 only with respect to the '348 patent.

FRAND royalty or a damages award. Section 337 provides the only effective remedy against infringement by such foreign companies. A rule barring exclusion orders in all situations involving FRAND patents would thus, in many instances, leave domestic industries without any protection against infringement of their most important patents.

In addition, as the Judge noted in the Final ID, many of the arguments against issuing an injunction in a District Court case involving FRAND patents are simply inapplicable to Commission investigations. Final ID at 460-62. For example, Judge Posner, in his recent decision in *Apple, Inc. v. Motorola, Inc.*, reasoned that by giving a FRAND commitment, a company is acknowledging that damages would be an adequate remedy for infringement. See *Apple, Inc. v. Motorola, Inc.*, \_\_\_ F. Supp.2d \_\_\_, 2012 WL 2376664 at \*12 (N.D. Ill. June 22, 2012). However, Section 337 provides that unfair acts in the import trade “shall be dealt with, *in addition to any other provision of law*, as provided in this section.” 19 U.S.C. § 1337(a)(1) (emphasis added). Indeed, Section 337 “represents a legislative determination that there is an inadequate remedy at law for infringement by importation.” *Certain Baseband Processor Chips and Chipsets*, Inv. No. 337-TA-543, Comm’n Op. at 63 n.230 (June 12, 2007) (public version June 19, 2007). In other words, an exclusion order is a remedy available in addition to, not instead of, an award of damages in U.S. District Court.

With respect to the final part of the Commission’s question, OUII submits that the statutory public interest factors do not, in and of themselves, bar issuance of an exclusion order in investigations involving FRAND patents. The public interest factors of Section 337 relate to whether the issuance of an exclusion order or cease and desist order will harm 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. 19 U.S.C.

§§ 1337(d)(1), (e)(1), (f)(1). In other words, whether the public interest bars an exclusion order depends largely on the industry involved and on what products are potentially being excluded. Whether a FRAND commitment bars an exclusion order, on the other hand, depends largely on issues such as the rules of the standard setting organization, the scope of the FRAND commitment, and the relationship between the private parties. The two may overlap in some situations, such as when a complainant's breach of its FRAND obligations leads to price gouging or monopolization. *See* S. Rep. 92-1298 (1974) *reprinted in* 1974 U.S.C.C.A.N. 7186, 7730 (1974). In general, however, the existence and breach of FRAND obligations relate to various potential affirmative defenses, not to the statutory public interest factors.

**2. Where a patent owner has offered to license a patent to an accused infringer, what framework should be used for determining whether the offer complies with a FRAND undertaking? How would a rejection of the offer by an accused infringer influence the analysis, if at all?**

OUII respectfully submits that although there is not necessarily a single framework that should be used in all investigations, there are certain general principles that should be considered in determining whether a company has complied with a FRAND undertaking. First, the Commission should consider the burden of proof. Second, the Commission should consider the specific rules of the standard setting organization at issue. Third, the Commission should consider the elements of the specific affirmative defense being asserted. And fourth, to the extent that it is necessary, the Commission should determine whether an offer complies with a FRAND undertaking by using the same process that courts use when confronted with this question. The fact that an accused infringer has rejected an offer is part of the analysis, but will usually not be determinative.

The Commission should first consider the burden of proof. As a general rule, an allegation that a complainant has breached its FRAND obligations constitutes an “avoidance”

(i.e., even if the complainant proves the elements of a Section 337 violation, the respondent alleges that no violation should be found and/or no relief should issue) and is thus an affirmative defense. *See generally* 2 James Wm. Moore et al., *Moore's Federal Practice* §§ 8.08[1], 8.08[5] (3d ed. 2011) (discussing affirmative defenses generally); Fed. R. Civ. P. 8(c). Indeed, Apple pleaded “unenforceability” and “license” as affirmative defenses in this investigation based on Samsung’s purported FRAND obligations. *See* Resp. Apple’s Resp. to Compl. at 36-37 (Aug. 17, 2011) (EDIS Doc. ID 457245) (3rd and 4th Affirmative Defenses). As with affirmative defenses generally, Apple therefore bears the burden of proof (e.g., that the patents are subject to a FRAND obligation, that Complainant has breached this obligation, etc.). *Stockton East Water District v. United States*, 583 F.3d 1344, 1360 (Fed. Cir. 2009) (“The proponent of the affirmative defense must prove all elements of the defense.”); *see also, e.g., Federal Trade Comm’n v. National Business Consultants, Inc.*, 376 F.3d 317, 322 (5th Cir. 2004) (“An affirmative defense places the burden of proof on the party pleading it.”).

The Commission should also consider the rules of the particular standard setting organization at issue. An obligation to license patents on FRAND terms is not imposed by the government; rather, it is part of a contract entered into by private parties. *See, e.g., Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp.2d 993, 999 (W.D. Wash. 2012). Some standard setting organizations provide 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](http://www.vita.com/home/VSO/VSO.html) (requiring that maximum royalties be disclosed and that parties agree to arbitration). Other

standard setting organizations do not. For example, the standard setting organization at issue here, ETSI, has apparently rejected FRAND policies of the sort advocated by Apple, such as a rule that a FRAND declaration would constitute an automatic license. *See generally* Roger G. Brooks & Damien Geradin, *Interpreting and Enforcing the Voluntary FRAND Commitment*, 9 Int'l J. IT Standards & Standardization, vol. 1, at 1-23 (2011), *available at* [papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1645878](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1645878). In addition, Apple now concedes that the ETSI rules do not expressly obligate the parties to seek damages, rather than an injunction, in cases involving alleged breaches of FRAND obligations.<sup>3</sup> Apple PI Submission at 2.

Next, the Commission should consider the specific defense being asserted by the alleged infringer. As discussed above, the argument that there is a *per se* bar against exclusion orders in cases involving FRAND patents is incorrect, and if that is the only basis for the defense, the Commission need go no further in its analysis. However, if the Respondent asserts a cognizable defense, such as equitable estoppel, implied license or waiver, the Commission should consider whether it needs to determine if an offer is reasonable in order to adjudicate the defense. For example, a defense based on license can presumably be resolved based on the rules of the standard setting organization. Similarly, a party's failure to negotiate in good faith (if the contract requires it) may in some cases trigger a defense based on waiver or equitable estoppel without the need to determine what a reasonable royalty would be. *See, e.g., Certain Dynamic Random Access Memories, Components Thereof and Products Containing Same*, Inv. No. 337-TA-242, 1987 ITC LEXIS 95, Initial Det. at 706-35 (May 21, 1987) ("*DRAMs*").

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<sup>3</sup> Indeed, it appears from the public interest submissions in prior investigations that ETSI at one point had or was considering an express policy prohibiting injunctions, and that this rule was withdrawn. *See* Inv. No. 337-TA-745, EDIS Doc. ID 485887, Compl. Motorola Mobility LLC's Opening Br. on Comm'n Review ex. 4 at 7545613-614 (1993 policy containing express ban on injunctions with respect to essential IPR), ex. 5 (current ETSI rules) (Jul. 9, 2012).

Finally, 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”). Moreover, 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.”).

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. (*See* FTC 745 Comments at 4 (proposing that the Commission delay implementation of an exclusion orders on essential patents until the parties negotiate in good faith concerning royalties)). Indeed, it appears that the Judge applied essentially these principles in this investigation when he determined as a factual matter that Samsung had not failed to offer licenses on FRAND terms. Final ID at 469-70. 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.

**3. Would there be substantial cost or delay to design around the technology covered by the '348 and '644 patents asserted in this investigation? Could such a design-around still comply with the relevant ETSI standard?**

OUII is of the view that there would not be a substantial cost or delay to design around the technology covered by the '348 and '644 patents, because noninfringing products that comply with the relevant ETSI standards already exist in the marketplace. These noninfringing products demonstrate that the technology to produce an ETSI-compliant “design-around” has already been developed. Specifically, Samsung domestic industry products that use Qualcomm baseband processors [ ], but do not practice either the '348 or the '644 patent.

Each asserted domestic industry product uses one of three types of baseband processors. Some, such as the Galaxy S 4G, use [ ] baseband processors. Hearing Tr. at 595:24-598:1 (Min); *see* CX-836C at 6 (Gravity Smart [ ]). Others, such as the Gravity Smart and the Impression Full Qwerty Touch, run on either [ ]. Hearing Tr. at 595:24-598:1 (Min); *see* CX-832C at 2 (Impression Full QWERTY Touch [ ] Baseband Block Diagram); CX-836C at 6 (Gravity Smart [ ]). The relevant source code [ ] for both of the Qualcomm processors. Hearing Tr. at 599:12-601:10 (Min). Regardless of which processor is used, it is undisputed that every asserted domestic industry product is a UMTS device that is compliant with ETSI standard 3GPP TS 25.212 rel. 99 or later, and that all are capable of operating on a CDMA-based telecommunications network. *See, e.g.*, Hearing Tr. at 602:18-603:15 (Min).

Despite the fact that Samsung products using the [ ] processors comply with the relevant ETSI standard, the Judge correctly found that such products do not infringe the asserted claims of either the '348 or the '644 patent. They do not infringe the asserted claims of the '348 patent because they do not contain a controller [ ] as each of the asserted independent claims require. Final ID at 547. They do not infringe the asserted claims of the '644 patent because [ ] to decode control information received from a base station. *See* Hearing Tr. at 1127:20-1128:14 (Min).

With regard to the '348 patent, Samsung has asserted two independent claims: claims 75 and 82. Claim 75 of the '348 patent calls for “a controller for outputting a 30 bit codeword from among a plurality of 30 bit codewords that corresponds to a 10 bit TFCI information input to the

controller from a plurality of possible 10 bit TFCI information[.]” JXM-1 at 45:51-61. Claim 82 similarly calls for “a controller for outputting a 32 bit codeword from among a plurality of 32 bit codewords that corresponds to a 10 bit TFCI information input to the controller from a plurality of possible 10 bit TFCI information[.]” *Id.* at 46:40-52. [

]⁴ Hearing Tr. at 1254:23-1257:15 (Min)

[ ]; *see id.*  
at 1244:19-1245:14 (Min) (TS 25.212 standard calls for padding if TFCI information is less than ten bits). Thus, while the Qualcomm-based domestic industry products have [ ], the Judge held that these products do not practice either claim 75 or claim 82 of the ’348 patent [ ].  
Final ID at 547.

With regard to the ’644 patent, Samsung contends that its Gravity Smart and Dart smartphones, which use the Qualcomm MSM7227-0 processor, practice claim 9 of the ’644 patent. Hearing Tr. at 694:12-695:1 (Min). The Judge correctly found that in all relevant respects, the processor is identical [

]. Final ID at 558; *see* Hearing Tr. at 2311:17-25 (Stark). The Judge correctly held that neither the accused products nor the asserted Samsung domestic industry products are

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⁴ [

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covered by claim 9 of the '644 patent because the '644 patent [

].<sup>5</sup> Final ID at 84-

137, 558; *see* Hearing Tr. at 1127:20-1128:18 (Min).

The record demonstrates, therefore, that at least the asserted Samsung domestic industry products that run on Qualcomm processors are already capable of operating in compliance with the relevant ETSI standard without infringing the '348 and '644 patents. Because the technology has already been developed, OUII submits that there would not be a substantial cost or delay in continuing to provide such products to the U.S. market.

**4. What portion of the accused devices is allegedly covered by the asserted claims of each of the '348 and '644 patents? Do the patents cover relatively minor features of the accused devices?**

As a preliminary matter, OUII notes that no portion of an accused device is covered by asserted claims if the device is found not to infringe those claims. In this investigation, the Final ID concluded that none of the accused products infringe the '348 patent, a determination that OUII has challenged. Final ID at 75; *see* OUII Pet. for Review at 4-9 (Oct. 1, 2012). The Final ID also held that none of the accused products infringe the '644 patent, a conclusion with which OUII concurs. *Id.* at 84-137. If the Commission upholds these determinations, then no part of the accused devices will be covered by the '348 and '644 patents.

If the Commission reverses the Judge's noninfringement determination with regard to either the '348 or the '644 patent, then OUII submits that the asserted claims in both patents are directed to an important feature of the accused devices: the ability to connect with and exchange information with a CDMA-based telecommunications network. Without that capability, the

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<sup>5</sup> [

products cannot accomplish their main purpose: to exchange voice and data information with others. The claims of the '348 and '644 patents cover operations performed by the baseband processor, the component that allows the accused device to communicate with the cellular network. [

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Hearing Tr. at 960:22-961:2, 969:12-971:13 (Blevins); RX-1236C to RX-1237C [

]. OUII submits, however, that the ability to make telephone calls and receive data over a cellular network cannot be considered a “minor feature” of the accused mobile communications devices, regardless of the price of the hardware involved. On the contrary, the baseband processor and associated software perform the core functions of the accused devices.

**5. What evidence in the record explains the legal significance of Samsung’s FRAND undertakings under French law?**

ETSI’s IPR Policy specifically states that “[t]he POLICY shall be governed by the laws of France.” CX-908 at 5 (ETSI IPR Policy (Nov. 1997)). No party entered evidence into the record that would explain how the laws of France govern the interpretation of ETSI’s IPR policies, with one exception. In its Posthearing Brief, Apple cited two European cases for the proposition that “once given, an ‘irrevocable’ commitment to license on FRAND terms cannot be revoked.” Apple Posthearing Br. at 146 (citing Samsung Electronics Co./Apple Inc., District Court of The Hague ¶¶ 4.15-4.20, Mar. 14, 2012; Tribunal de Grande Instance, Paris, RG No. 11/58301, Dec. 8, 2011 at 16, attached as Exhibits B and C to Apple’s Posthearing Brief).

The record does contain evidence of ETSI’s IPR policies themselves. RX-713 (ETSI Guide on Intellectual Property Rights (Nov. 27, 2008)); CX-908 (ETSI IPR Policy (Nov. 1997)). The ETSI IPR Policy states that “[m]embers are encouraged to make general IPR undertakings/

licensing declarations that they will make licenses available for all their IPRs under FRAND terms and conditions related to a specific standardization area and then, as soon as feasible, provide (or refine) detailed disclosures.” RX-713 § 2.1.1. Nevertheless, “[s]pecific licensing terms and negotiations are commercial issues between the companies and shall not be addressed within ETSI.” *Id.* § 4.1. The document further states that “ETSI Members should attempt to resolve any dispute related to the application of the IPR Policy bilaterally in a friendly manner. Should this fail, the Members concerned are invited to inform the ETSI [General Assembly] in case a friendly mediation can be offered by other ETSI Members and/or the ETSI Secretariat.” *Id.* § 4.3. It notes, however, that “once an IPR (patent) has been granted, in the absence of an agreement between the parties involved, the national courts of law have the sole authority to resolve IPR disputes.” *Id.*

6. [

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In OUII’s view, there is no *per se* rule that the mere act of making a licensing offer is sufficient to satisfy any obligations arising from a FRAND undertaking. To satisfy a FRAND obligation to offer a license, if the relevant standard-setting organization imposes such an obligation on its members, the licensing offer must at least be made in good faith. A failure to negotiate in good faith may lead to the conclusion that no actual offer to license took place. For example, in *DRAMs*, Inv. No. 337-TA-242, the complainant’s contractual obligations required a good faith effort to license the asserted patent before the complainant could seek relief at the Commission. The administrative law judge found that the complainant was estopped from asserting the patent-in-suit (and thus not entitled to an exclusion order), but only after first

concluding that the complainant had failed to negotiate, in good faith, a renewal of a cross-license agreement with the respondent.<sup>6</sup> *DRAMs*, 1987 ITC LEXIS 95 at \*27-28.

In *Certain Wireless Communication Equipment*, Inv. No. 337-TA-577, respondents argued that they were entitled to summary determination based upon the Initial Determination in *DRAMS*. *Certain Wireless Communication Equipment*, Inv. No. 337-TA-577, Order No. 21 at 9 (Apr. 13, 2007). Respondents sought a summary determination on their contract-based affirmative defense, arguing that ETSI's IPR Policy imposed an obligation on ETSI members to offer an irrevocable FRAND license to declared essential patents, and that complainant Samsung failed to meet that obligation when it conditioned its license offer on demands for a cross-license. *Id.* at 7-8. The administrative law judge rejected Respondent's argument that the issue could be settled as a matter of law, holding that "the material issue as to whether Samsung has complied with its contractual obligation must be resolved before such application of *DRAMS* can be made." *Id.* at 10. In other words, the mere existence of an offer was not sufficient to establish whether Samsung had met its FRAND obligations as a matter of law; it was necessary to consider the particular terms of the offer in order to determine whether the offer satisfied Samsung's FRAND obligations.

In this investigation, it is undisputed that Samsung made an offer to license the asserted patents to Apple. *See* CX-1589C (Letter re Apple's Request for Patent License from C. Kim to B. Teksler (Jul. 25, 2011)). The offered royalty rate was 2.4 percent of the full price of each Apple device, in exchange for a license to Samsung's entire portfolio of patents that had been

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<sup>6</sup> *See* *DRAMs*, 1987 ITC LEXIS 95 at \*26 ("Under the terms of the TI-Hitachi license agreement, TI had an obligation to negotiate in good faith after the license expired. TI failed to negotiate in good faith. Since the license agreement covered all TI DRAM patents, the failure to negotiate results in an implied license of all TI DRAM patents, even those issued after the date on which the license expired."), and at \*36 ("It is found that TI is estopped in equity from suing Hitachi for infringement.").

declared essential to the UMTS telecommunications standard. *Id.* at 1; *see* Final ID at 467.

Apple asserts that the offer was not genuine because it imposed unreasonable terms that Apple could never accept. Apple PI Submission at 4-5 (Oct. 22, 2012); *see* Final ID at 469. In OUII's view, the record indicates that Samsung's offer was an initial offer, at the beginning of negotiations, and not necessarily the final terms that Samsung would have accepted. As the Judge held, "negotiations often involve a process of offer and counteroffer before the parties arrive at an agreed price[.]" Final ID at 470. The Judge concluded that Apple did not meet its burden of proof to provide sufficient evidence that Samsung's initial offer was so far beyond the customs and practices of industry participants that it could not have been made in good faith:

[T]he evidence does not support Apple's allegation that Samsung failed to offer Apple licenses to Samsung's declared-essential patents on FRAND terms. Patents have the attributes of personal property. 35 U.S.C. § 261. Their value, in terms of licensing, varies according to a myriad of factors . . . . It is not enough for Apple to complain that Samsung's license offer of 2.4 percent of the selling prices of Apple's devices, is unreasonable, since there is insufficient evidence of customs and practices of industry participants showing that Samsung's demand is invidious with respect to Apple.

Final ID at 469-70. OUII supported this conclusion, and urges the Commission to adopt the Final ID's reasoning on this point.

7. [

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In OUII's view, there is no *per se* rule that the mere act of refusing a licensing offer is sufficient to establish that the offer did not satisfy obligations arising from a FRAND undertaking. Neither is there a *per se* rule that a potential licensee's refusal to negotiate licensing terms creates a presumption that the licensor has satisfied its FRAND obligations. The rejection of a FRAND offer by an accused infringer will be a factor in the analysis of whether a complainant has satisfied its FRAND obligations, but will generally not be determinative. As

discussed in response to Question 2 above, 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.

The Judge determined as a factual matter that Apple did not meet its burden of proof to show that Samsung had failed to offer a license on FRAND terms. Final ID at 469-70. The evidence is insufficient to conclude that good faith negotiations would never have resulted in such a license because there is insufficient evidence that serious negotiations took place at all. As the Judge noted, “Remarkably, even though Apple complains that Samsung’s license offer was not FRAND, Apple has not shown that, as a member to ETSI, it ever availed itself of the process and procedures of the ETSI under Clause 4.3 of the ETSI Guide on IPRs, which provides for mediation by ETSI Members or the Secretariat.” *Id.* at 470 (citing RX-713 (ETSI Guide on Intellectual Property Rights (Nov. 27, 2008))).

[

] RX-1659C [ ]. Even so, the Judge found that “Apple’s evidence does not demonstrate that Apple put forth a sincere, *bona fide* effort to bargain with Samsung. Rather, it appears that Apple and Samsung both decided to negotiate licensing terms between each other through the tortuous, and expensive, process of litigation.” Final ID at 470. As the record does not indicate whether serious negotiations would have resulted in a license on FRAND terms, OUII submits that the Judge’s rejection of Apple’s FRAND-based affirmative defenses on evidentiary grounds was correct.

**8a. With respect to the asserted claims of the '348 patent, what record evidence shows that a person of ordinary skill in the art would understand the phrase "10 bit TFCI information" to allow or preclude the use of padding bits?**

OUII submits that in the asserted claims, the phrase "10 bit TFCI information" refers to TFCI information that is ten bits in length, such that it is not necessary to add padding bits to create a 10-bit unit of data. Thus, the asserted claims preclude the use of padding bits. Other, unasserted claims cover situations in which TFCI information is less than ten bits long and therefore must be padded to comply with the 3GPP TS 25.212 telecommunications standard.

Communication from mobile devices to a cell tower (or "base station") is referred to as "uplink communication." Hearing Tr. at 426:4-427:11 (Min). During uplink communication, the mobile device that is sending data to a base station simultaneously sends information about the speed, or bit rate, at which the data is being transmitted. This bit rate information is known as a "transport format combination indicator," or "TFCI." *Id.* at 430:19-432:5.

TFCI information consists of a series of 0's and 1's which together represent a specific TFCI code. The initial 3GPP draft standard for TFCI encoding called for a "basic" TFCI field containing six bits, enabling  $2^6 = 64$  codewords of length  $N=32$ .<sup>7</sup> Later proposals called for an "extended" TFCI field containing up to ten bits of information, enabling up to  $2^{10} = 1024$  codewords, also of length  $N=32$ . *See* Hearing Tr. at 444:10-445:22, 520:1-25 (Min); JXM-1 at 3:6-13 ('348 patent). The current 3GPP TS 25.212 standard calls for 10-bit TFCI inputs. CX-1099 § 4.3.3 (TS 25.212 v.6.9.0 (Sept. 2006) ("The TFCI is encoded using a (32,**10**) sub-code of the second order Reed-Muller code." (emphasis added)). If the TFCI information is less than 10 bits long, the 3GPP TS 25.212 standard states that the TFCI information should be "padded with zeros to 10 bits, by setting the most significant bits to zero." *Id.*

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<sup>7</sup> RX-374 § 5.4.1.1 (UMTS XX.04 Version 1.0.0, UMTS Terrestrial Radio Access Network (UTRAN), UTRA FDD, multiplexing, channel coding and interleaving description, 1999).

The '348 patent addresses both basic and extended TFCI information, providing “an apparatus and method for encoding a basic TFCI and an extended TFCI compatibly in an IMT 2000 system.” JXM-1 at 5:12-14 ('348 patent). Several unasserted claims of the '348 patent are explicitly directed to padded TFCI information of less than ten bits. Independent claims 36, 42, 46, 52, 56, and 61 each refer to receiving or inputting “TFCI information bits in a 10 bit unit[.]” *Id.* at 41: 43-44, 42:27-28, 42:62, 43:39, 44:1, 44:40. These claims encompass both 10-bit and less-than-10-bit TFCI information, as shown by the fact that each has a corresponding dependent claim that provides, “if the TFCI information bits are less than 10 bits, 0 is added to the TFCI information bits to represent the TFCI information bits in a 10 bit unit.” *Id.* at 42:1-4, 42:51-54, 43:15-17, 43:59-61, 44:26-29, 44:65-67 (claims 38, 44, 48, 54, 58, and 63); *see also AK Steel Corp. v. Sollac and Ugine*, 344 F.3d 1234, 1242 (Fed. Cir. 2003) (“Under the doctrine of claim differentiation, dependent claims are presumed to be of narrower scope than the independent claims from which they depend”); *RF Del., Inc. v. Pacific Keystone Techs., Inc.*, 326 F.3d 1255, 1264 (Fed. Cir. 2003) (independent claim is usually accorded a scope greater than its dependent claims).

In contrast, the asserted claims of the '348 patent are directed only to 10-bit TFCI information. Unlike all of the unasserted claims discussed above, asserted claims 75 and 82 call for “a 10 bit TFCI information input to the controller” rather than “TFCI information bits in a 10 bit unit[.]” *Id.* at 45:56-57, 46:44-45. This difference in language is significant; in the asserted claims, “10 bit” modifies “TFCI information” rather than “unit.” “10 bit TFCI information” thus refers to TFCI information that is ten bits long, with no room for further padding. “There is presumed to be a difference in meaning and scope when different words or phrases are used in separate claims.” *Tandon Corp. v. International Trade Comm'n*, 831 F.2d 1017, 1023 (Fed. Cir.

1987). Moreover, there are no claims depending from either claim 75 or claim 82 that provide for padding if the TFCI information is less than ten bits in length. *See Phillips v. AWH Corp.*, 415 F.3d 1303, 1314 (Fed. Cir. 2005) (en banc) (“the context in which a term is used in the asserted claim can be highly instructive.”). Thus, while both the 3GPP TS 25.212 standard and the specification of the ’348 patent allow the use of padding bits when necessary to generate a 10-bit input to the controller, the *asserted* claims, which cover only a subset of potential embodiments of the invention, do not.

**8b. What is the difference between the “10 bit TFCI information” in the portion of Table 1a shown in columns 13 and 14 of ’348 patent and the TFCI information with padding zeroes allegedly used in the alleged domestic industry devices?**

Since each bit is represented by either a 0 or a 1, and since all 1024 possible codewords may be used in an extended TFCI information system, some 10-bit TFCI information codewords will necessarily resemble [ ] codewords padded with [ ] 0’s. Even so, it is important to note that [ ] bits of TFCI information plus [ ] padding bits is not the same thing as ten bits of TFCI information. 10-bit TFCI information can convey more data than a shorter TFCI field. *See* Hearing Tr. at 432:9-23, 444:13-23 (Min). [ ] only the rightmost (“least significant”) [ ] bits contain information about the bit rate for uplink communication. [ ], *see* JXM-1 at 3:9-11 (’348 patent), while the leftmost (“most significant”) padding bits contain no meaningful information. The padded bits could be filled with 1’s instead of 0’s without changing the meaning of the [ ] TFCI information. In 10-bit TFCI information, however, all ten of the bits together represent one of 1024 possible codewords. *See id.* Changing any one of the ten bits would cause the TFCI field to represent a different codeword.

**8c. Is the patent’s discussion of padding zeroes at col. 3, lines 27-34 of any relevance?**

The ’348 patent’s discussion of padding zeros at column 3, lines 27-34 is a discussion of a basic TFCI bits encoding structure in a conventional IMT 2000 system, as depicted in Figures 4A and 4B of the ’348 patent. JXM-1 at 3:21-60 (’348 patent). This structure is prior art rather than an embodiment of the claimed invention. *Id.* figs. 4A, 4B. Accordingly, while the discussion provides useful background, it does not describe the use of padding bits, or the lack thereof, in the asserted patent claims.

**8d. What consequence would construing “10 bit TFCI information” to allow padding bits have on the issues of infringement, validity, and the technical prong of the domestic industry requirement?**

OUII submits that the only consequence that construing “10 bit TFCI information” to allow padding bits would have on this investigation is that some asserted domestic industry products, specifically those using a [ ], would be found to practice claim 82 of the ’348 patent.<sup>8</sup> *See* Final ID at 546-47; Hearing Tr. at 1254:23-1257:15 (Min) [ ]; *see id.* at 1244:19-1245:14 (Min) (TS 25.212 standard calls for padding if TFCI information is less than ten bits). However, there are other domestic industry products in the record, those using an [ ], that encode a 10-bit TFCI input without padding, and therefore meet this claim limitation however it is construed.<sup>9</sup> Accordingly, changing the construction of “10 bit

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<sup>8</sup> [

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<sup>9</sup> There is expert testimony that Samsung products using the [ ], such as the Galaxy S 4G, encode a 10-bit TFCI input into a 32-bit TFCI codeword. In particular,

TFCI information” to encompass both types of domestic industry products would not change the result of the technical prong analysis for the ’348 patent.

The infringement analysis would not be affected by the proposed change in construction, as each of the accused products [

] . Hearing Tr. at 546:3-4 (Min), 2116:21-2117:2 (Davis) [

] *Id.* at 2117:23-2118:3 (Davis).

The validity analysis would also be unaffected, as the prior art is sufficiently broad to disclose the encoding of TFCI information with padding. For example, Section 4.3.1.1 of the prior art 3GPP June 1999 standard reflected the old process for coding TFCI information of up to six bits, including the practice of padding TFCI information of less than six bits with zeros to form a 6-bit unit:

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[ that accepts ten bits of TFCI information and outputs a 32-bit TFCI codeword. Hearing Tr. at 635:14-637:19 (Min); CX-1193C at S-ITC-C00004146.

### 4.3.1.1 Coding of default TFCI word

If the number of TFCI bits is up to 6, the TFCI bits are encoded using biorthogonal (32, 6) block code. The coding procedure is as shown in Figure 4-10.

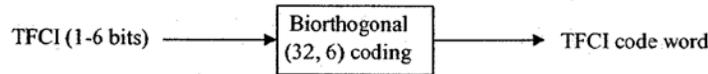


Figure 4-10. Channel coding of TFCI bits.

If the TFCI consist of less than 6 bits, it is padded with zeros to 6 bits, by setting the most significant bits to zero. The receiver can use the information that not all 6 bits are used for the TFCI, thereby reducing the error rate in the TFCI decoder. The length of the TFCI code word is 32 bits. Thus there are 2 bits of (encoded) TFCI in every slot of the radio frame. The code words of the biorthogonal block code are from the level 32 of the code three of OVFS codes defined in document S1.13. The code words,  $C_{32,I}$ ,  $I = 1, \dots, 32$ , form an orthogonal set,  $S_{C_{32}} = \{C_{32,1}, C_{32,2}, \dots, C_{32,32}\}$ , of 32 code words of length 32 bits. By taking the binary complements of the code words of  $S_{C_{32}}$ , another set,  $\bar{S}_{C_{32}} = \{\bar{C}_{32,1}, \bar{C}_{32,2}, \dots, \bar{C}_{32,32}\}$  is formed. These two sets are mutually biorthogonal yielding total of 64 different code words.

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*RX-371 § 4.3.1.1 (TS 25.212 (June 1999)): Up to 6 input bits and 32 output bits*

Section 4.3.1.2 of the prior art 3GPP June 1999 standard described the new process for encoding an extended TFCI of seven to ten bits:

### 4.3.1.2 Coding of extended TFCI word

If the number of TFCI bits is 7-10 the TFCI information field is split into two words of length 5 bits as shown in the following formula:

$n := \lfloor \sqrt{TFCI} \rfloor$ ;  $n$  is the largest integer being smaller than or equal to the square root of the transmitted TFCI value.

if  $TFCI < n^2 + n$

then  $Word1 := n$ ;  $Word2 := TFCI - n^2$

else  $Word2 := n$ ;  $Word1 := n^2 + 2n - TFCI$

Both of the words are encoded using biorthogonal (16, 5) block code. The code words of the biorthogonal (16, 5) code are from two mutually biorthogonal sets,  $S_{C_{16}} = \{C_{16,1}, C_{16,2}, \dots, C_{16,16}\}$  and its binary complement,  $\bar{S}_{C_{16}} = \{\bar{C}_{16,1}, \bar{C}_{16,2}, \dots, \bar{C}_{16,16}\}$ . Words of set  $S_{C_{16}}$  are from the level 16 of the code three of OVFS codes defined in document TS 25.213. The mapping of information bits to code words is shown in the Table 4-6.

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*RX-371 § 4.3.1.2 (TS 25.212 (June 1999)): Two words, each with 5 input bits and 16 output bits*

See Hearing Tr. at 1981:18-1982:2 (Davis) (“This describes the Nokia proposal, which is that extended TFCI.”). The standard states that “[i]f the number of TFCI bits is 7-10 the TFCI information field is split into two words of length 5 bits[,]” suggesting that padding zeros are used when the number of TFCI bits is less than ten. Changing the construction of the term “10-

bit TFCI information” to allow for padded bits, therefore, would not change the result of the validity analysis for the ’348 patent.

**9. With respect to the asserted claims of the ’348 patent, what claim language, if any, limits the claim to the use of a look-up table and precludes the claim from covering the embodiment of the invention shown in Figures 8 and 14 of the ’348 patent?**

In OUII’s view, there is nothing in the claim language of asserted claims 75-76 and 82-84 that limits them to the use of a look-up table rather than a codeword generator, such as the examples shown in Figures 8 and 14 of the ’348 patent.

During the claim construction phase of the investigation, Apple argued that the terms “from among a plurality of 30 bit codewords” in claim 75 of the ’348 patent and “from among a plurality of 32 bit codewords” in claim 82 should be construed as “selecting one 30 bit codeword from an encoding table of multiple 30 bit codewords[,]” and “selecting one 32 bit codeword from an encoding table of multiple 32 bit codewords[,]” respectively. *See* Order No. 63 at 21 (May 10, 2012) (claim constr. order). In other words, Apple’s proposed constructions indicated that the selection of a codeword must be made from an encoding table. The Judge correctly rejected this interpretation, holding that “[t]here is nothing in the claims or specification that supports Apple’s proposed construction limiting the disputed terms to an encoding table. . . . [T]he apparatus disclosed in claims 75 and 82 does not require an encoding table to perform their outputting functions.” *Id.* at 24. The Judge construed the terms as follows: “from more than one 30 bit codeword” (claim 75), and “from more than one 32 bit codeword” (claim 82). *Id.*

OUII submits that the Judge’s claim construction is correct. Although the ’348 specification references the use of an “encoding table,” it also refers to codeword generators such as those shown in Figures 8 and 14. Neither the asserted claims nor the specification indicate that the selection must always occur from an encoding table. Apple’s proposed constructions,

therefore, inappropriately read the “encoding table” limitation from the specification into the language of the asserted claims. *See Phillips*, 415 F.3d at 1323 (cautioning against importing limitations from the specification into the claims); *see also Verizon Servs. Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295, 1303 (Fed. Cir. 2007); *Texas Instruments, Inc. v. International Trade Comm’n*, 805 F.2d 1558, 1563 (Fed. Cir. 1986) (“This court has cautioned against limiting the claimed invention to preferred embodiments or specific examples in the specification.”).

Finally, OUII notes that the infringement analysis would reach the same result if the asserted claims were limited to the use of a look-up table, [

]. CX-1099 at 47 (3GPP TS 25.211

v.6.9.0); Hearing Tr. at 514:3-516:17 (Min), 2083:8-23 (Davis). [

].<sup>10</sup> Hearing Tr. at 621:16-622:23 (Min).

**10a. With respect to asserted claims 82-84 of the ’348 patent, identify any support in the patent specification or the record generally for construing the term “puncturing” in asserted claims 82-84 to encompass “excluding” bits (*see, e.g.*, ’348 patent at 32:10-17).**

Claim 82 of the ’348 patent reads:

82. A Transport Format Combination Indicator (TFCI) encoding apparatus in a CDMA mobile communication system, comprising:

a controller for outputting a 32 bit codeword from among a plurality of 32 bit codewords that corresponds to a 10 bit TFCI information input to the controller from a plurality of possible 10 bit TFCI information; and

*a puncturer for puncturing two bits from the 32 bit codeword output by the controller*, each of the two bits being punctured at a predetermined position, and outputting a

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<sup>10</sup> [

] Hearing Tr. at 636:4-637:6 (Min).

30 bit codeword that is equivalent to the 32 bit codeword output by the controller.

JXM-1 at 46:40-62 ('348 patent) (emphasis added). The Final ID incorrectly found that the accused products (as well as the asserted prior art and domestic industry products) “do not meet the ‘puncturing’ limitation of claim 82.” Final ID at 55, 309, 556.

Samsung and OUII both proposed that the terms “puncturer” and “puncturing” should be construed according to their plain meaning. *See id.* at 51-52. The Judge’s claim construction order also concluded that “a person of ordinary skill would have understood the word ‘puncturing’ according to its plain and ordinary meaning.” Order No. 63 at 33.<sup>11</sup> OUII continues to assert that this is the correct construction of the claim term, but submits that the Final ID failed to apply the plain and ordinary meaning of the term *in the relevant art*. *See Phillips*, 415 F.3d at 1313 (“We have made clear, . . . that the ordinary and customary meaning of a claim term is the meaning that the term would have to a person of ordinary skill in the art in question at the time of the invention[.]”); *Meyer Intellectual Properties Ltd. v. Bodum, Inc.*, 690 F.3d 1354, 1368 (Fed. Cir. 2012) (“As a general rule, a claim term is given the plain and ordinary meaning as understood by a person of ordinary skill in the art at the time of invention.”).

More specifically, the Final ID stated that

The word “puncturing” is the present participial form of the verb “puncture,” which is generally defined: “to pierce with or as if with a pointed instrument or object” and “to make useless or ineffective as if by a puncture” (*Merriam-Webster’s Collegiate Dictionary* 11th Ed.) or “to pierce with a pointed object”; “to make (a hole) by piercing”; “to deprecate or deflate” (*The American Heritage Dictionary of the English Language* 5th Ed.).

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<sup>11</sup> The term “puncturer” was construed as “hardware or software for puncturing.” Order No. 63 at 33.

Final ID at 52. The Final ID, however, did not apply this plain meaning correctly in the context of the telecommunications software described in the patent. Software cannot be physically pierced with a pointed object. *See Phillips*, 415 F.3d at 1322 (quoting *Liebscher v. Boothroyd*, 258 F.2d 948, 951 (C.C.P.A. 1958)) (“Indiscriminate reliance on definitions found in dictionaries can often produce absurd results.”). The relevant plain meaning of the term “puncturing” is one that an electrical engineer with experience working with telecommunications technology would have applied, *i.e.*, “to make useless or ineffective as if by a puncture.” *See* Final ID at 15 (defining the level of ordinary skill in the art). For example, the accused products perform “puncturing” by transmitting only 30 bits of a 32-bit codeword, causing the two untransmitted bits to become both useless (because not used) and ineffective (in that they are never transmitted and thus never convey information). *See, e.g.*, Final ID at 52-53.

The record demonstrates that this understanding of puncturing was familiar to anyone involved in the art of error coding. *See, e.g.*, RX-367 (MacWilliams & Sloane) at 28; Hearing Tr. at 2021:4-22 (Davis). Specifically, in the context of error-coding software, “puncturing” consists of “deleting one or more coordinates from each codeword[,]” as described below:

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(II) *Puncturing a code by deleting coordinates.* The inverse process to extending a code  $\mathcal{C}$  is called *puncturing*, and consists of deleting one or more coordinates from each codeword. E.g. puncturing the [3, 2, 2] code # 9,

code # 9           0 0 0  
                  0 1 1  
                  1 0 1  
                  1 1 0

by deleting the last coordinate gives the [2, 2, 1] code

0 0  
0 1  
1 0  
1 1

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RX-367 (MacWilliams & Sloane) at 28; *see* Hearing Tr. at 1941:1-3 (Davis) (“The MacWilliams and Sloane textbook is often referred to as the bible of error-correcting codes.”).

Contrary to the assumptions underlying the Final ID's reasoning,<sup>12</sup> it does not matter whether the original 32 bits are overwritten immediately or "remain stored in the same memory location[.]" Final ID at 54. In the software context, one of ordinary skill in the art would understand that data can be "deleted" (*i.e.*, rendered useless or ineffective) simply by rendering it irretrievable, regardless of whether a copy of the data is still physically present on a storage device.<sup>13</sup> The key question is not whether memory registers are physically erased, but whether one or more bits are deleted from the codeword as it is transmitted, thus "puncturing" the codeword.

The record further demonstrates that those skilled in the art agree that "puncturing" may also be accomplished by not transmitting certain bits, as by ignoring or skipping them when copying data from one location to another. For example, the treatise *The Art of Error Correcting Code* describes "not sending, some output bits" as a form of puncturing. CXM-47 at 111 (excerpts from R. Morelos-Zaragoza, *The Art of Error Correcting Code* (2d ed. 2006)). The *UMTS Origins, Architecture and the Standard* treatise also states that:

[w]hen the size of the blocks provided by the channel coding function is greater than that of physical block . . . certain bits of the coded block are suppressed. This is known as 'puncturing'. Puncturing is based on an algorithm for determining which bits can be suppressed, *i.e.* the bits whose suppression will not damage the error control too much.

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<sup>12</sup> See, *e.g.*, Final ID at 54 ("At the conclusion of these operations, the entire 32-bit codeword. . . remains stored in the same memory location where it was placed, and all of the bits of the original 32-bit codeword remain useful and effective at all times. . . . [Apple expert witness Dr. Davis] concluded that nowhere in the course of these actions is puncturing performed. Dr. Davis's testimony in that respect is consistent with the plain meaning of 'puncturing.'" (citing Hearing Tr. at 2051-53 (Davis)).

<sup>13</sup> *E.g.*, *IEEE 100 Authoritative Dictionary of IEEE Standards Terms* at 286 (7th ed. 2000) ("**delete** (A) (data management) To remove data from a storage device or data medium. . . . (B) (data management) To render data unretrievable, although it may continue to be physically present on a storage device.").

CXM-48 at 121 (excerpts from P. Lescuyer, *UMTS Origins, Architecture and the Standard* (2004)). Furthermore, telecommunications related patents, such as U.S. Patent No. 6,614,850, titled “Method and Apparatus for Puncturing Code Symbols in a Communications System” (filed Jul. 7, 2000), disclose that puncturing can involve skipping code elements and transmitting only the unskipped code elements. CXM-49 (’850 patent).

**10b. What consequence would such a construction have on the issues of infringement, validity, and the technical prong of the domestic industry requirement?**

The Final ID’s infringement determination, validity analysis, and domestic industry determination were all expressly premised on the erroneous determination that the “puncturing” limitation is not satisfied by transmitting only some bits of a codeword and not transmitting others. *See, e.g.*, Final ID at 53 (“Dr. Min did not explain how any piece of firmware in the Intel baseband processor products performs an act of ‘puncturing’ the 32-bit codeword. What he testified was that there are [ ]. Based on this fundamental misunderstanding of the technology, the Final ID sets forth the conclusion that the accused products had not been shown to infringe independent claim 82, and by extension its dependent claims 83-84. *Id.* at 55. It reaches the same conclusion with regard to the domestic industry products. *Id.* at 547 (“[T]he puncturing limitation is not met, either, for the same reasons given for finding that the Accused Products do not infringe this limitation. The reasons given above with respect to the requirements for demonstrating the puncturing element apply here as well.”). With regard to Apple’s and OUII’s contentions that claim 82 of the ’348 patent is invalid as obvious, the Judge held:

[T]he Administrative Law Judge concludes that the June 1999 Standard in combination with MacWilliams does not render this claim obvious. Dr. Davis essentially takes the position argued by Dr. Min with respect to infringement, that simply by using 30 bits of the Reed-Muller code, instead of 32 bits, puncturing has occurred. However, for the same reasons that Dr. Min’s contention regarding infringement was rejected, Apple’s contention regarding invalidity must be

rejected. Dr. Davis testified that MacWilliams discusses puncturing, but what he did not describe is how the limitation of claim 82 that each of two bits of the 32 bits output by the controller are punctured at a predetermined position is satisfied. In this respect, Dr. Davis's testimony is similar to Dr. Min's in assuming that the use of 30 bits instead of 32 bits evidences puncturing. The Administrative Law Judge disagrees and finds that the evidence cited by Apple does not disclose the puncturing element of claim 82.

*Id.* at 309. Thus, the only rationale given for finding that the June 1999 Standard in combination with MacWilliams does not render claim 82 obvious is the erroneous interpretation of the term “puncturing.”

Construing the term “puncturing” to encompass “excluding” bits would have the effect of: (1) reversing the determination that the accused products do not infringe claims 82-84 of the '348 patent; (2) reversing the determination that the domestic industry products do not practice claim 82;<sup>14</sup> and (3) reversing the determination that claim 82 is not invalid as obvious. Claim 82 would be infringed but invalid. Dependent claims 83-84, which were held to be valid, *see* Final ID at 309, would be infringed. The larger question of whether a violation of Section 337 would exist with regard to the '348 patent would depend on whether the Commission determines that the technical prong of the domestic industry requirement can be satisfied solely by practicing an invalid claim (here, claim 82). If it cannot, as Commission precedent suggests, then there would be no violation with regard to the '348 patent, regardless of how the term “puncturing” is construed.<sup>15</sup>

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<sup>14</sup> Samsung asserted that the domestic industry products practiced claims 75 and 82 of the '348 patent. Hearing Tr. at 595:24-598:1 (Min). The Judge found that none of the domestic industry products practice claim 75 because the products do not include a “controller for outputting a 30 bit codeword.” Final ID at 554-57. Amending the construction of the term “puncturing” would not affect this analysis.

<sup>15</sup> In Inv. No. 337-TA-739, the Commission held:

To prevail, the patentee must establish by a preponderance of the evidence that the domestic product practices one or more valid claims of the patent, either

**11a. With respect to the asserted claims of the '644 patent, what is the proper construction of “extracting”?**

Claim 9 of the '644 patent, a method claim for receiving control information associated with uplink packet data transmission in a mobile communication system, includes the following step: “extracting a 60-bit rate-matched block from a signal received from a Node B[.]” JXM-3 at 27:34-35 ('644 patent). Claim 13, an apparatus claim, also calls for a “physical channel demapper for extracting a 60-bit rate-matched block from a signal received from a Node B[.]” *Id.* at 28:18-19.

No party to the investigation has argued that the claim term “extracting” should be understood to have anything other than its plain and ordinary meaning. While the parties disputed the proper construction of the term “rate-matched block,” the term “extracting” was not a disputed claim term during the investigation and was not among the terms that the parties asked the Judge to construe. *See* Order No. 63 at 38-60 (construing disputed terms of '644 patent). Accordingly, OUII submits that the term should be given its plain and ordinary meaning.

As always, a claim construction analysis must begin with the words of the claim.

*International Rectifier Corp. v. IXYS Corp.*, 361 F.3d 1363, 1369 (Fed. Cir. 2004); *Vitronics*

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literally or under the doctrine of equivalents. . . . It is sufficient to show that the products practice any valid claim of the asserted patent, not necessarily an *asserted* claim of that patent.

*Certain Ground Fault Circuit Interrupters and Products Containing Same*, Inv. 337-TA-739, Comm'n Op. at 71 (Apr. 27, 2012) (public version June 8, 2012) (emphasis in original). *But see Silicon Microphone Packages and Products Containing the Same*, Inv. No. 337-TA-695, Comm'n Notice (Jan. 21, 2011) (determining to review and vacate “the ID’s conclusion that the technical prong of the domestic industry requirement. . . is not met where all the asserted patent claims are found invalid.”). *See also Certain Light-Emitting Diodes and Products Containing Same*, Inv. 337-TA-802, Order No. 27 at 1 n.1 (Aug. 28, 2012) (“[*Silicon Microphone Packages*] does not stand for the proposition that claims relied upon for domestic industry need not be valid. Rather, the Notice was merely noting that the technical prong of domestic industry *could* be met even where all *asserted* claims (but not those relied upon for domestic industry) were found invalid.”) (emphasis in original).

*Corp. v. Conceptoronic, Inc.*, 90 F.3d 1576, 1582 (Fed. Cir. 1996). “Absent an express intent to impart a novel meaning to a claim term, the words take on the ordinary and customary meanings attributed to them by those of ordinary skill in the art.” *International Rectifier*, 361 F.3d at 1369-70; *Brookhill-Wilk 1, LLC v. Intuitive Surgical, Inc.*, 334 F.3d 1294, 1298 (Fed. Cir. 2003). There is nothing in the language of claims 9 or 13 to suggest that the patentee intended the term “extracting” to have anything other than its ordinary meaning.

Next, “[t]he specification must be examined in every case to determine which of the possible dictionary meanings is consistent with the use of the claim term in the context of the claims and the written description and to determine if the presumption of ordinary and customary meaning is rebutted.” *International Rectifier*, 361 F.3d at 1370. While a patentee “may choose to be his own lexicographer and use terms in a manner other than their ordinary meaning,” any special definition of the term must be “clearly stated in the patent specification or file history.” *Vitronics*, 90 F.3d at 1582. No such special definition appears in the patent specification or file history for the ’644 patent. The specification simply provides that “a physical channel demapper extracts a 60-bit rate-matched block from a signal received from a Node B.” JXM-3 at 4:14-16 (’644 patent). In the absence of any limiting language, it appears that any method of extracting the information from the Node B signal may be used.<sup>16</sup> Accordingly, the term “extracting” should be given its ordinary meaning of “taking.”

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<sup>16</sup> There are several references in the specification to the type of extraction used in a different stage of the encoding/decoding process described in the ’644 patent. *See, e.g.*, JXM-3 at 8:5-9 (’644 patent) (“A UE-ID specific CRC extractor **410** extracts a 16-bit CRC by modulo-2 operating the 16-bit UE-ID specific CRC with the 16-bit UE-ID **412** of the UE, and provides the extracted CRC and the AG to a CRC checker **414**.”). This describes a later step of the process, performed after the step of “extracting a 60-bit rate-matched block from a signal received from a Node B[.]” *Id.* at 27:34-35 (claim 9). In OUII’s view, the step of “extracting a 60-bit rate-matched block” is not limited to extraction by a modulo-2 operation.

**11b. What variable, if any, in the source code relied upon by Samsung to prove infringement and domestic industry represents a “60-bit rate-matched block” that has been extracted from a received signal?**

OUII submits that no Apple accused product or Samsung domestic industry product extracts a “60-bit rate-matched block” from a received signal. Rather, the products [

]. Thus, there is no 60-bit variable representing a rate-matched block in either the Apple or the Samsung products.

Among the products accused of infringing the ’644 patent, the iPhone 4S contains a [ ] baseband processor, while the iPhone 4 (AT&T) and iPad 2 (AT&T) contain an [ ] processor. Final ID at 75 (citing Hearing Tr. at 747, 828-29, 968 (Min)); Hearing Tr. at 2280:11-15 (Stark). The domestic industry products alleged to practice claim 9 of the ’644 patent contain a [ ] baseband processor. Hearing Tr. at 694:12-695:1 (Min). For the purposes of the asserted claims of the ’644 patent, [ ]]. Hearing Tr. at 2311:17-25 (Stark).

Complainant’s expert, Dr. Min, confirmed on cross-examination that all of the Apple accused products and Samsung domestic products identified with regard to the ’644 patent [

].<sup>17</sup> Hearing Tr. at 1128:6-14 (Min). [

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<sup>17</sup> [

]

[

] Hearing Tr. at 1045:16-21 (Min). [

]. *Id.* at 1049, 4-17, 1052:11-18 (Min).

It is for this reason that OUII submits that no accused product or domestic industry product extracts a “60-bit rate-matched block” from a Node B signal. In practice, the products

[

]. Hearing Tr. at 1057:10-20, 1062:20-1063:16,

1068:8-14 (Min); *see* JX-59C at 35:7-15 (Hillebrand Dep. Tr.). There is no single 60-bit variable in the source code of any of the relevant processors that represents a rate-matched block.

- 12. With respect to the '980 patent, has Samsung waived all infringement and domestic industry allegations except for those based on claim 10? Identify by source code file name or other specific record designation the precise “dialing program” that Samsung relies upon to prove infringement and domestic industry with respect to claim 10. Also identify, using record evidence, the conditions that trigger execution of the “dialing program” in the relevant devices.**

Samsung asserted in both its prehearing and posthearing briefs that the accused products infringe, and the domestic industry products practice, claims 5 and 10 of the '980 patent.

Samsung Prehearing Br. at 75-92; Samsung Posthearing Br. at 145-59, 164-72. In OUII's view Samsung's contentions regarding claim 5, though meritless, were not waived.

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[

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Hearing Tr. at 1128:6-14 (Min).

Samsung's identification of the alleged "dialing program" in the accused and domestic industry products is not entirely clear. In its prehearing brief, Samsung stated: "The phone program in the iPhone 4S is [

].

Samsung Prehearing Br. at 81. Samsung also stated that in the domestic industry products "the phone program is not limited to the 'phone' or 'dialer' applications[.]" *Id.* at 89. Thus, Samsung asserted that in both the Apple and Samsung products, the "dialing program" was actually [

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At trial, Samsung presented a diagram illustrating its theory of what constituted a "dialing program" in the accused products:

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[

]

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*CDX-3.47C; CDX-3.83C*

Samsung asserts that the "dialing program," which Samsung's expert Dr. Cole testified was the same as the "phone program,"<sup>18</sup> [

]

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<sup>18</sup> Hearing Tr. at 2408:18-22.

] modules within the Apple software. Describing the “phone program” depicted in demonstrative CDX-3.47C, Dr. Cole explained as follows:

[

]

Hearing Tr. at 2381:16-2382:23 (Cole); *see id.* at 2408:18-22 [

]. While Dr. Cole offered some testimony concerning source code relating to “loading” the dialing program into memory, *id.* at 2406:8-2407:12, he did not identify which specific source code files [

]. Dr. Cole testified that the dialing program in the accused products executes [

]. *Id.* at 2383:14-18.

Samsung also presented a similar diagram illustrating its theory of what constituted a “dialing program” in the domestic industry products:

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[

]

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*CDX-3.108C; CDX-3.147C*

Dr. Cole explained as follows:

Q. What is the dialing program in the Galaxy S 4G?

A. The dialing program, as I identified earlier, is made up in part of the phone application, here labeled the phone/dialer; the Android application framework; the PDA functions; appropriate email and text messaging and Web browsing; and by the [ ] as well.

Hearing Tr. at 2447:20-2448:2 (Cole). As with the accused products, Dr. Cole did not identify which specific source code files [

].

The dialing program in the domestic industry products executes when a user selects the instruction to call on the dialer sheet that is displayed when the user touches a hyperlinked phone number within a PDA function. Hearing Tr. at 2438:12-16 (Cole) (“[T]he elements of the phone application that I identified, all execute in order to do the dialing based on the selection from the email and then the instruction to call on the dialer -- from the dialer screen.”).

**13. With respect to the '980 patent, if the Commission were to construe “dialing icon” to require a “pictorial element,” what record evidence demonstrates that Samsung’s alleged domestic industry products meet that limitation?**

If the Commission were to construe “dialing icon” to require a “pictorial element,” the Samsung domestic industry products would meet that limitation because the “dialer screen” containing the instruction to call a selected number includes pictorial elements. As the Judge found, “the ‘dialer screen’ does display a ‘dialing icon’ that contains the requisite pictorial element because there is a phone image in addition to the word ‘Call.’” Final ID at 569.



*CDX-03.92 (highlighting dialing icon at bottom of right image)*

In OUII’s view, the Judge correctly found that while a hyperlinked phone number is not an “icon,” Final ID at 569, the “Call” button on the dialer screen of the Samsung Galaxy S domestic industry product is essentially pictorial and therefore is a dialing icon. See CPX-1 (sample Samsung Galaxy S 4G).

#### **IV. COMMENTS ON REMEDY, THE PUBLIC INTEREST, AND BONDING**

The Commission has indicated that it is interested in receiving written submissions that address the issues of remedy, the public interest, and bonding.<sup>19</sup> Comm'n Notice at 2-3. OUII respectfully submits the following recommendations.

##### **A. Remedy**

###### **1. Limited Exclusion Order**

Where a violation of Section 337 is found, the Commission may issue either a limited exclusion order, directed against products imported by persons found in violation, or a general exclusion order directed against all infringing products. 19 U.S.C. § 1337(d). If the Commission determines that there has been a violation of Section 337, Samsung has requested that the Commission issue a limited exclusion order pursuant to 19 U.S.C. § 1337(d)(2), excluding from entry into the United States all infringing Apple electronic devices, including wireless communication devices, portable music and data processing devices, and tablet computers. OUII is of the view that if the Commission finds a violation of Section 337, a limited exclusion order directed to Apple will be appropriate in this investigation. The Judge's Recommended Determination on Remedy and Bond states that any such order "should apply to Apple and all of its affiliated companies, parents, subsidiaries, or other related business entities, or its successors or assigns, and should prohibit the unlicensed entry of all electronic devices, including wireless communication devices, portable music and data processing devices, and tablet computers, that

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<sup>19</sup> The Commission has also asked Complainants and OUII to submit proposed remedial orders for the Commission's consideration. Comm'n Notice at 4. OUII's proposed remedial orders are attached to this submission. *See* attachs. 1-2. OUII has forwarded its draft limited exclusion order to CBP for review. On November 27, 2012, CBP contacted OUII to inquire whether a substantive difference was intended when referring to products "that infringe" the asserted patents rather than products "covered by" those patents. OUII responded that there was not.

infringe the claims of the asserted patents for which a Section 337 violation is found.”

Recommended Det. on Remedy and Bond at 2 (“RD”). OUII agrees with this recommendation.

## 2. Cease and Desist Order

In addition to, or in lieu of, an exclusion order, the Commission may issue cease and desist orders to respondents found to be violating Section 337. 19 U.S.C. § 1337(f). “[C]ease and desist orders are warranted with respect to domestic respondents that maintain commercially significant U.S. inventories of the infringing product.” *Certain Agricultural Tractors*, Inv. No. 337-TA-380, Comm’n Op. at 31, USITC Pub. 3026 (Mar. 1997); *see also Certain Cigarettes*, Inv. No. 337-TA-424, Comm’n Op. at 10, USITC Pub. 3366 (Nov. 2000).

Samsung has requested that a cease and desist order issue in this investigation. Compl. ¶ 74(e). While denying Samsung’s motion for summary determination that Apple maintains commercially significant inventories of accused products in the United States, the Judge found that certain material facts were undisputed and deemed established:

1. Apple’s business includes importing and selling electronic devices, including wireless communication devices, portable music and data processing devices, and tablet computers.
2. Apple sells accused products within the United States that it has imported from abroad.
3. [ ]
4. [ ]
5. [ ]
6. Apple’s general practice is [ ].
7. Apple tracks its inventory [ ].

8. [ ]
9. [ ]
10. Apple's fiscal year begins and ends on the last Friday in September.
11. At the close of Apple's first fiscal quarter of 2012, Apple held [ ].
12. At the close of Apple's first fiscal quarter of 2012, Apple held [ ].
13. The lowest standard cost of a [ ] iPhone [ ] as of the close of Apple's first fiscal quarter of 2012 – [ ].
14. At the close of Apple's first fiscal quarter of 2012, Apple held [ ].
15. At the close of Apple's first fiscal quarter of 2012, Apple held [ ].
16. The lowest standard cost of [ ] as of the close of Apple's first fiscal quarter of 2012 – [ ].
17. At the close of Apple's first fiscal quarter of 2012, Apple held [ ] iPod Touches as [ ].
18. At the close of Apple's first fiscal quarter of 2012, Apple held [ ].
19. At the close of Apple's first fiscal quarter of 2012, Apple held [ ].
20. The lowest standard cost of [ ] as of the close of Apple's first fiscal quarter of 2012 – [ ].

Order No. 89 at 4-5 (June 6, 2012). OUII submits that these facts are sufficient to establish that Apple maintains a commercially significant inventory of the accused products in the United States. OUII therefore believes that a cease and desist order will be appropriate if a violation of Section 337 is found to have occurred.

## **B. Public Interest**

If the Commission determines that a violation of Section 337 exists, it must also determine the effects of any proposed remedy upon the public interest. 19 U.S.C. §§ 1337(d)(1), 1337(f)(1). Public interest considerations include the effect of the remedy on (1) the public health and welfare, (2) competitive conditions in the U.S. economy, (3) the U.S. production of articles that are like or directly competitive with those that are the subject of the investigation, and (4) U.S. consumers. *Id.* § 1337(d)(1); *see also Certain Abrasive Products Made Using a Process for Powder Preforms, and Products Containing Same*, Inv. No. 337-TA-449, Comm'n Op. at 8, USITC Pub. 3530 (Aug. 2002).

There have been few instances when public interest considerations have prevented the Commission from issuing a remedy. *See, e.g., Certain Automatic Crankpin Grinders*, Inv. No. 337-TA-60, Comm'n Det. & Order at 2, USITC Pub. 1022 (1979) (overriding national policy in increasing supply of fuel-efficient automobiles; domestic industry unable to supply U.S. demand); *Certain Inclined Field Acceleration Tubes*, Inv. No. 337-TA-67, Comm'n Op. at 21-31, USITC Pub. 1119 (1980) (overriding public interest in continuing basic atomic research with imported acceleration tubes deemed to be of higher quality than domestic product); *Certain Fluidized Supporting Apparatus*, Inv. No. 337-TA-182/188, Comm'n Op. at 23-25, USITC Pub. 1667 (1984) (relief denied where no comparable substitutes available; domestic producer could not meet demand for hospital beds for burn patients). In these few instances in which public interest concerns have led to the denial of relief after a violation of section 337 has been found, a key consideration was the complainant's inability to meet consumer demand if the respondent's products were excluded. Here, there is no evidence that U.S. demand for the accused products cannot be met by numerous other suppliers, including Complainants or their licensees. *See, e.g., Samsung Statement on the Public Interest* at 5 (Oct. 22, 2012) ("Apple's smartphones represent

only one-third of the total domestic smartphone market.”) (citing [http://www.comscore.com/Insights/Press\\_Releases/2012/10/comScore\\_Reports\\_August\\_2012\\_US\\_Mobile\\_Subscriber\\_Market\\_Share](http://www.comscore.com/Insights/Press_Releases/2012/10/comScore_Reports_August_2012_US_Mobile_Subscriber_Market_Share)).

OUII is of the view that the exclusion of imports of Respondent’s accused products is unlikely to have any significant impact on the public interest considerations identified in Section 337(d).<sup>20</sup> *See Certain Compact Multipurpose Tools*, Inv. No. 337-TA-416, USITC Pub. No. 3239, Comm’n Op. at 9 (Sept. 1999). The public interest favors the protection of U.S. intellectual property rights by excluding infringing imports. *Certain Two-Handle Centerset Faucets and Escutcheons, and Components Thereof*, Inv. No. 337-TA-422, USITC Pub. No. 3332, Comm’n Op. at 9 (Jul. 2000). Accordingly, OUII submits that the recommended relief is not contrary to the public interest. Any harm that an exclusion order might cause to U.S. consumers or competitive conditions in the U.S. economy could be mitigated by delaying the effective date of the exclusion order by four to six months, thus allowing manufacturers and service providers to switch to comparable substitute products before the exclusion order takes effect. *See, e.g., Certain Personal Data and Mobile Communications Devices and Related Software*, Inv. No. 337-TA-710, USITC Pub. No. 4331, Comm’n Op. at 83 (June 2012) (delaying exclusion of articles subject to order by four months to minimize impact on third parties).<sup>21</sup>

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<sup>20</sup> Apple’s FRAND-based public interest arguments are addressed separately in response to Commission Questions 1-2 above. OUII notes that while Apple is now raising multiple FRAND-related public interest arguments, it did not ask for the public interest issue to be delegated to the Administrative Law Judge at the outset of the investigation. Had it done so, the record regarding such issues could have been substantially more complete.

<sup>21</sup> In Investigation 337-TA-710, the Commission also narrowed the effect of the exclusion order by permitting continued imports of respondent’s refurbished products to be provided to consumers as replacements under warranty or an insurance contract. *Personal Data and Mobile Communications Devices*, USITC Pub. No. 4331, Comm’n Op. at 83-84.

### **C. Appropriate Bond**

If the Commission enters an exclusion order and/or a cease and desist order in this investigation, then affected articles may be imported and sold under bond during the 60-day Presidential review period. The amount of such bond must “be sufficient to protect the complainant from any injury.” 19 C.F.R. § 210.50(a)(3); *see also* 19 U.S.C. § 1337(j)(3). The Commission typically sets the bond for the Presidential review period based on either a reasonable royalty rate or on the price differential between respondent’s and complainant’s products. *See, e.g., Certain Microsphere Adhesives*, Inv. No. 337-TA-366, Comm’n Op. at 24, USITC Pub. 2949 (Jan. 1996) (setting bond based on price differentials between domestic products and lower-priced imports); *Certain Plastic Encapsulated Integrated Circuits*, Inv. No. 337-TA-315, Comm’n Op. on Issues Under Rev. & on Remedy, Public Interest, & Bonding at 45, USITC Pub. 2574 (Nov. 1992) (setting the bond based on a reasonable royalty). Where the available pricing information is inadequate, however, the Commission may set the bond at 100 percent of entered value. *See, e.g., Certain Neodymium-Iron-Boron Magnets, Magnet Alloys*, Inv. No. 337-TA-372, Comm’n Op. on Remedy, Public Interest & Bonding at 15, USITC Pub. 2964 (May 1996).

In his Recommended Determination, the Judge states that:

Samsung argues that a price differential analysis would not be practicable because the accused products and the domestic industry products “are sold through different channels and widely-varying prices” and because Apple didn’t provide requested evidence. . . . Samsung does not claim that it sought to compel the needed pricing information from Apple [for calculating a price differential]. While the Administrative Law Judge does not approve of withholding requested discovery, Samsung had an affirmative obligation to obtain the evidence it needs to support its proposed remedy. Samsung cannot simply say that because no one did anything it should automatically be granted a windfall of 100 percent. Thus with respect to the accused iPhones, which directly compete with Samsung’s claimed domestic industry mobile handset products . . . , the Administrative Law Judge recommends that bond be set at zero.

With respect to the accused media players and tablet computers, the Administrative Law Judge credit's Ms. Mulhern's testimony. . . that these are not in competition with Samsung's domestic industry products. . . . Thus, there does not appear to be a dispute that a differential would not be calculable with respect to these products. In the absence of a reasonable alternative, the Administrative Law Judge recommends that for the accused iPod and iPod Touch a bond of 100 percent be set.

RD at 6-7 (citations and footnote omitted).

OUII disagrees with a portion of this recommendation, in that it does not believe that a bond based on a price differential is appropriate in this investigation for any of the accused products. Apple's economic expert, Stephen Prowse, testified that "over the period 2010, 2011, the average sales price for Samsung's DI products, the mobile phones, was [ ]; whereas the average sales for Apple's accused iPhones over the same time period was \$[ ]; a difference of [ ]." Hearing Tr. at 2156:20-25 (Prowse); *see* CX-846C (STA Sales Data); CX-380C (FY 2011 iPhone Summary Chart); CX-267C (Apple Inc. iPhone Units/Revenue Report - FY12). Samsung's expert, Carla Mulhern, testified that the model-specific average selling prices ("ASP") of Samsung's domestic products over the period 2010 to 2011 ranged from [ ] on a model-by-model basis. Hearing Tr. at 1787:11-22 (Mulhern).

Given that the average sales price for Apple's iPhone products [ ] than the price of Samsung's highest-priced phone ([ ]), in OUII's view a bond cannot be set based on this price differential. As Dr. Prowse testified:

Q. And how does this finding affect the amount of bond that you recommend?

A. Well, my understanding is a bond, a bond based on a price differential should be set if the Complainants or if the Respondents' products are cheaper than the Complainant's products. And the price differential is meant to account for that gap, but here we have the opposite, where the Respondents' products are much more expensive than Samsung's DI products. And so if a bond is to be based on a price differential analysis, it would seem to me the bond should be zero.

Hearing Tr. at 2157:1-13 (Prowse). Thus, OUII submits that a zero bonding rate during the Presidential review period is appropriate, not as a default in the absence of needed information, but as the correct rate established by the record evidence of Apple's pricing practices.<sup>22</sup>

Respectfully submitted,

/s/ Lisa A. Murray

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<sup>22</sup> Samsung was unable to meet its burden by proposing an alternative bond rate based on a reasonable royalty. *See* RD at 6; Samsung Prehearing Br. at 175 [ ]. “Complainants are, or should be aware, that such failure to satisfy their burden to support bonding may result in no bonding at all.” *Personal Data and Mobile Communications Devices*, USITC Pub. No. 4331, Comm’n Op. at 85.

**CERTIFICATE OF SERVICE**

The undersigned certifies that on December 20, 2012, she caused the foregoing **BRIEF OF THE OFFICE OF UNFAIR IMPORT INVESTIGATIONS ON ISSUES UNDER REVIEW AND ON REMEDY, THE PUBLIC INTEREST, AND BONDING (PUBLIC VERSION)** to be served by hand upon Administrative Law Judge E. James Gildea (2 copies), and served upon the parties (1 copy each) in the manner indicated below:

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