

# Litigating Standard Essential Patents at the U.S. International Trade Commission

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## I. Introduction

Technical industry groups often form voluntary organizations to develop and adopt technical standards that allow compatibility between different products made by different manufacturers so that any of those standard-compliant products can work together. For example, an industry group may develop a standard protocol for wireless communication so that wireless signals transmitted by one standard-compliant device can be received and understood by any other standard-compliant device no matter who made those devices. These standard setting organizations (“SSOs”) often have policies concerning what its participants should do if they own intellectual property relevant to a standard that the SSO is developing. Such intellectual property rights (“IPR”) policies may require a participant to let the SSO know if they have a patent that may cover or is *essential* for someone to implement the standard (also called “standard essential patents” or “SEPs”). The IPR policies also may require the patent owner to let the SSO know if they are willing to license patents that are essential to the standard and, if so, under what terms. For example, a patent owner may submit a declaration or letter of assurance to an SSO stating that it is willing to license its patents on fair, reasonable and non-discriminatory (“FRAND”) terms if those patents are essential to implementing the standard.

Standard essential patents, including those with FRAND or related commitments to SSOs, have been around for decades for all types of industries. But recent years have seen an increase in litigation concerning such standard essential patents. As with other types of patents, the U.S. International Trade Commission (“ITC” or “the Commission”) has been a popular venue for patent owners to seek relief by excluding from entry into the United States products that are using their patented inventions without permission or a license from the patent owner. In 2013, for the first time in twenty-five years, the U.S. Trade Representative (USTR) invoked a rarely used discretionary power to disapprove the ITC’s determination to grant exclusionary relief to bar importation of products found to infringe standard essential patents directed to mobile wireless device technology. In doing so, the USTR provided guidance about what factual investigation and determinations he would expect the ITC to provide when considering whether to provide exclusionary relief for alleged standard essential patents in the future.

This paper explores the distinct process of litigating standard essential patent disputes before the ITC. Specifically, this paper will review ITC investigations involving standard essential patents that were pending during and after the USTR’s 2013 disapproval and lessons learned from those investigations.

## II. General Procedure and Remedies at the ITC

The ITC is an “independent quasi-judicial federal agency with broad investigative responsibilities on matters of trade.”<sup>2</sup> The ITC shields domestic industry and American workers from illegal foreign trade practices and is an important forum for patent litigation in what are called Section 337 investigations. That’s because the ITC derives statutory authority from Section 337 of the Tariff Act of 1930 which “makes it unlawful, among other unfair acts, to import any article that infringes a patent, trademark or copyright that is valid and enforceable in the United States.” By and large, almost all of the ITC’s Section 337 investigations focus on patent infringement.<sup>3</sup>

The ITC can be an appealing forum for patent litigation over federal district courts for a variety of reasons: it offers rapid decisions (investigations can be completed within 12 to 16 months) and boasts administrative law judges who are well-versed in the nuances of complex patent cases and technology.<sup>4</sup> The bulk of Section 337 investigations involve technology-related industries, such as patents dealing with wireless communications, electronics and computers.<sup>5</sup> In addition to its quick timetable for reaching decisions on cases, the ITC has *in rem* jurisdiction over the actual infringing products, meaning that its decision can impact foreign companies that otherwise may be beyond the purview of federal courts, because the ITC’s jurisdiction covers the products of such companies as they seek entry at the U.S. border. The ITC also has robust discovery similar to what is available in U.S. district courts.

### A. General Procedure

Litigation before the ITC begins with the patent owner (or “complainant”) filing a complaint that seeks to block infringing products of accused infringers (or “respondents”) from being imported into the United States.<sup>6</sup> If the ITC decides that the claim has merit, it will institute an investigation. The ITC then sends the investigation to an administrative law judge (“ALJ”) charged with conducting an evidentiary hearing. The hearing occurs about six or seven months after the investigation begins, generally following a brief discovery period. Following the hearing, the ALJ will issue an Initial Determination (“ID”) on the investigation as to whether there has been a Section 337 violation and what remedy should be imposed if there is a violation. Such remedies are injunctive in nature comprising an order that excludes infringing products from entering the U.S. or a cease and desist order that prevents an accused infringer from doing

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<sup>2</sup> *About the USITC*, U.S. Int’l Trade Commission, [http://www.usitc.gov/press\\_room/about\\_usitc.htm](http://www.usitc.gov/press_room/about_usitc.htm) (last visited Sept. 25, 2015).

<sup>3</sup> See Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 Fla. L. Rev. 529, 532 (2009).

<sup>4</sup> See Ian Feinberg & Gary M. Hnath, *Fundamentals of Patent Litigation 2012*, Practising Law Institute, ed. 2012, at 6-7.

<sup>5</sup> Christopher A. Cotropia, *Strength of the International Trade Commission as a Patent Venue*, 20 Tex. Intell. Prop. L. J. 1, 24 (2011).

<sup>6</sup> *An Overview of Section 337 Litigation Before the ITC*, Law360.com, Aug. 9, 2010, <http://www.law360.com/articles/183706/an-overview-of-section-337-litigation-before-the-itc> (last visited Oct. 14, 2015).

certain activity, such as selling infringing products that already are in the U.S. The ITC cannot award any other remedies—e.g., the ITC cannot award monetary damages. In determining the proper remedy, the ITC must consider the effect that an exclusionary remedy would have on the public interest.<sup>7</sup>

Upon entry of the Initial Determination by the ALJ, the full Commission has several options: the Commission can decline to review the Initial Determination, in which case it will become the Final Determination of the ITC; or the Commission can review all or part of the Initial Determination, which may result in a Final Determination that is based in whole or in part on the ALJ's Initial Determination. The USTR, on behalf of the President, has sixty-days after the Commission issues a final determination to disapprove the ITC's decision so that it does not go into effect, but such disapprovals are rare.<sup>8</sup>

## **B. Remedies**

In Section 337 litigation, the ITC has the authority to issue two kinds of remedial orders: (1) limited or general exclusion orders and (2) cease and desist orders. An exclusion order will bar importation into the United States of infringing products. A cease and desist order instructs a respondent in an investigation to cease its domestic unfair acts, such as selling imported products that consist of infringing articles.<sup>9</sup> The ITC must consider the effect exclusionary relief may have before it orders such relief.<sup>10</sup> The ITC maintains the ability to use early proceedings on issues of public interest and remedy to extend notice to litigants about the likelihood of an exclusion order. Parties can move for a summary determination on any issue in a Section 337 investigation, similar to the method by which parties in a district court proceeding may move for summary judgment.<sup>11</sup> However, these summary determination proceedings rarely involve issues of remedy.<sup>12</sup>

The enabling statute requires the ITC to weigh the public interest every time it considers issuing a remedy.<sup>13</sup> The Federal Circuit has identified four separate public interest factors, which

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<sup>7</sup> See 19 U.S.C. § 1337(d)(1).

<sup>8</sup> See 19 U.S.C. § 1337(j)(2) (2012).

<sup>9</sup> See 19 U.S.C. Section 1337(f)(1).

<sup>10</sup> See 19 U.S.C. Section 1337.

<sup>11</sup> See Summary Determinations, 19 C.F.R. Section 210.18 (2012).

<sup>12</sup> See Taras M. Czebinak, *When Congress Gives Two Hats, Which Do You Wear? Choosing Between Domestic Industry Protection and IP Enforcement in Section 337 Investigations*, 26 Berkeley Tech. L.J. 93, 107 (2011).

<sup>13</sup> See, e.g., 19 U.S.C. Section 1337(d)(1) (covering exclusion orders); *Certain Automated Mechanical Transmission Sys. for Medium-Duty and Heavy-Duty Trucks and Components Thereof*, Inv. No. 337-TA-503, USITC Pub. 3934, Final at 7 (May 9, 2005) (Comm'n Opinion) (“Section 337(d) and (f) direct the Commission to consider public interest factors before issuing remedial orders, including the effect of any such remedial order on 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.’”).

include (1) the public health and welfare; (2) competitive conditions in the United States economy; (3) the production of like or directly competitive articles in the United States; and (4) United States consumers.<sup>14</sup> In practice, the ITC often determines in Section 337 cases that excluding goods from entering the U.S. marketplace does not threaten the public interest. Indeed, the legislative history of the ITC statute supports the exclusion of infringing products: “The legislative history of the amendments to Section 337 indicates that Congress intended injunctive relief to be the normal remedy for a Section 337 violation and that a showing of irreparable harm is not required to receive such injunctive relief.”<sup>15</sup>

The ITC’s flexibility in fashioning a remedy comes from 19 U.S.C. Section 1337, which provides the ITC with “broad discretion” to create an appropriate remedy. The ITC’s process and procedure also plays an important role. Once the ITC determines that a violation has occurred, it is authorized to enter an exclusion order which prevents the products at issue from entering the United States. In some cases, the ITC has held a separate hearing after a liability finding to weigh what particular form of exclusionary relief may be appropriate.<sup>16</sup> If the ITC decides to impose an exclusion order, then the injunction goes into effect immediately, although it remains subject to the sixty-day presidential review period.<sup>17</sup> When the ITC’s order is final, the respondent can appeal to the Federal Circuit.

The ITC has several options to create a remedy. The ITC can decide what products the exclusion order will cover, when it will implement its exclusion order (whether the order will be delayed, for example), or weigh the prospect of setting bond to permit continued importation of the product at issue during the presidential review period. For example, the ITC can decide that an exclusion order should only apply to foreclose future versions or units of products, which would allow existing, older models to remain for sale.<sup>18</sup>

### **C. Weighing Public Interest Factors**

Before 2010, the ITC generally did not authorize administrative law judges (ALJs) to hear public interest evidence during the course of a regular investigation unless special circumstances were present or in the case of a temporary relief proceeding.<sup>19</sup> Because the full

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<sup>14</sup> See *Spancion, Inc. v. ITC*, 629 F.3d 1331, 1358 (Fed. Cir. 2010).

<sup>15</sup> *Spancion*, 629 F.3d at 1358.

<sup>16</sup> See *Certain Personal Data and Mobile Commc'ns Devices and Related Software*, Inv. No. 337-TA-710, USITC Pub. 4331, Final at 3-7 (July 15, 2011).

<sup>17</sup> 19 U.S.C. Section 1337(j)(2).

<sup>18</sup> See *Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Prods. Containing Same, Including Cellular Tel. Handsets*, Inv. No. 337-TA-543, USITC Pub. 4258, Final at 153 (June 19, 2007) (Comm'n Opinion) (finding that a full-scale exclusion order was not permitted in the investigation based on the public interest factor of harm to third parties, but that an adjusted exclusion order should be issued that would grandfather in existing models of handsets).

<sup>19</sup> See 61 Fed. Reg. 39468-69 (July 29, 1996) (Institution of Inv. No. 337-TA-389 for Certain Diagnostic Kits for the Detection and Quantification of Viruses) (“In light of the public health issues which may arise in this investigation, the Commission has directed the administrative law

ITC itself bore the responsibility for weighing the public interest before issuing a remedy, the ALJs were instructed to refrain from addressing public interest factors in their remedy recommendation, unless so ordered in rare instances by the ITC.<sup>20</sup>

That changed in 2010. In 2010, the ITC adopted a pilot program to identify Section 337 investigations in which an exclusion order would present considerable concerns under the “public interest” test. The pilot program allowed developing earlier in the investigation a factual record on public interest issues and directed an assigned ALJ to develop an evidentiary record on the issues. The program ran from July 2010 until November 2011, and the ITC directed ALJs to take evidence on the public interest factors in 10 out of 80 investigations instituted during that time period. Following the end of the pilot program, new rules went into effect, under which the ITC required a complainant to file a separate statement of public interest concurrent with the complaint, to solicit voluntary comments on the public interest from proposed respondents and other parties, and to mandate that respondents file post-institution public interest comments in investigations where the ITC has delegated the taking of evidence to the ALJ.<sup>21</sup>

One benefit of having the ALJ conduct fact finding on public interest issues is that matters before the ALJ are subject to the Administrative Procedures Act, and more specifically, to the ITC Rules of Practice and Procedure. Under these rules, parties “shall have the right to adequate notice, cross-examination, presentation of evidence, objection, motion, argument, and all other rights essential to a fair hearing.”<sup>22</sup> However, under prior ITC practice, the parties submitted public interest evidence during the ITC’s review period after the ALJ’s initial determination. This evidence often manifested as written submissions and comments, as the ITC generally does not hold hearings on the public interest. Thus, such public interest evidence would not be subject to evidentiary hearings – meaning that there would be no opportunity for cross examination or the submission of rebuttal evidence. However, the ITC’s decision to delegate the taking of public interest evidence to its ALJs also has led to new discovery obligations and costs for the parties, as both parties often retain at least one expert witness to opine on public interest issues.<sup>23</sup>

Whether the public interest factors are weighed by an ALJ or by the full ITC, there has been a significant reexamination of how public interest considerations are incorporated into decisions in recent years. In 2011, in a case involving smartphones, the ITC decided not to

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judge to gather evidence, hear argument, and make findings on public interest issues related to any remedy ultimately adopted by the Commission.”).

<sup>20</sup> 19 C.F.R. Section 210.42(a)(1)(ii)(C).

<sup>21</sup> See Rules of Adjudication and Enforcement, 76 Fed. Reg. 64,803 and 64,804 (Oct. 19, 2011) (effective date Nov. 18, 2011).

<sup>22</sup> See ITC Rule 210.36(d).

<sup>23</sup> See, e.g., *Certain Wireless Devices With 3G and/or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868, Order No. 84 (Dec. 18, 2013) (granting complainant’s motion to strike the expert report of respondent’s public interest expert).

outright deny, but instead, to delay the start of an exclusion order.<sup>24</sup> As a result of the pilot program and the new rule, the ITC now permits ALJs (under ITC order) to take evidence on public interest factors at the beginning of a case, rather than waiting until the end.<sup>25</sup> As such, the evidence gathered pertaining to the public interest factors can be used to pinpoint likely remedies earlier in the proceeding.

Moreover, as discussed below, making a record concerning defenses related to standard essential patents has implications for affirmative defenses as well as for the public interest inquiry. So ALJs now are often asked to develop the record and make factual determinations on the public interest inquiry for investigations concerning standard essential patents.

### **III. The U.S. Trade Representative's Disapproval Heard Around the World**

In June 2011, Samsung filed in the ITC a somewhat routine complaint against Apple styled *In the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Table Computers*, Investigation No. 337-TA-794. This investigation led to a significant moment two years later when, for the first time in twenty-five years, the U.S. Trade Representative invoked his rarely used discretion to disavow and nullify the ITC's order of an exclusion order. The case fizzled-out after that, leaving substantial questions in its wake on how parties should litigate standard essential patents before the ITC. The following is a summary of that litigation, which has greatly influenced the proceedings of all Section 337 investigations involving standard essential patents.

#### **A. The Initial Determination**

In June 2011, Samsung filed a Complaint in the ITC alleging that some models of Apple's iPhones and iPads infringed five Samsung patents, including two patents (U.S. Patent Nos. 7,706,348 and 7,486,644) alleged to be essential to the Universal Mobile Telecommunications Standard (UMTS) 3G cellular standard set by the European Telecommunications Standards Institute (ETSI) standard setting organization. Apple asserted that it did not infringe those patents and, in any event, Samsung's commitment to ETSI that it would license those patents on fair, reasonable and non-discriminatory terms (FRAND) precluded the ITC from entering an exclusion order on them. Administrative Law Judge E. James Gildea held a hearing in June 2012 and issued his Initial Determination that rejected Apple's FRAND defense, but found that the alleged standard essential patents were not infringed.<sup>26</sup>

Judge Gildea stated that Section 337 investigations were different from district court litigations because they involve not only potential injunctive relief, but also other personal relief

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<sup>24</sup> See *Certain Pers. Data and Mobile Commc'ns Devices and Related Software*, Inv. No. 337-TA-710, USITC Pub. 4331, Final at 3 (Dec. 19, 2011) (adopting a "limited" exclusion order).

<sup>25</sup> 19 C.F.R. Section 210.8, 210.10(b), 210.14(f), 210.42(a)(1)(ii)(C), 210.50(a)(4) (2012).

<sup>26</sup> *Certain Personal Data and Mobile Commc'ns Devices and Related Software*, Inv. No. 337-TA-710, USITC Pub. 4331, Initial Det. (June 2012).

such as monetary damages.<sup>27</sup> Rather, Section 337 investigations go beyond the litigants' private interests and extend to "time sensitive" issues of the public interest and "irremediable effects that unfair competition, including entry of patent infringing articles, might have on domestic industries."<sup>28</sup> He stated that the ETSI intellectual property rights (IPR) policy at issue itself states that "the national courts of law have the sole authority to resolve IPR disputes."<sup>29</sup> The ETSI IPR policy further counsels its members to resolve their disputes through bilateral negotiations and, if that fails, they are "invited to inform the ETSI GA in case a friendly mediation can be offered by other ETSI Members and/or the ETSI Secretariat."<sup>30</sup> This ETSI idea for seeking "harmony between and among the consensus-building ETSI membership" may not be readily met in patent disputes and can lead to a "delayed and protracted dispute resolution."<sup>31</sup> But Section 337 investigations have a wider and immediate public concern that transcends ETSI's objectives.<sup>32</sup> He expressed concern that "an infringing party could, by making unrealistic counter-offers to the patent holder, while claiming that such counter-offers more accurately reflect FRAND than the offers proposed by the patent holder, hold up or frustrate Section 337 investigations."<sup>33</sup> This could allow an "uncooperative party" to "do an end-around of a Section 337 investigation in cases of standard essential patents."<sup>34</sup>

On the merits, Judge Gildea ruled that "the evidence does not support Apple's allegation that Samsung failed to offer Apple licenses to Samsung's declared-essential patents on FRAND terms."<sup>35</sup> Apple did not show that it availed itself of the mediation procedure suggested by the ETSI IPR policy.<sup>36</sup> Further, Apple's complaint that Samsung unreasonably offered a royalty at 2.4 percent of the selling price of Apple's products was not supported by sufficient "evidence of customers and practices of industry participants showing that Samsung's demand is invidious with respect to Apple."<sup>37</sup> Further, "Apple's evidence does not demonstrate that Apple put forth a sincere, bona fide effort to bargain with Samsung."<sup>38</sup> Rather, both parties decided to negotiate "through the tortuous, and expensive, process of litigation."<sup>39</sup> Apple had not provided sufficient evidence to establish that Samsung violated its FRAND obligation.

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<sup>27</sup> *Id.* at 461.

<sup>28</sup> *Id.*

<sup>29</sup> *Id.* at 461-462 (quoting ETSI Guide on IPRs at § 4.3).

<sup>30</sup> *Id.* at 462 (quoting ETSI Guide on IPRs at § 4.3).

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> *Id.* .

<sup>34</sup> *Id.*

<sup>35</sup> *Id.* at 469.

<sup>36</sup> *Id.* at 470.

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

## **B. The Commissions Review and Final Determination**

In November 2012, the full Commission decided to review Judge Gildea's Initial Determination in its entirety. The Commission also sought comments from the parties and the public on several questions on standard essential patent-related issues:

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.
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?
3. Would there be substantial cost or delay to design around the technology covered by the [two standard essential patents] asserted in this investigation? Could such a design-around still comply with the relevant ETSI standard?
4. What portion of the accused devices is allegedly covered by the asserted claims of each of the [two asserted standard essential] patents? Do the patents cover relatively minor features of the accused devices?
5. [Directed Only To The Parties] What evidence in the record explains the legal significance of Samsung's FRAND undertaking under French law?<sup>40</sup>

In response, the ITC received submissions from the parties as well as many non-parties with interests in standard essential patents. The ITC extended the date for its decision several times. In March 2013, the ITC asked the parties to provide additional submissions on the standard essential patent issues presented, indicating that their deliberations were inclined to find a violation as to at least one of the alleged standard essential patents (the '348 patent):

5. Please summarize the history to date of negotiations between Samsung and Apple concerning any potential license to the '348 patent, either alone or in conjunction with other patents. Please provide copies of all written offers and counteroffers concerning a license that would cover the '348 patent, whether made by Samsung or Apple.
6. Please summarize all licenses to the '348 patent granted by Samsung to any entity. Please provide copies of, or cite to their location in the record of this investigation, all agreements wherein Samsung grants any entity a license to the '348 patent.

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<sup>40</sup> Notice of Review, 77 Fed. Reg. 227 (Nov. 26, 2012).

7. Samsung and Apple are each requested to submit specific licensing terms for the '348 patent that each believes are fair, reasonable, and non-discriminatory. Would Samsung's terms change if the Commission were to enter remedial orders against Apple's products accused in this investigation? If so, please explain whether such an offer would be fair, reasonable, and non-discriminatory.

8. Which factors in *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970) are most relevant to determining whether Samsung has offered to license the '348 patent to Apple on fair, reasonable, and non-discriminatory terms? Please apply any relevant *Georgia-Pacific* factors to Samsung's offer(s) to license the '348 patent to Apple. This analysis should include a comparison of Samsung's licensing offers to a hypothetical negotiation between the parties prior to adoption of the '348 patent into the standard at issue here. What other factors, if any, are relevant in determining whether Samsung has made a fair, reasonable, and non-discriminatory offer?<sup>41</sup>

On June 4, 2013, the ITC issued its Final Determination that found that Apple's products at issue infringed Samsung's '348 patent and issued both a limited exclusion order barring importation of those products and a cease and desist order that would prevent Apple from selling or distributing such products that already were in the United States.<sup>42</sup> The ITC ruled that "[i]t is Apple's burden to show by a preponderance of the evidence that its FRAND defense precludes the Commission from finding a violation of section 337."<sup>43</sup> Apple had not met this burden for several reasons.

First, Apple had not provided any binding legal authority that the ITC was precluded from investigating a Section 337 violation based on the FRAND undertaking.<sup>44</sup> Section 337 requires the ITC to investigate violations without any distinction between patents that do or do not have a FRAND commitment.<sup>45</sup> Further, ETSI itself declined to adopt into its IPR Policy a prohibition against injunctive relief.<sup>46</sup>

Second, Apple failed to argue a cognizable defense. For example, "Apple has not identified the basic elements necessary to prove a contract: the parties, the offer, the acceptance, the consideration, and definite terms."<sup>47</sup>

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<sup>41</sup> Notice of Review, 77 Fed. Reg. 227 (Nov. 26, 2012).

<sup>42</sup> *Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, And Tablet Computers*, Inv. No. 337-TA-794, Final Det. (June 4, 2013).

<sup>43</sup> *Id.* at 45.

<sup>44</sup> *Id.*

<sup>45</sup> *Id.* at 46.

<sup>46</sup> *Id.* at 47.

<sup>47</sup> *Id.*

Third, Apple failed to “identify what the specific obligations may be that flow from Samsung’s FRAND declarations.”<sup>48</sup> Apple did not “preserve” arguments on interpreting Samsung’s FRAND declarations. For example, those declarations state that they “shall be governed by the laws of France,” but Apple presented no evidence on how such laws would view Samsung’s obligations.<sup>49</sup>

Fourth, Samsung’s FRAND declarations to ETSI were conditioned on the patents being essential to the standard, but Apple argued that the patent was not essential.<sup>50</sup> The ALJ was not asked to decide, and did not decide, whether the patents actually were essential to the standard: “the ID contains no comparison of the asserted claims of the ‘348 or ‘644 patents to the technical disclosures of the ETSI standards in question.”<sup>51</sup>

Fifth, similar to the first point above, Apple argued but did not show that the ITC can address infringement of a FRAND-committed patent only where the accused infringer refuses to pay a U.S. court determined FRAND royalty or the U.S. court has no jurisdiction over the accused infringer. Such drastic limitations would make the ITC “a forum of last resort” and is “directly contrary to the Commission’s enabling statute.”<sup>52</sup>

Even if Apple had shown that it had a breach of contract claim, it would appear to be enforcing an “agreement to agree” that “imposes an obligation on the parties to negotiate in good faith.”<sup>53</sup> The ITC reviewed the history of negotiations between Apple and Samsung and found that “Apple has not proved a failure by Samsung to negotiate in good faith.”<sup>54</sup> Among other things, the ITC rejected Apple’s argument that Samsung’s initial offer must reflect a FRAND royalty rate.<sup>55</sup> Rather “it is expected that parties arrive at a FRAND license through negotiation.”<sup>56</sup>

The ITC also was concerned by Apple’s position that it would pay FRAND royalties only after full litigation and appeal on the patents’ infringement, validity and enforceability, finding this raised reverse patent hold-up concerns:

Apple’s position illustrates the potential problem of so-called reverse patent hold-up, a concern identified in many of the public comments received by the Commission. In reverse patent hold-up, an implementer utilizes declared-

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<sup>48</sup> *Id.* at 48.

<sup>49</sup> *Id.* at 49.

<sup>50</sup> *Id.* at 50.

<sup>51</sup> *Id.* at 50-51.

<sup>52</sup> *Id.* at 51.

<sup>53</sup> *Id.* at 52.

<sup>54</sup> *Id.* at 59.

<sup>55</sup> *Id.* at 60.

<sup>56</sup> *Id.*

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.<sup>57</sup>

In addition to considering the FRAND defense for purposes of whether a Section 337 violation occurred, the ITC also addressed Apple's FRAND-based arguments that an exclusionary remedy would be against the public interest. The ITC rejected Apple's arguments on the public interest for the same or similar reasons why it rejected Apple's FRAND defense for liability. The ITC rejected Apple's argument that there is any *per se* prohibition against exclusionary relief for a FRAND-obligated patent.<sup>58</sup> The ITC also rejected the argument that Samsung had breached any such obligation.<sup>59</sup> Further, Commissioner Aranoff specifically rejected the argument that the ITC has "an independent duty to examine whether Samsung has satisfied its alleged FRAND obligation under the statutory public interest factors," finding that the issue is more appropriately addressed in the liability inquiry of whether a violation has occurred as a FRAND-based affirmative defense.<sup>60</sup> By analogy, it may be against the public interest to enter an exclusionary order based on invalid patent claims, but whether or not the patent claims are invalid is determined as an affirmative invalidity defense argument in the liability phase that is not addressed again for the public interest inquiry.

Commissioner Pinkert dissented from the grant of exclusionary relief, because he found it would be against the public interest given the FRAND issues presented.<sup>61</sup> He found that "Samsung has made no effort to demonstrate that the license terms it has offered Apple ... satisfy an objective standard of reasonableness."<sup>62</sup> Where evidence indicates the complainant is not offering FRAND licensing terms on "a patent covering a minor element of a complex multi-component product," granting exclusionary relief "would in all likelihood impose substantial costs on consumers while undermining the standards process and thus public welfare and competitive conditions in the U.S. economy."<sup>63</sup> He found that the '348 patent at issue was "nothing more than a 'tweak' to the UMTS standard and exclusionary relief in this case would be adversely affect U.S. consumers."<sup>64</sup>

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<sup>57</sup> *Id.* at 62-63.

<sup>58</sup> *Id.* at 111-112.

<sup>59</sup> *Id.* at 112.

<sup>60</sup> *Id.* at 112 n.22.

<sup>61</sup> *Id.* at D1-D2.

<sup>62</sup> *Id.* at D3.

<sup>63</sup> *Id.* at D5.

<sup>64</sup> *Id.* at D6-D7.

### C. U.S. Trade Representative Disapproves of Exclusionary Relief

On August 3, 2013, U.S. Trade Representative Michael B.G. Froman (USTR) disapproved the ITC's determination to enter exclusionary relief.<sup>65</sup> In doing so, he cited concerns about patent holdup by a patent owner and patent hold-out by potential licensees that were raised in a 2013 Joint Policy Statement by the Department of Justice (DOJ) and U.S. Patent & Trademark Office (USPTO) concerning FRAND-committed standard essential patents:

The Policy Statement expresses 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", i.e., asserting the patent to exclude an implementer of the standard from a market to obtain a higher price for use of the patent than would have been possible before the standard was set, when alternative technologies could have been chosen. At the same time, technology implementers also can cause potential harm by, for example, 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.<sup>66</sup>

USTR Froman did not give specific reasons for disavowing the exclusionary relief in this case beyond referring to the various broad public interest policy concerns as they relate to "competitive conditions in the U.S. economy and the effect on U.S. consumers."<sup>67</sup> He did give guidance on what he would look for in future cases, indicating the ITC should take affirmative, proactive steps to develop a record and make specific findings on FRAND issues "in its public interest determinations", stating:

I would like to underscore that in any future cases involving SEPs that are subject to voluntary FRAND commitments, the Commission should be certain to (1) examine thoroughly and carefully on its own initiative the public interest issues presented both at the outset of its proceeding and when determining whether a particular remedy is in the public interest and (2) seek proactively to have the parties develop a comprehensive factual record related to these issues in the proceedings before the Administrative Law Judge and during the formal remedy phase of the investigation before the Commission, including information on the standard-essential nature of the patent at issue if contested by the patent

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<sup>65</sup> See Letter from Ambassador Michael B.G. Froman, U.S. Trade Representative, Exec. Office of the President, to Honorable Irving A. Williamson, Chairman, U.S. Int'l Trade Comm'n (Aug. 3, 2013) [hereinafter Froman Letter].

<sup>66</sup> Froman Letter at 1-2 (citing U.S. Dep't of Justice and U.S. Patent and Trademark Office, Policy Statement On Remedies For Standard-Essential Patents Subject to Voluntary FRAND Commitments (2013), <http://www.justice.gov/atr/public/guidelines/290994.pdf> (last visited Oct. 14, 2015)).

<sup>67</sup> Froman Letter at 3.

holder and the presence or absence of patent hold-up or reverse hold-up. In addition, the Commission should make explicit findings on these issues to the maximum extent possible. I will look for these elements in any future decisions involving FRAND-encumbered SEPs that are presented for policy review. The Commission is well-positioned to consider these issues in its public interest determinations.<sup>68</sup>

The USTR's admonition here is somewhat unclear for the instant case. As discussed above, the ITC specifically sought detailed evidence and made factual findings targeting FRAND defense issues, which included two requests for additional evidence and arguments from the parties and the public on the FRAND related defenses.

USTR Froman also provided further guidance in a footnote where he quotes the joint DOJ/USPTO Policy Statement's non-exhaustive list of examples of when an exclusion order may be appropriate, stating:

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 the 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.<sup>69</sup>

USTR Froman's disapproval ended the case on the FRAND patents, because his decision was final and not subject to appeal.

#### **IV. ITC Litigations After USTR's 2013 Disapproval of Exclusionary Remedy**

To date, there has been no decision by the full Commission on whether FRAND defenses would or would not preclude entry of exclusionary relief. The issue has arisen a few times and the Commission has solicited party and public comments on specific questions directed to FRAND defenses, but those cases have settled or have been decided on other grounds – e.g., no

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<sup>68</sup> *Id.* at 3.

<sup>69</sup> *Id.* a 2 n.3 (quoting DOJ/USPTO Policy Statement at 7-8).

infringement – without the Commission reaching the FRAND issues. Following is a discussion of some of those cases and issues presented.

**A. *Adaptix v. Ericsson (Inv. No. 337-TA-871)***

In February 2013, the ITC instituted a Section 337 investigation based on Adaptix Inc.’s complaint that Ericsson infringed a patent alleged to be essential to the ETSI 4G LTE standard: *Certain Wireless Communications Base Stations and Components Thereof*, Inv. No. 337-TA-871.<sup>70</sup> Importantly, Adaptix alleged that it “did not participate in the standard-setting process for LTE development, and Adaptix has no FRAND licensing obligations regarding the asserted patent.”<sup>71</sup>

Ericsson’s original response to the complaint did not raise any FRAND defenses. But Ericsson later sought leave to amend its response to add a defense based on “Breach of FRAND obligations (breach of contract, estoppel, patent misuse, unclean hands).”<sup>72</sup> Ericsson raised a novel theory based on Adaptix’s licensee Samsung having participated in ETSI’s development of the LTE standard and not disclosing the patent to ETSI in violation of ETSI’s IPR Policy.<sup>73</sup> Ericsson argued that Adaptix should be estopped from enforcing the patent based on Samsung’s breach of ETSI’s IPR Policy. Ericsson argued it had good cause for delay in seeking to amend its response, because it had been misled by Adaptix’s representation that the patents had no FRAND obligations.

Administrative Law Judge Essex disagreed and denied Ericsson’s request to add the FRAND-based defenses.<sup>74</sup> He found that Ericsson did not provide good cause for the delay because, among other things, the Samsung agreement with Adaptix was part of the original complaint and Ericsson did not point to any misrepresented facts in the complaint or that Adaptix’s assertion of no FRAND obligation was unreasonable.<sup>75</sup> Substantively, Ericsson had not shown “that there is any legal support for its defense.”<sup>76</sup> Ericsson had not provided any support for the raised theories of “breach of contract, estoppel, patent misuse, [or] unclean

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<sup>70</sup> *Certain Wireless Communications Base Stations and Components Thereof*, Inv. No. 337-TA-871, 78 Fed. Reg. 13,895, Notice of Institution of Investigation (Feb. 25, 2013).

<sup>71</sup> *Certain Wireless Communications Base Stations and Components Thereof*, Inv. No. 337-TA-871, Adaptix Statement of Public Interest at 2 (Jan. 24, 2013).

<sup>72</sup> *Certain Wireless Communications Base Stations and Components Thereof*, Inv. No. 337-TA-871, Ericsson Motion for Leave to File An Amended Response to the Complaint (May 23, 2013) (Motion Docket No. 871-010).

<sup>73</sup> *Id.* (Ericsson Br. Ex. 1: Proposed Amendment ¶¶ 36-43).

<sup>74</sup> *Certain Wireless Communications Base Stations and Components Thereof*, Inv. No. 337-TA-871, 2013 ITC LEXIS 1088, Order Denying Ericsson's Motion to Amend Its Response to the Complaint (July 5, 2013) (Order No. 11).

<sup>75</sup> *Id.* at \*7.

<sup>76</sup> *Id.* at \*8.

hands.”<sup>77</sup> And, procedurally, it was late in the investigation and Ericsson had not provided prior notice of this potential defense.<sup>78</sup>

Although the full Commission could have reviewed this ruling, that opportunity did not arise. On the eve of trial, patent owner Adaptix moved to withdraw its complaint and terminate the investigation, which motion was granted.<sup>79</sup>

## **B. *InterDigital v. Nokia, et al* (Inv. No. 337-TA-800)**

In 2011, InterDigital filed a complaint alleging that Nokia and others infringed several patents<sup>80</sup> alleged to be essential to two 3G wireless standards (WCDMA and CDMA2000): *In the Matter of Certain Wireless Devices with 3G Capabilities and Components Thereof*, Inv. No. 337-TA-800.<sup>81</sup> The IPR Policy of several standards organizations were involved, because InterDigital participated in developing the WCDMA standard through its membership in ETSI and participated in developing the CDMA2000 standard through the Telecommunications Industry Association (TIA) and approval of CDMA2000 as an international standard by the International Telecommunications Union (ITU).<sup>82</sup>

### **1. Initial Determination**

In June 2013, Administrative Law Judge David P. Shaw issued an Initial Determination finding that there was no Section 337 violation, although he rejected the accused infringer’s FRAND-based defenses.<sup>83</sup> He held that InterDigital’s commitment under the ITU policy meant that it was “willing to negotiate” a license, meaning that InterDigital “must negotiate towards licenses on FRAND terms, making genuine and good faith efforts to reach agreement.”<sup>84</sup> The ETSI commitment was governed under French law as “*un accord de principe* (agreement in principle)” that “imposes on both negotiating parties a duty to negotiate in good faith” but “does not, however, impose an obligation actually to conclude a contract.”<sup>85</sup> Remedies for breach of the ETSI commitment “consist only of damages” and “there is no specific performance” or

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<sup>77</sup> *Id.*

<sup>78</sup> *Id.* at \*9.

<sup>79</sup> *Certain Wireless Communications Base Stations and Components Thereof*, Inv. No. 337-TA-871, 2013 ITC LEXIS 1791, Initial Det. Granting Motion to Terminate the Investigation In Its Entirety (Dec. 12, 2013) (Order No. 35).

<sup>80</sup> U.S. Patent Nos. 7,706,830; 8,009,636; 7,502,406; 7,706,332; 7,970,127; 7,536,013; 7,616,970.

<sup>81</sup> *Certain Wireless Devices with 3G Capabilities and Components Thereof*, Inv. No. 337-TA-800, 75 Fed. Reg. 54252, Notice of Institution of Investigation (Aug. 31, 2011).

<sup>82</sup> *Certain Wireless Devices with 3G Capabilities and Components Thereof*, Inv. No. 337-TA-800, Initial Det. (June 28, 2013) at 418-419.

<sup>83</sup> Initial Determination at 423, 447.

<sup>84</sup> *Id.* at 421.

<sup>85</sup> *Id.* at 422.

“remedy consisting of ‘the forced conclusion of a contract.’”<sup>86</sup> Judge Shaw found this similar to U.S. contract law “under which a generalized ‘agreement to agree’ is unenforceable, but parties may enter into binding agreements to negotiate.”<sup>87</sup>

Judge Shaw found that InterDigital had complied with such standard-setting obligations to negotiate in good faith. He reviewed the history of negotiations between the parties, but that history is not clear from the opinion because the bulk of that discussion has been redacted as confidential and is not publicly available. He had found that the standard-setting commitments at issue did not require a country-by-country license offer, but contemplated offering worldwide licenses.<sup>88</sup> He also did not find fault with InterDigital seeking exclusionary relief while the parties were still in negotiation, noting that some negotiations had started years earlier in 2009.<sup>89</sup> Judge Shaw did not find that InterDigital violated the “non-discriminatory” part of the FRAND obligation. Non-discrimination “does not require uniform treatment across licensees, nor does it require the same terms for every manufacturer or competitor.”<sup>90</sup> Further, that analysis “requires an examination of the whole of each license agreement, and not just the effective royalty rate.”<sup>91</sup>

Judge Shaw rejected the accused infringer’s assertion that competition law concerns, such as those raised by various U.S. competition agencies, preclude the ITC from entering exclusionary relief on FRAND-committed patents.<sup>92</sup> Rather, the ITC acts under its enabling statute that “makes no distinction between patents that have or have not been declared essential to a standard” and the accused infringer’s “have not offered any statutory construction that demonstrates that the Commission per se cannot issue an exclusion order for infringement of a declared-essential patent.”<sup>93</sup> He also rejected the allegation that InterDigital “negotiated in bad faith” that was premised on an argument that “injunctive relief should be available only for non-essential patents.”<sup>94</sup>

Finally, Judge Shaw rejected the accused infringer’s various equitable defenses of equitable estoppel, promissory estoppel, implied waiver, implied license, or patent misuse.<sup>95</sup> For example, the accused infringer’s equitable estoppel argument was premised on InterDigital’s commitments to ETSI and ITU being “misleading” and “induc[ing] implementers ... to reasonably rely on those statements and conclude that FRAND licenses would be available.”<sup>96</sup>

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<sup>86</sup> *Id.*

<sup>87</sup> *Id.*

<sup>88</sup> *Id.* at 426, 428 n.94, 432.

<sup>89</sup> *Id.* at 427-428.

<sup>90</sup> *Id.* at 432.

<sup>91</sup> *Id.*

<sup>92</sup> *Id.* at 422-23.

<sup>93</sup> *Id.* at 423.

<sup>94</sup> *Id.*

<sup>95</sup> *Id.* at 435-439.

<sup>96</sup> *Id.* at 436.

But Judge Shaw found that they failed to produce evidence showing that the accused infringer's "relied on any specific statements InterDigital made to the SSOs [i.e., standard setting organizations ETSI and ITU]" or that those statements "were, in fact, misleading."<sup>97</sup> Judge Shaw found no waiver, because InterDigital's disclosure of the patents to the SSOs was not shown to have "waived its right to assert the patents."<sup>98</sup> And he found no implied license, because InterDigital's declarations to the SSO's did not themselves grant a license, but showed that InterDigital was "merely prepared to grant a license on FRAND/RAND terms" and, even if it were a license, "InterDigital has not received compensation for ongoing royalties from the [accused infringers]."<sup>99</sup> He also rejected the accused infringer's patent misuse argument that was premised on InterDigital improperly expanding its U.S. patent rights by seeking a worldwide license, finding that seeking a worldwide license was not a bad faith refusal to negotiate and "the evidence shows that this practice is common among global companies."<sup>100</sup>

## 2. Recommended Determination on Remedy

In July 2013, a month after his Initial Determination finding no Section 337 violation, Judge Shaw issued his Recommended Determination on remedy.<sup>101</sup> At the outset, he states that the he had not been authorized by the Commission in this investigation to consider the public interest:

The Commission did not authorize the administrative law judge to take public interest evidence or to provide findings and recommendations concerning the public interest. Thus, in accordance with the usual Commission practice and the applicable Commission Rule, only the Commission can determine the role that public interest factors may play in this investigation.<sup>102</sup>

Accordingly, Judge Shaw ruled that, should the Commission find a Section 337 violation has occurred, he recommends a limited exclusion order based on his ruling that rejected the FRAND-related defenses for purposes of liability but without further considering whether the "FRAND or other issues may be deemed to be related to public interest."<sup>103</sup>

After Judge Shaw's decision, on August 3, 2013, the U.S Trade Representative issued his disavowal of exclusionary relief in the *Samsung v. Apple* investigation where he

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<sup>97</sup> *Id.*

<sup>98</sup> *Id.* at 438.

<sup>99</sup> *Id.* at 438-439.

<sup>100</sup> *Id.* at 439-440.

<sup>101</sup> *Certain Wireless Devices with 3G Capabilities and Components Thereof*, Inv. No. 337-TA-800, Recommended Det. (July 8, 2013).

<sup>102</sup> *Id.* at 1.

<sup>103</sup> *Id.* at 6.

instructed the ITC in future cases to proactively create a record and make specific factual findings on FRAND issues for purposes of the public interest inquiry.<sup>104</sup>

### 3. Commission Review

In September 2013, the full Commission decided to review Judge Shaw's Initial Determination in its entirety.<sup>105</sup> But the Commission indicated that it was "not interested in receiving written submissions that address the form of remedy and bonding, if any, or the public interest at this time."<sup>106</sup> In December 2013, the Commission ruled that no valid patent claim was infringed and reserved ruling on the FRAND-based defenses for efficiency sake as it awaits the initial determination in the investigation against LG, which had been dismissed from the investigation (that continued as to other parties) but was later reinstated following appeal to the Federal Circuit.<sup>107</sup> InterDigital then sought to dismiss the investigation as to LG while it appealed the liability ruling as to the other accused infringers, which the Commission granted and reiterated that it would "take no position on the FRAND issues" given the liability ruling.<sup>108</sup> In February 2015, the Federal Circuit affirmed the ITC's determination that the patents were not infringed, thus resolving the case without the full Commission addressing the FRAND issues.<sup>109</sup>

#### C. *LSI v. Realtek (Inv. No. 337-TA-837)*

In April 2012, the ITC instituted an investigation based on LSI Corp. and Agere Systems, Inc. (referred to herein collectively as "LSI") complaint alleging that Realtek Semiconductor Corporation ("Realtek") and others infringed several patents, including one patent alleged to be essential to the ITU-T H.264 standard and two patents alleged to be essential to the IEEE 802.11 WiFi standard, where it was undisputed that all three patents were essential to the standards and subject to FRAND commitments.<sup>110</sup>

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<sup>104</sup> Froman Letter, *see supra* nn. 66-70.

<sup>105</sup> *Certain Wireless Devices with 3G Capabilities and Components Thereof*, Inv. No. 337-TA-800, Notice of Comm'n Det. (Sept. 4, 2013).

<sup>106</sup> *Id.* at 3.

<sup>107</sup> *Certain Wireless Devices with 3G Capabilities and Components Thereof*, Inv. No. 337-TA-800, Notice of Comm'n Det. to Affirm in Part and Modify in Part a Final Initial Det. Finding No Violation of Section 337 By Certain Respondents; Termination of the Investigation as to Certain Respondents; Extension of the Target Date for Completion of the Investigation (Dec. 19, 2013) ("800 Notice of Final Determination").

<sup>108</sup> *Certain Wireless Devices with 3G Capabilities and Components Thereof*, Inv. No. 337-TA-800, Notice of Comm'n Det. to Grant Unopposed Motion by Complainants to Withdraw the Complaint as to the Remaining Respondents; Termination of the Investigation at 3 (Feb. 12, 2014).

<sup>109</sup> *InterDigital et al v. U.S. International Trade Commission*, No. 2014-1176, 601 Fed. App'x 972, 979; 2015 U.S. App. LEXIS 2602, at \*15 (Fed. Cir. Feb. 18, 2015).

<sup>110</sup> *Certain Audiovisual Components and Products Containing the Same*, Inv. No. 337-TA-837, Initial Det. at 333, 351 (July 18, 2013).

## 1. Intervening District Court Case

In June 2012, during the pendency of the ITC investigation, Realtek filed suit against LSI in district court alleging that LSI had breached its FRAND obligation by filing the ITC complaint seeking an exclusion order and offering an unreasonably high royalty rate. In May 2013, Judge Whyte granted Realtek's motion for summary judgment and found that LSI breached its FRAND obligation by seeking exclusionary relief in the ITC before first offering Realtek a FRAND license.<sup>111</sup> Judge Whyte held that there was no dispute in the case that LSI "entered into a binding contract with the IEEE to license [its] declared standard-essential patents ... on RAND terms, and that Realtek is a third party beneficiary to that contract."<sup>112</sup> He then determined that, "instigating an ITC 337 action naming Realtek as a respondent **prior to** offering a RAND license to Realtek, violated [LSI's] contractual obligations to the IEEE and to Realtek to license their standard-essential patents under RAND terms."<sup>113</sup> Judge Whyte made clear that "[t]he court's breach of contract holding is limited to the situation here, where defendants did not even attempt to offer a license, on 'RAND' terms or otherwise, until after seeking injunctive relief" and that "the limited issue here [is] whether the initiation of the ITC action **before offering any license** was a breach of defendants' RAND obligations."<sup>114</sup> He further issued a preliminary injunction to enjoin LSI "from enforcing any exclusion order or injunctive relief by the ITC that they might obtain against Realtek with respect to the ... declared standard essential patents."<sup>115</sup> Some questions existed as to the import of this ruling because an ITC complainant generally need not do anything to enforce an exclusion order—they are automatically enforced by U.S. Customs and Border Protection.<sup>116</sup>

On June 4, 2013, after Judge Whyte's decision, the Commission entered its final determination in the *Samsung v. Apple* investigation (Inv. No. 337-TA-794) that rejected Apple's FRAND-based defenses and issued exclusionary relief.

## 2. Initial Determination

In July 2013, Administrative Law Judge David P. Shaw issued his Initial Determination finding that the three standard essential patents were not infringed. He ruled that the accused infringers had the "burden to show by a preponderance of the evidence that a RAND defense

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<sup>111</sup> *Realtek Semiconductor Corp. v. LSI Corp., et al.*, Case No. C-12-03451, 946 F.Supp.2d 998, 2013 WL 2181717 (N.D. Cal. May 20, 2013).

<sup>112</sup> *Id.* at 1005.

<sup>113</sup> *Id.* (emphasis in original) (citing *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872 (9th Cir. 2012)).

<sup>114</sup> *Id.* at 1008 (emphasis in original).

<sup>115</sup> *Id.* at 1009-1010 (noting that such injunction "shall remain in effect until this court determines defendants' RAND obligations and defendants have complied therewith.").

<sup>116</sup> See, e.g., *RealTek v. LSI: Will ITC Defer to District Court*, Law360.com, Aug. 2, 2013, <http://www.law360.com/articles/458127/realtek-v-lsi-will-itc-defer-to-district-court> (last visited Oct. 15, 2015) (questioning whether the ITC "is free to chart its own course" despite Judge Whyte's decision).

precludes the Commission from finding a violation of section 337,”<sup>117</sup> but the accused infringers had not carried their burden here. The accused infringers’ defense was based on LSI’s opening offer being unreasonable, but there was no precedent that an initial offer need be a specific RAND royalty rate and there was precedent that “an initial offer need not be the terms of a final FRAND license because SSOs intend the final license to be accomplished through negotiation.”<sup>118</sup> Further, the accused infringers did not introduce any evidence of what would be a RAND license or RAND royalty rate for these patents, so there was nothing to compare LSI’s offers to: “a finder of fact should usually compare offers with a RAND royalty rate because more than one rate could conceivably be within the range of reasonable and non-discriminatory license terms.”<sup>119</sup> Although the accused infringers referred to the RAND royalty determination by Judge Robart in the *Microsoft v. Motorola* litigation, the decision “did not necessarily set RAND royalty rates for the IEEE and ITU” or “for either 802.11 or H.264 standards themselves.”<sup>120</sup> Rather, that decision was decided within an analytical framework, but the accused infringers did not offer such an analysis here.<sup>121</sup>

Judge Shaw also found that the investigation properly proceeded notwithstanding Judge Whyte’s ruling in the parallel district court proceeding that LSI breached its RAND obligation by filing the ITC complaint and enjoined LSI from enforcing any exclusionary relief granted.<sup>122</sup> As an initial matter, he noted that no party sought to apply collateral estoppel to the ITC investigation based on Judge Whyte’s ruling and no party sought to terminate the investigation.<sup>123</sup> He then determined that, based on the record of the investigation, he should not find that LSI is barred from enforcing the standard essential patents based on the theory that the accused infringers “are third-party beneficiaries of a contract whose terms [LSI has] yet to satisfy.”<sup>124</sup>

First, he found that the record in the ITC investigation was different than that before Judge Whyte, showing that LSI made an offer to Realtek and the failure of the parties to agree to licensing terms “cannot be attributed to” LSI.<sup>125</sup> It is not clear, however, when and under what

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<sup>117</sup> *Certain Audiovisual Components and Products Containing the Same*, Inv. No. 337-TA-837, Initial Det. at 351 (July 18, 2013) (citing *Certain Devices, Including Wireless Communications Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794 (“*Wireless Communications Devices*”), Comm’n Op. at 46 (July 5, 2013)).

<sup>118</sup> *Id.* at 351-352 (citing *Microsoft v. Motorola*, 864 F. Supp. 2d 1023, 1038 (W.D. Wash. 2012)).

<sup>119</sup> *Id.* at 352.

<sup>120</sup> *Id.*

<sup>121</sup> *Id.* at 352-353, 356-357.

<sup>122</sup> *Id.* at 359.

<sup>123</sup> *Id.*

<sup>124</sup> *Id.*

<sup>125</sup> *Id.*

terms LSI made an offer to Realtek given the substantial redaction of confidential information from the public version of Judge Shaw’s decision.<sup>126</sup>

Second, there was no authority to support the accused infringer’s contractual theory as precluding a patent holder from even seeking exclusionary relief at the ITC before first making a RAND offer:

Second, there is no indication at this time that the Commission, as a matter of law, has determined to treat RAND obligations as contractual obligations, with respondents as third-party beneficiaries, that must be satisfied before relief may be sought at the Commission. Furthermore, the Commission has not determined whether it has the statutory authority to adopt a policy of requiring patent holders to make an offer with RAND terms before filing a complaint at the Commission; nor has the Commission adopted such a policy.

Further, as in the *Samsung v. Apple* Inv. No. 337-TA-794, the accused infringers had not “presented evidence to define such traditional elements of a contract defense, let alone one that is then extended to third-party beneficiaries” like the accused infringers.<sup>127</sup>

### **3. Recommended Determination on Remedy**

A few weeks later, on July 31, 2013, Judge Shaw issued his Recommended Determination on relief which decided that, if a violation were found, a limited exclusion order should be entered. In doing so, he stated that he did not take evidence or make any findings on the public interest because the Commission did not authorize him to do so and, thus, “only the Commission can determine the role that public interest factors play in this investigation.”<sup>128</sup> Further, the accused infringers did not take a position on the public interest factors either, but reserved the ability to raise their RAND defense as to the public interest on full review by the Commission:

Respondents [accused infringers] state that they “do not and have not taken a position as to whether the Commission should issue remedial orders in view of [LSI’s] declaration to standard-setting organizations that three of the four asserted patents are standard essential.” They further state that “Respondents may, however, take a position when the issue of public interest is before the Commission.” While the Commission may determine that RAND or other issues are related to the public considerations that it must address, this RD [Recommended Determination] does not address such considerations for the

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<sup>126</sup> See *id.* at 342 – 346 (heavily redacted discussion of LSI and Realtek negotiations).

<sup>127</sup> *Id.* at 360.

<sup>128</sup> *Certain Audiovisual Components and Products Containing the Same*, Inv. No. 337-TA-837, Recommended Det. at 1-2 (July 31, 2013).

reasons stated above. Otherwise, it is noted that specific RAND-related defenses were ruled upon in the ID [Initial Determination].<sup>129</sup>

On August 3, 2013—just a few days after Judge Shaw’s ruling—the U.S Trade Representative issued his disavowal of exclusionary relief in the *Samsung v. Apple* investigation where he instructed the ITC in future cases to proactively create a record and make specific factual findings on FRAND issues for purposes of the public interest inquiry.<sup>130</sup>

#### 4. Commission Review

In October 2013, the full Commission issued a Notice that it would review “in its entirety” Judge Shaw’s determinations.<sup>131</sup> In doing so, the Commission asked the parties to “discuss and cite any record evidence of the standard essential nature” of the standard essential patents at issue.<sup>132</sup> Further, in light of the U.S. Trade Representative’s instructions when disavowing exclusionary relief in the *Samsung v. Apple* investigation, the Commission sought submissions and additional evidence (including “additional sworn testimony or expert declarations”) in response to the following RAND-related issues concerning the public interest inquiry:

1. Please discuss and cite any record evidence of the allegedly RAND-encumbered nature of the declared standard essential ‘663, ‘958 and ‘867 patents. With regard to the ‘958 patent and the ‘867 patent, what specific contract rights and/or obligations exist between the patentee and the applicable standard-setting organization, i.e., the Institute of Electrical and Electronic Engineers, Inc. (IEEE)? With regard to the ‘663 patent, what specific contract rights and/or obligations exist between the patentee and the applicable standard-setting organization, i.e., the International Telecommunication Union (ITU)?
2. Please summarize the history to date of negotiations between LSI and Funai and between LSI and Realtek concerning any potential license to the ‘663, the ‘958 and the ‘867 patents, either alone, in conjunction with each other and/or the ‘087 patent, and/or in conjunction with non-asserted patents. Please provide copies of, or cite to their location in the record evidence, all offers and communications related to the negotiations including any offer or counteroffer made by Funai and Realtek.
3. Please summarize all licenses to the ‘663, the ‘958, and the ‘867 patented granted by LSI to any entity including evidence of the value of each patent if such patent was licensed as part of a patent portfolio. Please provide copies of, or cite

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<sup>129</sup> *Id.* at 2 n.1.

<sup>130</sup> Froman Letter, *see supra* n. 66-70.

<sup>131</sup> *Certain Audiovisual Components and Products Containing the Same*, Inv. No. 337-TA-837, Notice of Comm'n Det. to Review a Final Initial Det. Finding a Violation of Section 337 In Its Entirety (Oct. 17, 2013).

<sup>132</sup> *Id.* at 3-4 (Question 11).

to their location in the record evidence, all agreements wherein LSI grants any entity a license to these patents. Please also provide a comparison of the offers made to Funai and/or Realtek with offers made to these other entities.

4. If applicable, please discuss the industry practice for licensing patents involving technologies similar to the technologies in the '663, the '958, and the '867 patents individually or as part of a patent portfolio.

5. Please identify the forums in which you have sought and/or obtained a determination of a RAND rate for the '663, the '958, and the '867 patents. LSI, Funai and Realtek are each requested to submit specific licensing terms for the '663, the '958, and the '867 patents that each believes are reasonable and non-discriminatory.

6. Please discuss and cite any record evidence of any party attempting to gain undue leverage, or constructively refusing to negotiate a license, with respect to the '663, the '958, and the '867 patents. Please specify how that evidence is relevant to whether section 337 remedies with respect to such patents would be detrimental to competitive conditions in the U.S. economy and any other statutory public interest factor.<sup>133</sup>

In March 2014, the Commission issued a final determination that found no Section 337 violation had occurred because the patent claims were either not infringed, were invalid or recently expired.<sup>134</sup> Accordingly, the Commission decided that it would “not reach any RAND or equitable defenses” and “takes no position on the ALJ’s determinations with respect to the respondents’ RAND defenses and equitable defenses.”<sup>135</sup> LSI and Realtek ultimately settled their dispute while Judge Whyte’s district court case was on appeal at the Ninth Circuit.

#### **D. *Amkor v. Carsem* (Inv. No. 337-TA-501)**

In December 2003, the ITC instituted an investigation based on patent owner Amkor Technology Inc.’s (Amkor) assertion that Carsem Inc. (Carmsem) integrated circuit devices infringed U.S. Patent No. 6,433,277 (the '277 Patent) alleged to cover the MO-22 standard set by the Joint Electronic Device Engineering Counsel (JEDEC). Carmsem’s defenses included an allegation that equitable or legal estoppel rendered the patents unenforceable based on Amkor’s alleged failure to disclose the '277 Patent to JEDEC.

##### **1. Initial Proceedings and Remands**

A final initial determination (501 Inv. 2004 Final ID) was entered in November 2004 that found there was no valid, infringed claim. On review, the Commission modified the claim construction and remanded back to the ALJ for further consideration. In November 2005, the

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<sup>133</sup> *Id.* at 4-5.

<sup>134</sup> *Certain Audiovisual Components and Products Containing the Same*, Inv. No. 337-TA-837, Comm'n Opinion (March 26, 2014).

<sup>135</sup> *Id.* at 33-34.

ALJ issued a remand initial determination (501 Inv. Remand ID) that found infringement of the ‘277 Patent. But there was a several year delay while the parties attempted to obtain discovery from a foreign third-party ASAT related to a prior art defense. In October 2009, after that foreign discovery was obtained, the ALJ issued a Supplemental Determination (501 Inv. First Supp. ID) that rejected the defense based on the alleged ASAT prior art.

On review, in July 2010, the Commission disagreed and held that the ASAT invention was prior art and remanded back for further consideration based on that determination. On this second remand, in March 2010, the ALJ issued a Supplemental Initial Determination (501 Inv. Second Supp. ID) that held the ASAT prior art invalidated the asserted ‘277 Patent claims. The Commission declined to review that decision, which thus became a final decision. The patent owner Amkor appealed to the Federal Circuit. In August 2012, the Federal Circuit reversed the finding that the ‘277 Patent was invalid and remanded the case back to the Commission.<sup>136</sup>

On remand, in January 2013, the Commission directed the parties to identify what further proceedings were required to comply with the Federal Circuit’s remand order. In June 2013, the Commission ultimately requested briefing on the economic prong of the domestic industry requirement, remedy, the public interest and bonding.<sup>137</sup>

The following month, on August 3, 2013, the USTR issued his disapproval of the ITC’s determination to enter exclusionary relief based on the finding that Apple infringed Samsung’s alleged standard essential patents.

## **2. Commission Review**

On April 28, 2014, the Commission issued its decision on remand. The Commission affirmed the ALJ’s 501 Inv. First Supp. ID determination that the ‘277 Patent was not invalid over the ASAT asserted prior art.<sup>138</sup> The Commission also rejected Carsem’s equitable defenses premised on the allegations that Amkor failed to disclose the ‘277 Patent to JEDEC. The Commission determined that a limited exclusion order was appropriate based on infringement of the ‘277 Patent.<sup>139</sup>

### **a) Commission rejects estoppel arguments because patents not shown to be essential to practice the standard.**

Carsem argued that, as construed, the ‘277 Patent is essential to the MO-220 standard that Amkor proposed to JEDEC and, thus, should have been disclosed to JEDEC. Carsem argued that the elements of equitable estoppel were satisfied as follows:

(1) [Patent holder] Amkor failed to disclose its patent rights to the JC-11.11 committee when it introduced its MO-220 proposal in January 1999 and

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<sup>136</sup> *Amkor Technology Inc. v. Int’l Trade Comm’n*, 692 F.3d 1250, 1261 (Fed. Cir. 2012).

<sup>137</sup> See 78 Fed. Reg. 35051 (Jun. 11, 2013).

<sup>138</sup> *Certain Encapsulated Integrated Circuit Devices and Products Containing Same*, Inv. No. 337-TA-794, Final Det. at 8 (Apr. 28, 2014) (“501 Inv. Final Det.”)

<sup>139</sup> 501 Inv. Final Det. at 9.

affirmatively misrepresented in the October 1999 [sic] that there were no applicable patents,

(2) [accused infringer] Carsem reasonably relied on [patent holder] Amkor's misleading statements in voting on the original MO-220 proposal and subsequent revisions for this standard and the MO-229 standard, and designing its MLP products to comply with these standards, and

(3) [accused infringer] Carsem is materially prejudiced by [patent holder] Amkor's filing of suit.<sup>140</sup>

Relying on the Federal Circuit's *Rambus* decision, the ALJ had held that Carsem must establish by a preponderance of the evidence<sup>141</sup> "that there is a reasonable expectation that the [JEDEC] standard cannot be practiced without a license under the undisclosed [patent] claims."<sup>142</sup> Relying on the *Rambus* decision, the ALJ ruled that the JEDEC disclosure requirement was limited to disclosure of patents whose claims "would cover any [JEDEC] standard and cause those who use the standard to infringe," quoting the following from the *Rambus* decision:

To hold otherwise would contradict the record of evidence and render the JEDEC disclosure unbounded. Under such an amorphous duty, any patent or application having a vague relationship to the standard would have to be disclosed. JEDEC members would be required to disclose improvement patents, implementation patents, and patents directed to the testing of standard-compliant devices—even though the standard itself could be practiced without licenses under such patents.

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[i]n other words, this duty encompassed any patent or application with claims that a competitor or other JEDEC member reasonably would construe to cover the standardized technology. This does not require a formal infringement analysis. Members are not required to perform a limitation-by-limitation comparison or conduct an equivalent analysis. Rather, the disclosure duty operates when a reasonable competitor would not expect to practice the standard without a license to practice the undisclosed claims. Stated another way, there must be some reasonable expectation that a license is needed to implement the standard. By the

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<sup>140</sup> 501 Inv. Final Det. at 12.

<sup>141</sup> The *Rambus* decision was decided under the Virginia fraud "clear and convincing evidence" standard, but the "preponderance of the evidence" standard applied for this equitable defense.

<sup>142</sup> 501 Inv. 2004 Final ID at 382 (citing *Rambus Inc. v. Infineon Technologies AG*, 318 F.3d 1081, 1102-03 (Fed. Cir. 2003)).

same token, the disclosure duty does not arise for a claim that recites individual limitations directed to a feature of the JEDEC standard ...<sup>143</sup>

The ALJ found that accused infringer Carsem had not shown that a license under the '277 Patent was required for Carsem to practice the MO-220 JEDEC standard. The ALJ rejected Carsem's expert testimony because it was premised on claim constructions proposed by Amkor which were not adopted and the expert "does not make reference to particular claim terms in specific patents." The ALJ concluded that Carsem had "failed to show a misleading communication within the meaning of the equitable estoppel test."<sup>144</sup>

After reviewing the foregoing decision of the ALJ, the Commission affirmed the ALJ's ruling, stating that "the ALJ correctly interpreted the record evidence and properly applied controlling Federal Circuit precedent, and we affirm the ALJ's determination that the equitable estoppel defense is inapplicable in this investigation."<sup>145</sup>

The Commission further found that the equitable estoppel ruling resolved Carmsen's legal estoppel arguments that patent holder Amkor "is obligated by the JEDEC rules to license the '277 patent, which Carsem refers to as a standard-essential patent, on fair, reasonable and non-discriminatory ("FRAND") terms" but Amkor "refused to offer Carsem a license on FRAND terms consistent with those previously agreed to and offered by Amkor to other actual and prospective licensees."<sup>146</sup> The Commission ruled that "the legal estoppel defense applies when 'a patentee has licensed or assigned a right, received consideration, and then sought to derogate from the right granted.'"<sup>147</sup> In this case, there was no evidence in the record "that [patent holder] Amkor has licensed or assigned the patents to JEDEC or Carsem" or "that Amkor received any consideration for a license from JEDEC or Carsem."<sup>148</sup> In this case, accused infringer Carsem "failed to prove that Amkor had deceived the standard setting body or that the patents at issue are necessary to practice the standard."<sup>149</sup> The Commission noted that Amkor's letter of assurance to JEDEC "is conditional on its face," stating that certain patents "may apply to this registration" and that "[i]f the current issued patent or later patents resulting from related applications do apply, Amkor Technology intends to comply with the JEDEC Patent Policy and License under reasonable terms and conditions that are demonstrably free of any unfair

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<sup>143</sup> 501 Inv. 2004 Final ID at 382 (quoting *Rambus*, 318 F.3d at 1100-1101).

<sup>144</sup> 501 Inv. 2004 Final ID at 384.

<sup>145</sup> 501 Inv. Final Det. at 15.

<sup>146</sup> *Id.* at 15-16.

<sup>147</sup> *Id.* at 16 (quoting *Wang Labs, Inc. v. Mitsubishi Elecs. Am., Corp.*, 103 F.3d 1571, 1581 (Fed. Cir. 1997)).

<sup>148</sup> 501 Inv. Final Det. at 17.

<sup>149</sup> *Id.*

discrimination.”<sup>150</sup> In this case, the accused infringer Carsem “failed to prove the ‘277 patent is ‘standard essential.’”<sup>151</sup>

**b) Public interest does not preclude exclusionary relief where patent not shown to be essential to practice the standard.**

Accused infringer Carsem argued that the ‘277 Patent is essential to a standard and subject to a FRAND commitment such that “[i]mposing an exclusion order barring Carsem’s standardized products from entry into the United States would harm competition and consumers in the United States” and that, “because of the importance of standard setting, an exclusion order would therefore be harmful to competitive conditions and U.S. consumers.”<sup>152</sup> The Commission rejected this argument, because the record shows that the patent “is not essential to the practice of the JEDEC MO-220 and MO-229 standards” and that “[patent holder] Amkor has not breached any obligations to JEDEC.”<sup>153</sup> Accordingly, “an exclusion order would therefore not be harmful to competitive conditions and U.S. consumers.”

**c) Commissioner Aranoff’s Footnote 24 On Public Interest Analysis**

Commissioner Aranoff presented additional views in footnote 24, page 46 of the opinion concerning whether accused infringer Carsem should be able to relitigate the standard essential patent issues in the public interest analysis even though Carsem had failed to establish such a defense in the liability phase of the investigation.<sup>154</sup> Commissioner Aranoff stated that, under principles of finality, parties wishing to raise certain standard essential patent defenses should do so in the violation phase and not revisit those issues in the public interest phase, stating:

Commissioner Aranoff believes that the Commission’s approach ... should be guided by principles of finality (including waiver and estoppel) and due process. Parties to a section 337 investigation who wish to raise arguments or present evidence concerning (1) whether a patent is standard essential; (2) whether a complainant made and/or fulfilled its obligations pursuant to FRAND commitments; or (3) whether a respondent/implementer was a willing licensee should do so in the violation phase of the investigation by raising one or more FRAND-based affirmative defenses. ... If the Commission were to find a FRAND-based affirmative defense is proven, the Commission could find no violation of section 337 and would not need to reach the issues of remedy and public interest. When, as in this investigation, the parties have a full and fair opportunity to

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<sup>150</sup> *Id.* at 18 n.10s (further stating that, “[a]s the ALJ found, the ‘277 patent was not necessary to practice the MO-220 and MO-229 standards and therefore the condition stated in the letter did not materialize.”).

<sup>151</sup> *Id.* at 18.

<sup>152</sup> 501 Inv. Final Det. at 45-46.

<sup>153</sup> *Id.* at 46.

<sup>154</sup> 501 Inv. Final Det. at 46-47 n.24.

litigate these three SEP-related issues, the respondent fails to prove a FRAND-based affirmative defense, and the Commission finds a violation of section 337, Commissioner Aranoff believes that the Commission should not reconsider the same three issues a second time, in the context of its public interest inquiry.<sup>155</sup>

Commissioner Aranoff further raised concerns about the propriety of revisiting the facts in the public interest analysis and that such situations should be “rare”, stating:

If the Commission were to routinely revisit the facts underlying a FRAND affirmative defense in the context of its public interest analysis, this would raise several concerns. Could the Commission, consistent with its obligations under the APA, apply a different burden of proof or consider different evidence on the same issue in the violation and remedy phases of an investigation? Would parties have an incentive to waive arguments or withhold evidence at the violation stage or as to raise them under a less exacting standard in the remedy phase? Are there other affirmative defenses the Commission might reconsider at the remedy stage? (For example, one could argue it is contrary to the public interest to issue a remedy based on infringement of a patent that was obtained through inequitable conduct, even if the affirmative defense of inequitable conduct failed.) Where there may be hypothetical situations that could warrant a second look at facts underlying a FRAND issue that was or could have been litigated before the ALJ in the violation phase, Commissioner Aranoff believes that they would be rare and are not present in this investigation.<sup>156</sup>

**d) Commissioners Pinkert, Broadbent and Kieff’s  
Footnote 26 on Public Interest Analysis**

Commissioners Pinkert, Broadbent and Kieff provided further views about a RAND defense in the context of the public interest analysis. They recognized that a RAND obligation may arise from express commitments or commitments implied from a course of conduct, but that did not occur in this case:

For purposes of the analysis of the statutory public interest factors in a case such as this one, Commissioners Pinkert, Broadbent, and Kieff generally recognize that either of the following two scenarios could give rise to a RAND obligation relevant to those factors: (1) where the patent holder has made an express RAND commitment to license or (2) where a RAND commitment to license arises by implication from the course of conduct of the patent holder, such as might result from the patent holder having represented the patent to be essential to an industry standard. The facts here, however, show that the ‘277 patent is not essential to a JEDEC standard and that the patent holder (Amkor) has not represented it as essential to a JEDEC standard.<sup>157</sup>

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<sup>155</sup> *Id.*

<sup>156</sup> *Id.*

<sup>157</sup> *Id.* at 49 n. 26.

The three Commissioners stated that the finding of a RAND obligation simply started the analysis, and the specific underlying circumstances should be considered to see if the actions of the patent owner or accused infringer were consistent with that obligation, stating:

Even if finding a RAND obligation in this case were warranted, the Commission would stand only at the threshold of the public interest analysis. The Commission would then have to assess the substance of the obligation and whether [patent holder] Amkor’s licensing conduct, considered in light of [accused infringer] Carsem’s conduct, is inconsistent with it. The Commission would also have to evaluate the totality of the evidence, including the evidence of the parties’ conduct, regarding the impact of a Section 337 remedy on the public interest.<sup>158</sup>

The three Commissioners indicated (without expressly finding) that this may be a case of “hold-out” by the accused infringer, stating:

The facts, however, demonstrate that [patent holder] Amkor has not acted inconsistently with the alleged obligation. Despite an overture from Amkor, it was Carsem that evidence no interest in pursuing a licensing arrangement with respect to the ‘277 patent. Putting this in terms of contemporary discussions about patent rights and competition, the facts suggest a case of hold-out by the potential licensee rather than one of hold-up by the patent holder.<sup>159</sup>

Finally, the three Commissioners emphasized the need to follow procedures in addressing the RAND defense issues, though they did not state what exactly that will be (presumably awaiting a case to present the issues in a contested, concrete manner), stating:

[I]n a Section 337 investigation, the Commission is required to make several different types of determinations. In its analysis of whether there is a violation, the Commission must, among other things, consider all legal and equitable defenses. In any analysis of remedy, the Commission must consider the statutory public interest factors. Undergirding all of this are vital procedures that safeguard due process rights and prevent undue prejudice to any party and to the agency itself. These procedures enable each of the various determinations within the investigation to be as ground as possible in a consistent and adequately tested set of facts. They help ensure that all of the relevant facts and arguments are developed on the record in a timely manner and, where appropriate and practicable, in formal adjudication by the ALJ.<sup>160</sup>

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<sup>158</sup> *Id.*

<sup>159</sup> *Id.*

<sup>160</sup> *Id.*

### 3. Settlement

Shortly after the Commission's decision, in May 2014, the parties petitioned the Commission to rescind the limited exclusion order based on a settlement that they entered under which the products were now licensed.

#### E. *InterDigital v. Nokia I (Inv. No. 337-TA-868)*

In February 2013, the ITC instituted an investigation based on InterDigital's complaint that products made by Nokia and others infringed three patents<sup>161</sup> alleged to be essential to 3G or 4G LTE standards: *In the Matter of Certain Wireless Devices with 3G and/or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868.<sup>162</sup>

Several months after this investigation was instituted, the USTR disavowed exclusionary relief in the *Samsung v. Apple* investigation and provided guidance on his expectations from the ITC in future cases dealing with standard essential patents. So, the parties and the ITC had an opportunity to consider the USTR's instructions in conducting discovery, hearing, and decision in this investigation.

#### 1. Initial Determination

In June 2014, Judge Essex issued his Initial Determination and Recommended Determination on Remedy that found that the patents were not infringed, but would recommend exclusionary relief if a Section 337 violation were found.<sup>163</sup> Because he found no valid claim was infringed, "the patents are not essential to the 3G or 4G LTE standard and InterDigital's FRAND obligations are not triggered."<sup>164</sup> He further reviewed the FRAND defenses and found that InterDigital had not breached any standard setting obligation, but the accused infringers appeared to have committed patent holdout.

Judge Essex considered the accused infringers' FRAND position that is based on InterDigital's participation in the European Telecommunication Standards Institute (ETSI)—specifically the Telecommunications Industry Association (TIA) and International Telecommunication Union (ITU) subcommittees—giving rise to certain obligations under ETSI's Intellectual Property Rights ("IPR") Information Statement and Licensing Declaration under ETSI's Rules of Procedure from Nov. 30, 2011. Judge Essex noted that these ETSI Rules of Procedure are not themselves a contract under the applicable French law, but rather an agreement in principal, guiding parties in their interactions with ETSI, other members, and third parties.<sup>165</sup>

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<sup>161</sup> U.S. Patent Nos. 7,941,151 ("the '151 Patent"); 7,190,966 ("the '966 Patent") and 7,286,847 ("the '847 Patent").

<sup>162</sup> *Certain Wireless Devices With 3G And/Or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868, 78 Fed. Reg. 8191, Notice of Institution of Investigation (Feb. 5, 2013).

<sup>163</sup> *Certain Wireless Devices With 3G And/Or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868, Initial Det. (June 13, 2014).

<sup>164</sup> *Id.* at 108.

<sup>165</sup> *Id.* at 108-123.

He states that the IPR policy’s “first goal ... is that the IPR owner be ‘adequately and fairly rewarded for the use of their IPRs in the implementation’ of the ETSI standards. Further, a patent owner agrees to license its IPR on FRAND terms only under certain conditions—e.g., the patent owner is “adequately and fairly rewarded” and the patent owner may require a licensee to reciprocate with a FRAND license on its patents covering the standard.<sup>166</sup>

Under the ETSI Rules of Procedure, a patent owner must tell ETSI about patents that might become essential, but the patent owner need not declare or confirm that the patents actually are essential to the standard. Specifically referencing Judge Shaw’s decision in *Inv. No. 337-TA-800*,<sup>167</sup> Judge Essex notes that not all declared patents actually are essential to the standard, ETSI (like other SSOs) does not itself confirm whether or not a patent is essential to implementing a standard, and declared patents frequently are found not to be essential when challenged.

Judge Essex also considered ETSI Rules of Procedure on dealing with participants that refuse to grant licenses on FRAND terms after a standard is published.<sup>168</sup> Those procedures (ETSI Rules of Procedure Section 8.2 Nov. 30, 2011) include alerting ETSI’s Director-General who gathers information from the complainant and patent owner, ETSI seeking to change the standard to avoid the patent, and referral to the European Commission. But no accused infringer in this case made use of those procedures.<sup>169</sup> If the accused infringers believed InterDigital violated ETSI’s policy, they could have approached ETSI to determine whether there was such a breach and “[i]t would be helpful to this ALJ, and the ITC, if we knew InterDigital had breached its duty to ETSI.”<sup>170</sup> Rather, nothing in the ETSI Rules of Procedure prevent a patent owner from using legal means to pressure other parties into negotiations. Further, ETSI does not define FRAND terms and “a FRAND rate is a range of possible values, depending on a number of economic factors.”<sup>171</sup>

Judge Essex not only faulted the accused infringers for not following the ETSI procedures, but expressed concern that they had demonstrated “patent hold-out” behavior “which is as unsettling to a fair solution as any patent hold up might be,”<sup>172</sup> where the accused infringers starts using the patented technology before getting a license, delays negotiating a license and then forces the patent owner into litigation where the accused infringer believes its worst case at the end of the day is paying the FRAND royalty it should have been paying all along.<sup>173</sup> Judge Essex ruled that a licensee violates the ETSI IPR rules if it uses the patented technology prior to

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<sup>166</sup> *Id.* at 110-111.

<sup>167</sup> *Id.* at 111.

<sup>168</sup> *Id.* at 112-113.

<sup>169</sup> *Id.*

<sup>170</sup> *Id.* at 113.

<sup>171</sup> *Id.*

<sup>172</sup> *Id.* at 114.

<sup>173</sup> *Id.* at 113-115.

negotiating a license, because the requirement to negotiate rests on not only the patent owner, but on the standard implementer as well. The accused infringers appear to “pull the words ‘Fair Reasonable and Non-discriminatory’ from the ETSI IPR Rules ... but have shown no interest in the rules of procedure for settling conflicts, or for obtaining licenses.”<sup>174</sup> For example, the ETSI Rules include a section “4.3 Dispute Resolution” that includes seeking mediation from other ETSI members and, if no agreement, “the national courts of law have the sole authority to resolve IPR disputes.”<sup>175</sup> But in this case the accused infringers did not report InterDigital to ETSI or seek a license. Thus, InterDigital had not violated any duty under the ETSI policy and properly had resorted to the laws of the national courts to resolve the dispute.

The accused infringers also failed to show that InterDigital did not negotiate in good faith. Judge Essex discussed the different incentives the parties have in negotiating a FRAND rate. InterDigital solely derives revenue from licensing its patents and may be inclined to grant FRAND licenses because they “allow[] for a profit”; in contrast, respondents benefit from holding out licensing discussions because, with each passing day, “Respondents [accused infringers] have not had to pay anything for a license they were by ETSI policy to obtain prior to adopting the potentially infringing technology.”<sup>176</sup> Acknowledging that the threat of an exclusion order may move a license royalty “in the upper direction on the FRAND scale,” Judge Essex notes “there are hundreds of other economic factors that go into the parties finding a royalty or flat amount both can agree on.”<sup>177</sup>

Judge Essex reviewed the substance of the parties’ negotiations (heavily redacted in the public version) and concludes that, rather than negotiate for a license, “the respondents have attempted to put pressure on InterDigital by using IPR without a license.”<sup>178</sup> Summarizing his findings, ALJ Essex found that InterDigital’s FRAND duty had not been triggered:

The obligation that InterDigital has taken has been fulfilled, and the ETSI agreement anticipates that the parties if necessary will fall back on the national law involved. The Respondents have not taken the steps provided by ETSI to address a failure to license, and so have not done what they ought to do if they believe InterDigital has failed to negotiate in good faith. Finally, they have not followed the ETSI process for procuring a license, and have engaged in holdup by making the products that are alleged to infringe before taking a license. Under these facts there is no FRAND duty.<sup>179</sup>

Judge Essex concluded his FRAND analysis by rejecting arguments against exclusion orders for SEPs, which arguments were made by the U.S. Federal Trade Commission (“FTC”)

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<sup>174</sup> *Id.* at 116.

<sup>175</sup> *Id.*

<sup>176</sup> *Id.* at 117.

<sup>177</sup> *Id.* at 118.

<sup>178</sup> *Id.* at 122.

<sup>179</sup> *Id.* at 123.

and U.S. Patent & Trademark Office (“PTO”)/U.S. Department of Justice (“DOJ”). The FTC and PTO/DOJ essentially argued that FRAND license negotiations are tainted by the threat of an exclusion order, which creates the risk of patent holdup that allows the patent owner to secure an excessively high royalty rate on standard-essential patents. But Judge Essex found no evidence that InterDigital had been negotiating in bad faith; rather, “it is the respondents that have taken advantage of the complainant and manufactured, marketed, and profited on goods without taking a license to the IP at issue.”<sup>180</sup> Judge Essex further acknowledged the “hypothetical risk of holdup” in similar situations, but “we have evidence that it is not a threat in this case, or in this industry.”<sup>181</sup> Judge Essex cites standard setting organization TIA’s statement to the FTC that “TIA has never received any complaints regarding such ‘patent hold-up’ and does not agree that ‘patent holdup’ is plaguing the information and telecommunications technology standard development process.”<sup>182</sup> Judge Essex rejected the accused infringers’ argument that limited exclusion orders should be removed *per se* as a remedy from cases involving FRAND encumbered patents, stating that doing so based on “speculative and unproven position[s] held by other government agency” without specific evidence and findings in each particular case would violate the ITC’s statutory duty and “violate every concept of justice we are tasked to enforce.”<sup>183</sup>

Finally, Judge Essex found the accused infringers’ remaining affirmative defenses--equitable estoppel, unclean hands and patent misuse—to be “moot” given his finding that “Respondents do not infringe a valid patent and that InterDigital’s FRAND obligations are not triggered.”<sup>184</sup>

## 2. Recommendation on Remedy

Judge Essex stated that the Commission authorized him to take evidence and make findings as to the public interest if a Section 337 violation existed and exclusionary relief were entered.<sup>185</sup> Judge Essex stated that the threat of an exclusion order may lead to the accused infringers taking a license at a higher rate, but “there has been no proof that such a license would be unfair unreasonable or discriminatory.”<sup>186</sup> Further, Judge Essex expressed concern that the accused infringers failed to acknowledge that the ETSI agreement permits a patent owner to access the national courts and that the accused infringers failed to take steps to adequately compensate the patent owner while using the patented technology:

Respondents ignore the ETSI agreement, paragraph 4.3, that allows a party to use the national courts in a dispute, and states they are willing to take a license. They do not say they will do so as required by the ETSI agreement, that is, to fairly and

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<sup>180</sup> *Id.*

<sup>181</sup> *Id.*

<sup>182</sup> *Id.* at 124.

<sup>183</sup> *Id.* at 126.

<sup>184</sup> *Id.*

<sup>185</sup> *Id.* at 173 (citing 77 Fed. Reg. 65713 (Oct. 30, 2012)).

<sup>186</sup> *Id.* at 175.

adequately compensate the IPR owner. While Respondents state a willingness to take a license, they have yet to do so, and are manufacturing handsets in violation of the ETSI agreement. It appears rather than follow the rules of ETSI, Respondents have pulled from the agreement five words, and has fashioned from them a sword to strike down legal remedies and to hold their own duties at bay as long as possible. It makes good business sense, for as long as they hold out, they get the IPR for free, and in the end, they are counting on getting it at either no cost if they prevail in validity or infringement, or the price of a FRAND, the price they would have paid if they had followed the agreement in the first place. The Respondents ignore the other provisions in the ETSI agreement [those duties on their side], and attempt to make it a contract of adhesion, sticking to the IPR owners to their disadvantage, freeing up the potential infringers by controlling their risks. It is not in the public interest to support this.<sup>187</sup>

Judge Essex also faulted the accused infringers for not following the procedure in the ETSI agreement where a party dissatisfied in trying to get a RAND license should notify ETSI “so it can mediate the issue.”<sup>188</sup>

Based on the foregoing and other factors, such as available alternatives to the excluded products, Judge Essex conclude that the public interest does not support using FRAND to deny an exclusion order and recommended limited exclusionary relief if a Section 337 violation exists in this case.<sup>189</sup>

### 3. Commission Review

In August 2014, the full Commission issued a decision finding no violation based on no infringement and terminated the investigation without reviewing the FRAND issues presented.<sup>190</sup> The Commission decided not to address these and other issues for efficiency reasons given the pending Federal Circuit appeal from the related 337 Investigation No. 800 involving some of the same parties and issues on related patents.<sup>191</sup>

#### F. *InterDigital v. Nokia II* (Inv. No. 337-TA-613)

In September 2007, the ITC instituted this investigation *In the Matter of Certain 3G Mobile Handsets and Components Thereof*, Investigation No. 337-TA-613, which concerns two patents (the ‘966 and ‘847 Patents at issue in the *InterDigital v. Nokia I* Inv. No. 337-TA-868) alleged to cover the 3GPP Wideband Code Division Multiple Access (WCDMA) standard and subject to declarations submitted by InterDigital to ETSI. The administrative law judge found that neither of the patents was infringed, which was affirmed by the full Commission in 2009.

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<sup>187</sup> *Id.* at 176-177.

<sup>188</sup> *Id.* at 177.

<sup>189</sup> *Id.* at 180-81.

<sup>190</sup> *Certain Wireless Devices With 3G And/Or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868, Comm’n Op. at 13 (Aug. 28, 2014).

<sup>191</sup> *Id.* at 13-14.

That decision was reversed by the Federal Circuit in 2012 based on a different claim construction and remanded back to the ITC for further proceedings.

In the interim, in 2013, the USTR issued his disavowal of exclusionary relief and provided instructions to the ITC on what he expects in future investigations involving standard essential patents. Thus, in March 2014, the Commission remanded the investigation to the administrative law judge with instructions to make findings on, among other things, public interest factors, “whether the issue of the standard-essential nature of the patents-in-suit is contested”, and “whether there is patent hold-up or reverse hold-up in this investigation.”

### **1. Determination on Remand**

In April 2015, Judge Theodore Essex provided his determination on remand.<sup>192</sup> Judge Essex recommended exclusionary relief upon finding that Nokia’s smartphones infringed the alleged standard essential patents at issue. Judge Essex found that exclusionary relief would not violate the public interest in this case. Judge Essex determined that no evidence had been presented showing that the particular Nokia smartphones in question “provide any public health and safety benefit other smart phones cannot.”<sup>193</sup> Thus, there was no evidence that a “shortage” of smart phones would ensue if an exclusion order issued.<sup>194</sup>

Judge Essex stated that the accused infringers did not address the statutory public interest factors, but instead argued “a new public interest for this case” based on the patent owner’s possible duty to grant licenses on FRAND terms and the possibility of patent holdup.<sup>195</sup> He ruled that the accused infringers have the burden to prove its defense, including the essentiality of the patents at issue, and they have this burden in both establishing an affirmative defense and in addressing the public interest inquiry. He rejected the notion of shifting the burden based solely on general policy arguments detached from the facts of the case and the specific FRAND commitment at issue:

[W]e must look at the patentee’s actual FRAND commitment. We need not be stampeded into abandoning the rule of law, or burden of proof simply because the respondents shout “FRAND”.<sup>196</sup>

He found that the accused infringers had not shown that the patents actually were essential to the standard, which showing must be made before InterDigital’s FRAND obligation would arise based on the specific commitments at issue here. The accused infringers themselves argued throughout the proceedings that the patents were not infringed and, thus, not essential. Further, the declarations made to the standard setting body did not declare that the patents were

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<sup>192</sup> *Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613, Det. on Remand (Apr. 27, 2015).

<sup>193</sup> *Id.* at 31.

<sup>194</sup> *Id.* at 30-31.

<sup>195</sup> *Id.* at 30.

<sup>196</sup> *Id.* at 40.

essential to the standard, but provided only a commitment to license the patents on FRAND terms if they were essential to the standard and in many cases such patents are found not to be essential.<sup>197</sup> And the mere finding that the patents were infringed did not establish that they were essential to the standard.

Judge Essex found that InterDigital did not act in bad faith in licensing negotiations and there was no evidence of patent holdup in this case.<sup>198</sup> He noted that his prior decision in Inv. No. 337-TA-868 had found that the FRAND commitment to ETSI was not sufficiently definite to be a contract, but nonetheless considered there may be a contractual basis given the current trend in the courts to consider this a contractual issue. Under this approach, the patent owner's licensing offers must be "in good faith" but their "initial offers do not have to be on RAND terms so long as a RAND license eventually issues."<sup>199</sup> Whether a particular offer during negotiations is FRAND or not is not known until the parties themselves reach an agreement or the issue is determined by a court; at that time, a retrospective consideration using the FRAND determination as a measuring stick may indicate whether offers made during negotiations were within a FRAND range. In this case, however, the accused infringers failed to proffer what would constitute a FRAND rate, their witnesses could not identify a FRAND rate and they testified that it could come in many forms.<sup>200</sup>

Judge Essex also found that InterDigital's filing the ITC complaint and pursuing exclusionary relief did not violate the FRAND commitment because they had been and continued to negotiate in good faith, there were many issues to be determined in a FRAND license negotiation beyond a royalty rate, and the ETSI policies at issue expressly contemplate that the patent owner can fall back on national law to resolve disputes in negotiating a FRAND license.<sup>201</sup> Further, ETSI had removed mandatory arbitration provisions from its policies and expressly declined to prohibit injunctive remedies. Thus, again, the focus must be on the actual language of the commitment at issue. And he also noted that many government agencies and others have been scrutinizing standard essential patents recently such that patent holdup is "unlikely because too many hostile eyes are watching."<sup>202</sup>

Judge Essex also found that Nokia had engaged in patent holdout and was the type "unwilling licensee" that the USTR indicated could be subject to exclusionary relief.<sup>203</sup> He reasoned that while Nokia had not committed patent holdout during the time period when the initial determination had found that the patents were not infringed, it did engage in patent holdout following the Federal Circuit's decision on appeal to reverse the non-infringement finding and supporting claim construction. Following this reversal, the accused infringers were

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<sup>197</sup> *Id.* at 36-37.

<sup>198</sup> *Id.* at 40-42.

<sup>199</sup> *Id.* at 42.

<sup>200</sup> *Id.* at 44-45.

<sup>201</sup> *Id.* at 49.

<sup>202</sup> *Id.* at 62.

<sup>203</sup> *Id.* at 54.

on notice that they infringed and should have sought a license at that time. There was no showing that the patent owner's license offers, which were not accepted, were not offered on FRAND terms and, as discussed, the accused infringers failed to present evidence of what FRAND terms actually would be. The accused infringers' failure to negotiate in a meaningful way and refusal "to take a license" while continuing to sell standard-compliant devices served as evidence of reverse holdup.<sup>204</sup>

Judge Essex took an evidentiary-based approach to patent holdup to balance the obligations that FRAND licensing places on both innovators and implementers. Judge Essex also concluded that the entry of an exclusion order would not violate InterDigital's offer to license on FRAND terms. If a patent holder breached its ongoing obligation to license on FRAND terms following the entry of an exclusion order, then a breach of contract action in federal district court could provide a viable remedy.

## 2. Commission Review

In June 2015, the Commission gave notice that it would review Judge Essex's determination. The Commission sought comment from the parties and the public on nine questions focusing on the FRAND issues presented:

4. Please state and explain your position on whether, for purposes of the Commission's consideration of the statutory public interest factors, InterDigital has in effect asserted that the patents in question are FRAND-encumbered, standard-essential patents.
5. Please state and explain your position on whether InterDigital has offered Respondents licensing terms that reflect the value of its own patents.
6. What portion of the accused devices is allegedly covered by the asserted claims? Do the patents in question relate to relatively minor features of the accused devices?
7. Please state and explain your position on the legal significance of InterDigital's alleged willingness to accept an arbitral determination of FRAND terms with respect to the patents in question.
8. Please state and explain your position on the legal significance of InterDigital's alleged unwillingness to obtain a judicial determination of FRAND terms with respect to the patents in question.
9. Please state and explain your position on whether Respondents have shown themselves willing to take licenses to the patents in question on FRAND terms.

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<sup>204</sup> *Id.* at 52.

10. Do Respondents' alleged delaying tactics in negotiating with InterDigital provide sufficient evidence of reverse hold-up, regardless of Respondents' offers to license only InterDigital's U.S. patent portfolio?

11. Do Respondents' licensing counteroffers satisfy the requirements of the ETSI IPR Policy?

12. Please state and explain your position on whether the RID [i.e., ALJ Essex's final initial determination on remand] equates patent infringement and reverse hold-up.

The ITC received a number of responses to these questions, including submissions from individual commissioners of the U.S. Federal Trade Commission (FTC) who weighed in through the comment process, speaking for themselves individually and not on behalf of the FTC itself.

The FTC Chairwoman, Edith Ramirez, disagreed with Judge Essex's decision.<sup>205</sup> She stated that standard essential patent owners should not be able to win a ban on imports of infringing products unless the infringer either cannot – or will not – license the patents on FRAND terms. In criticizing the patent holdup analysis in Judge Essex's decision, Chairwoman Ramirez commented that the ITC should require a standard essential patent holder to prove that the implementer is unwilling or unable to take a FRAND license. She believed that placing the burden on the standard essential patent holder would better ensure that the patent owner followed through on its FRAND licensing commitment and that both parties would negotiate in good faith toward a workable resolution to FRAND issues. In meeting this burden, a standard essential patent owner could demonstrate an implementer's unwillingness to take a FRAND license by showing that the implementer engaged in a constructive refusal to negotiate a FRAND license or refused to pay what had been determined to be FRAND royalties.

But FTC Commissioners Ohlhausen and Wright departed substantially from Chairwoman Ramirez, commenting that the ITC should not begin its analysis of disputes involving standard essential patents by imposing on patent owners the burden of proving that accused infringers are unwilling or unable to take licenses on FRAND terms. Rather than assuming that patent holdup is prevalent when considering whether to preclude an exclusion order on public interest grounds, the ITC should follow an evidence-based approach in line with the approach recommended in Judge Essex's decision. They found that the theory of patent holdup is not supported by the empirical evidence, stating:

The theory that patent holdup is prevalent predicts that the threat of injunction leads to higher prices, reduced output and lower rates of innovation. These are all testable implications. Contrary to these predictions, the empirical evidence is not consistent with the theory that patent holdup has resulted in a reduction of competition. To the contrary, wireless prices have dropped relative to the overall

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<sup>205</sup> *Certain 3G Mobile Handsets and Components Thereof, Inv. No. 337-TA-613*, Response to the Commission's Request for Briefing on Remedy, Bonding and the Public Interest (July 10, 2015).

consumer price index (CPI) since 2005, output has grown exponentially, features and innovation continue at a rapid pace, and competition between mobile device manufacturers has been highly robust with meaningful entry over time.<sup>206</sup>

In August 2015, the full Commission issued its determination. The Commission found that Nokia did not infringe InterDigital's patents and did not address the FRAND issues presented.<sup>207</sup> Thus, we still await a decision from the full Commission that reflects its view on the various issues that arise when litigating standard essential patents following the USTR's disavowal of exclusionary relief in 2013.

#### **G. *Ericsson v. Apple (Investigation No. 337-TA-953)***

In early 2015, Ericsson filed complaints in the ITC as well as several different district courts asserting that Apple infringed Ericsson's patents covering many aspects of Apple's iPhones and iPads. The patents<sup>208</sup> include alleged standard essential patents related to the 2G and 4G/LTE standards, as well as other patents that relate to other features of Apple devices. In March 2015, the ITC instituted an investigation concerning the alleged standard essential patents: *In the Matter of Certain Wireless Standard Compliant Electronic Devices, Including Communication Devices and Tablet Computers*, Inv. No. 337-TA-953. The ITC expressly authorized the ALJ to take evidence, hear argument, and make findings of fact and recommendations on the statutory public interest factors.

Administrative Law Judge Dee Lord determined that Apple's fourth and sixth affirmative defenses filed in response to the Complaint did not constitute affirmative defenses to a violation of Section 337. In its fourth affirmative defense, Apple contended that the exclusion order and other relief sought by Ericsson did not fall within the public interest because Ericsson had engaged in abusive licensing practices. In its sixth defense, Apple alleged that Ericsson had broken its FRAND obligation by seeking excessive royalties and using the threat of an exclusion order to try and coerce Apple to accept its demands. Judge Lord ordered the parties to show cause why Apple's fourth and sixth affirmative defenses should not be stricken from Apple's response.<sup>209</sup>

Although Apple conceded that its fourth affirmative defense should be stricken, which was more an argument on public interest rather than an affirmative defense, Apple asserted that

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<sup>206</sup> *Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613, Reply Submission on the Public Interest of Federal Trade Commissioners Maureen K. Ohlhausen and Joshua D. Wright (July 20, 2015).

<sup>207</sup> *Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613, Remand Det. Finding No Violation of Section 337; Termination of Investigation at 4 (August 28, 2015).

<sup>208</sup> U.S. Patent Nos. 8,717,996; 8,660,270; 6,058,359; 6,301,556; 8,102,805; 8,607,130; 8,837,381 and 8,331,476.

<sup>209</sup> *Certain Wireless Standard Complaint Electronic Devices, Including Communication Devices and Tablet Computers*, Inv. No. 337-TA-953, Order to Show Cause Why Apple's Fourth and Sixth Affirmative Defenses Should Not Be Stricken From Its Response, Order No. 15 (July 15, 2015).

its sixth affirmative defense should remain. Judge Lord disagreed, finding that Apple's sixth defense failed to plead the elements and supporting facts of an unenforceability defense based on equitable estoppel or waiver:

Apple simply labels its general FRAND allegations as equitable defenses without describing conduct that has been recognized by any court or the Commission as inequitable, much less as constituting an equitable defense to patent infringement. ... [T]here may be public policy grounds for withholding certain remedies based on Apple's allegations, but that is a distinct issue to be addressed at the appropriate time in this Investigation.<sup>210</sup>

To put this ruling in context, below is the entirety of Apple's Sixth Affirmative Defense, which appear more conclusory and policy based rather than a succinct statement of the elements for equitable estoppel or waiver and supporting factual allegations:

**SIXTH AFFIRMATIVE DEFENSE**  
(Unenforceability, Equitable Estoppel, and Waiver Based on Standard-Setting Conduct)

33. Upon information and belief, and subject to the discovery of additional evidence, Complainant's [Ericsson's] claims are barred by the doctrines of equitable estoppel and waiver.

34. Ericsson made commitments to license each patent-in-suit on FRAND terms. Standard-setting organizations and their members, and suppliers of products that support standards, rely on such commitments—including Apple, which is a member of standard-setting organizations like ETSI and a supplier of products that support standards promulgated by ETSI and other organizations. For example, Apple develops and supplies products with the expectation and understanding that those entities making FRAND commitments will not seek to disrupt Apple's development and support efforts by using FRAND-committed patents to seek exclusionary remedies. By making FRAND commitments, patent holders waive such remedies, except in the exceptional circumstances where FRAND royalties are not available--including in district court.

35. Ericsson has broken its FRAND commitments and the rules of standard-setting, by seeking excessive royalties and then using the threat of an exclusion order to try to coerce Apple to accept Ericsson's abusive demands. Due to this conduct, Ericsson is equitably estopped from asserting its patents to obtain

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<sup>210</sup> *Certain Wireless Standard Complaint Electronic Devices, Including Communication Devices and Tablet Computers*, Inv. No. 337-TA-953, Order Striking Apple's Fourth and Sixth Affirmative Defenses, Order No. 20 at 7 (Aug. 7, 2015).

exclusionary remedies, and Ericsson has also waived its right to assert them in this fashion. Ericsson's conduct renders the patents-in-suit unenforceable.<sup>211</sup>

## V. Lessons Learned from Standard Essential Patent Investigations

The ITC investigations involving standard essential patents have shown that the Commission is dedicated to following and staying within its statutory mandate and providing timely decisions based on the specific facts and evidence presented. In managing investigations, parties are better served addressing specific facts, evidence, and arguments rather than putting too much weight on vague policy issues concerning standard essential patents. To that end, below are some lessons learned that litigants should consider in presenting their standard essential patent case to the ITC.

First and foremost, the parties should focus on the specific terms of the standard setting obligation at issue. This includes not only whatever intellectual property rights (IPR) policies a standard setting organization (SSO) had applicable to the patents at issue, but the terms of the specific declaration or letter of assurance that the patent owner submitted to the SSO giving rise to a standard-setting obligation. For example, the ITC has given weight to the language of the IPR policy adopted by an SSO, including procedures a licensee can take if a dispute arises in seeking a FRAND-obligated license and the SSO's recognition that parties may seek recourse to national courts to resolve disputes. The ITC's focus on the language of the IPR policy includes what that IPR policy did not include, such as giving weight to the SSO's decision not to require mandatory arbitration or not to expressly preclude injunctive relief in the terms of the IPR policy. Further, the ITC has focused on the terms of the patent owners' actual commitment to the SSO, such as language indicating that a license would be offered on FRAND terms if a patent is found to be essential to the standard, rather than offering FRAND terms regardless whether the patent is essential to the standard. The ITC, therefore, has required the accused infringer to establish that the patent is essential to the standard before it can establish that a FRAND obligation exists in order to be breached by the patent owner in the first instance. The ITC's focus on the actual commitment at issue even requires proof of how that obligation would be interpreted under applicable law where the agreement stated that it is to be construed under the laws of a particular country.

Second, a party seeking to raise FRAND defenses should timely plead detail affirmative defenses in their response to the complaint. The pleading should set forth the elements of the cause of action and facts specific to the instant case that supports the cause of action. For example, a general pleading that exclusionary relief should be precluded because of a FRAND commitment may be rejected under the view that there is no *per se* prohibition against seeking exclusionary relief in the ITC merely because an alleged standard essential patent is subject to a FRAND commitment. Rather, the response should state a specific, recognized defense and its elements, such as pleading breach of a contract between the patent owner and standard setting organization in which the alleged infringer is a third-party beneficiary, and provide facts supporting that allegation. The ITC has indicated that such a contract theory may be pursued if

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<sup>211</sup> *Certain Wireless Standard Complaint Electronic Devices, Including Communication Devices and Tablet Computers*, Inv. No. 337-TA-953, Apples Response to Order to Show Cause at 45-46 (Apr. 30, 2015).

supported by underlying facts and indication of the specific factual obligation -- e.g., is it an agreement to agree where the patent owner should negotiate in good faith toward a FRAND license. In contrast, the ITC has rejected FRAND-based equitable defenses where the accused infringer relied on general arguments without pleading specific elements and supporting facts to establish the defense, such as pleading facts showing that the accused infringer relied on the specific FRAND commitment that a patent owner made to an SSO to support an equitable estoppel defense.

Third, a party seeking to raise FRAND defenses should consider providing arguments and evidence of what would constitute a FRAND royalty rate or range of FRAND royalty rates, which can then be used as a measuring stick in showing whether a patent owner's offer in licensing negotiations was made in good faith and consistent with the FRAND obligation. The parties also may consider submitting evidence of the custom and practice in the industry in licensing standard essential patents, such as common terms, portfolio licensing, etc. The parties also should consider negotiations beyond the initial offers, because the ITC has indicated that the FRAND commitment does not necessarily require the initial offer to be FRAND and the course of negotiations may be relevant as to whether either party has been negotiating in good faith toward an ultimate FRAND license. Otherwise, the ITC has put little weight in allegations that an offer was not FRAND where a party has not provided an indication of what would be a FRAND offer in the particular circumstances at issue. Further, the ITC may not put any weight in a bare argument that the patent holder committed patent holdup and used the threat of exclusionary relief to leverage a high royalty outside of FRAND where there is no specific facts and evidence supporting that assertion tied to this particular case.

Fourth, arguments and evidence of the FRAND commitment most likely will be focused at the outset on the pled affirmative defenses regarding whether there is liability and a Section 337 violation. The parties should consider focusing their pleadings, evidence and arguments toward the ITC's statutory requirements rather than broad policy issues. The ITC appears to be trending toward, at the time an investigation is instituted, also authorizing the administrative law judges to also consider facts and evidence and to make determinations on the public interest inquiry as to whether exclusionary relief would have an adverse effect on the public interest. So far that inquiry has generally overlapped the evidence and arguments presented in the FRAND affirmative defense, though there may be some room for further arguments and facts that may go beyond the specifically pled elements of the affirmative defense. In considering relevant facts and evidence, the parties may want to consider specific FRAND-related questions that the Commission has sought comments on in recent litigations. But parties also may expect that, even though the Commission may seek information on FRAND-based issues, it may not ultimately address those issues if the investigation can be resolved on other grounds, such as non-infringement that precludes a finding of a Section 337 violation in the first instance.

## **VI. Conclusion**

Although standard essential patents with standard-setting commitments have been around for decades, we have seen a recent uptick in these patents being litigated in district courts and the ITC. The USTR's disavowal of exclusionary relief for a FRAND-committed standard essential patents a couple years ago has led to significantly more attention on how to litigate such patents in the ITC. ITC investigations since that time have provided guidance on the detailed pleading,

facts, evidence, and arguments required to address FRAND-based defenses. Although several administrative law judges have provided guidance on these issues, the full Commission itself has yet to provide a review of those decisions to provide the Commission's view on litigating FRAND-based defenses. So we continue to await such a decision from the Commission as well as how the USTR may react to it if exclusionary relief is entered.