PUBLIC VERSION

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

In the Matter of **CERTAIN ELECTRONIC DEVICES, INCLUDING WIRELESS COMMUNICATION DEVICES, PORTABLE MUSIC AND DATA PROCESSING DEVICES, AND TABLET COMPUTERS**	**Investigation No. 337-TA-794**

SAMSUNG'S INITIAL SUBMISSION IN RESPONSE TO THE COMMISSION'S MARCH 13, 2013 NOTICE ON REMEDY AND THE PUBLIC INTEREST

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INTRODUCTION

The public interest factors enumerated in Section 337(d) were designed to prevent patentees from using the remedial powers of the Commission in a manner that would negatively impact public health, welfare, competitive conditions in the United States and American consumers. The Commission must balance these factors with the public's interest in protecting valid and infringed intellectual property rights. Here, if the Commission finds a violation with respect to the '348 patent only, the potential negative impact of an exclusion order or cease and desist order on the public interest would be insufficient to justify precluding such relief.

As currently configured, the accused Apple wireless communication devices (iPhone) and tablet computers (iPad) impacted by an exclusion order and cease and desist order accounts for less than [redacted] percent of smartphone sales and [redacted] percent of tablet sales in the United States. Numerous alternatives exist with feature sets comparable to, if not better than, those found in the accused Apple devices. Accordingly, there is no compelling public interest factor that would militate against the Commission issuing the requested exclusion order and cease and desist order in this investigation.

Nor does the existence of a FRAND commitment warrant precluding remedial relief in this investigation. For two-and-a-half years, Samsung has worked diligently to license Apple to its declared essential UMTS patents including the '348 patent, but Apple has not demonstrated that it is actually interested in obtaining such a license. [redacted]

[redacted] Samsung has complied with ETSI's licensing obligations and should not be precluded from obtaining relief at the ITC.

RESPONSES TO COMMISSION QUESTIONS

Complainants Samsung Electronics Co., Ltd. and Samsung Telecommunications America, LLC (collectively, "Samsung") respectfully submit their initial responses to the questions posed by the Commission in its March 13, 2013 Notice. *See* 78 Fed. Reg. 16865 (Mar. 19, 2013).

I. QUESTION 1: QUANTITATIVE AND QUALITATIVE IMPACT

How would remedial orders barring the entry and further distribution of the Apple articles alleged to infringe the asserted claims of the '348 patent affect the public interest, as identified in 19 U.S.C. §§ 1337(d)(1) and (f)(1)? The Commission is particularly interested in the effect on the public interest with respect to (a) the percentage of the total number of imported mobile telephone handsets that would be affected by such orders, (b) the percentage of the total number of imported cellular-network-enabled tablets that would be affected by such orders, and (c) the qualitative impact of exclusion of such handsets and tablets. The Commission is also interest in any other relevant market information bearing on the four statutory public interest factors.[1]

RESPONSE:

Pursuant to 19 U.S.C. §§ 1337(d)(1) and (f)(1), the Commission must consider the effect of any remedial order "upon 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

[1] The Commission expressly requested that the parties not comment on issues relating to standards setting organizations here and, for that reason, we do not comment on those issues (including FRAND issues) in our response.

United States consumers." The Commission has made clear that only under certain circumstances can the public interest in protecting intellectual property rights yield to some greater interest, thus precluding relief to an aggrieved patent holder. *See, e.g.*, *Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*, Inv. No. 337-TA-543, Comm'n Op. at 153-154 (June 19, 2007); *Certain Laser Imageable Lithographic Printing Plates*, Inv. No. 337-TA-636, Comm'n Op. at 8 (Dec. 23, 2009); *Certain Digital Television Products and Certain Products Containing Same and Methods of Using Same*, Inv. No. 337-TA-617, Comm'n Op. at 15-17 (Apr. 23, 2009). Here, a limited exclusion order and cease and desist order would not significantly impact the public interest.

A. Background

On October 22, 2012, the parties submitted briefs in response to the Commission's September 28, 2012 Notice concerning the potential impact of any exclusion order and cease and desist order on the public interest. *See* 77 Fed. Reg. 60720 (Oct. 4, 2012). Apple's submission focused entirely on the issue of FRAND, and did not even mention the public interest factors outside of the FRAND context. (*See* Doc. ID 495139). On November 19, 2012, the Commission determined to review the Initial Determination in its entirety and requested additional briefing from the parties regarding, *inter alia*, remedy, public interest and bonding. *See* 77 Fed. Reg. 70464 (Nov. 26, 2012). The parties submitted initial briefs on December 3, 2012 and responsive briefs on December 10, 2012. With the exception of a few unsupported statements regarding consumer choice and public health and welfare in its reply brief, Apple again failed to make any public interest arguments outside of the FRAND context. (*See* Doc. ID 498369, 498914). The Staff was "of the view that the exclusion of imports of Respondent's

accused products is unlikely to have any significant impact on the public interest considerations identified in Section 337(d)." (Doc. ID 498297 at 44).

Inasmuch as none of the parties argued that the public interest factors enumerated in 19 U.S.C. §1337(d)(1) should preclude issuance of remedial relief if a violation is found with respect to all four asserted patents, any argument that these same factors should preclude relief with respect to only the '348 patent should be rejected, particularly because the scope of relief relating to this patent is limited to a small percentage of Apple's wireless communication devices and tablet computers.

B. Remedial Relief In This Investigation Would Be Currently Limited To A Small Subset Of Devices

In this investigation, Samsung accused Apple devices that comply with 3GPP TS 25.212 rel. 99 or later standard and do not contain [redacted] of infringing the asserted claims of the '348 patent. (*See* Doc. ID 483896 at 6, 20, 23-24). Because the '348 patent relates to 3GPP standards,[2] devices with no cellular connectivity[3] and devices capable of connecting only to non-UMTS[4] networks cannot infringe the asserted claims of the '348 patent. (*See id.*). Accordingly, to the extent the Commission finds a violation with respect to the '348 patent only, any remedial order would be limited to a small subset of Apple devices imported and sold in the United States – currently comprising only some of Apple's iPhone 4 and iPad 2 devices.

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[2] The relevant 3GPP standards relate to GSM/EDGE/UMTS/HSPA/HSUPA and HSPA+. As used herein, "UMTS" refers to networks operated by carriers such as AT&T and T-Mobile. These networks are sometimes referred to as "GSM" or "WCDMA" networks.

[3] This would include, for example, Apple's Wi-Fi only iPad and all iPod Touch devices.

[4] As used herein, "non-UMTS" refers to the CDMA2000 network operated by carriers such as Verizon and Sprint. These networks are often referred to as "CDMA" networks. As used herein, "CDMA version" refers to devices that cannot operate on UMTS networks.

Apple currently offers three versions of its iPhone for sale in the United States: iPhone 4, iPhone 4S and iPhone 5. (*See* Ex. H, Mulhern Decl. ¶ 11).[5] Apple sells three versions of its iPad: iPad 2, iPad with retina display (fourth generation) and iPad mini. (*See id.* ¶ 17). Each of these devices is available with or without cellular connectivity. (*See id.* ¶ 19).[6] Of this current lineup, the proposed remedial orders would impact only the iPhone 4 (UMTS version) and iPad 2 (UMTS version).

1. The proposed remedial orders would apply to less than [redacted] percent of smartphones currently sold in the United States

In the fourth quarter of 2012, Apple supplied approximately 39 percent of smartphones in the United States. (*See* Ex. H, Mulhern Decl. ¶ 11). While Apple's recent sales numbers are not available,[7] analysts maintain that the iPhone 4 accounted for approximately 9 percent, the iPhone 4S accounted for approximately 23 percent and the iPhone 5 accounted for approximately 68 percent of Apple's iPhone sales in October 2012. (*See id.* ¶ 12). [redacted]. (*See id.* ¶ 14).

Samsung understands that the non-UMTS version of the iPhone 4 and all versions of the iPhone 4S and iPhone 5 currently include [redacted] (*See* Doc. ID 483896 at 82; CX-0877C; Ex. H, Mulhern Decl. ¶ 6). Because Samsung has not accused devices containing [redacted] of infringing any claims of the '348

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[5] Apple discontinued the iPhone 3G and iPhone 3GS in June 2010 and September 2012, respectively. (*See id.* ¶ 6, Ex. 1).

[6] Apple discontinued the original iPad in March 2011 and the iPad (third generation) in November 2012. (*See id.* ¶ 6, Ex. 1).

[7] [redacted]

patent, under their current configurations, Apple's iPhone 4 (CDMA version), iPhone 4S and iPhone 5 devices would not be subject to an exclusion order or cease and desist order if the Commission finds a violation based only on infringement of the '348 patent.[8] In total, the Apple wireless communication devices (iPhones) that would be impacted by such a remedial order accounted for less than [redacted] percent of Apple's iPhone sales and less than [redacted] percent of all U.S. smartphone sales in 2012. (*See* Ex. H, Mulhern Decl. ¶¶ 15-16). These figures are depicted below:

Estimated Share of U.S. Smartphones Implicated by Proposed LEO and CDO

(*See* Ex. H, Mulhern Decl. ¶ 16).

2. The proposed remedial orders would apply to less than [redacted] percent of tablets currently sold in the United States

In 2012, Apple's iPad devices accounted for an estimated 50 percent of the sales of tablets in the United States. (*See* Ex. H, Mulhern Decl. ¶¶ 17, 21). Of these devices,

8 [redacted]

approximately [redacted]-90 percent were Wi-Fi only.[9] (*See id.* ¶ 19). Of the 10-[redacted] percent of iPads sold with cellular connectivity, only a small portion were iPad 2 (UMTS version) devices. Indeed, while Apple's current per-model sales data is not available to Samsung, based on publicly available documents, it is estimated that the iPad 2 (UMTS version) accounted for approximately [redacted] percent of Apple's iPad sales in the United States in 2012, which is less than [redacted] percent of total tablet sales for that same time period. (*See id.* ¶¶ 20-21). These figures are depicted below:

Estimated Share of U.S. Tablets Implicated by Proposed LEO and CDO

[redacted]

(*See* Ex. H, Mulhern Decl. ¶ 21).

Samsung understands that the non-UMTS version of the iPad 2 and all versions of the iPad (fourth generation) and iPad mini include [redacted]. (*See* Ex. H, Mulhern Decl. ¶ 6). Because Samsung has not accused devices containing [redacted], devices without cellular connectivity, or devices capable of connecting only to non-UMTS networks of infringing any claims of the '348 patent, under

9 [redacted]

their current configurations, Apple's Wi-Fi only iPads, iPad 2 (CDMA version), iPad (fourth generation)[10] and iPad mini would not be subject to an exclusion order or cease and desist order based on infringement of the '348 patent.[11] Accordingly, the percentage of tablet computers that would be currently excluded or subject to a cease and desist order would be minimal.

C. Remedial Relief Would Not Qualitatively Affect The Public Interest

As more fully discussed in response to Question 2, numerous alternatives (including other newer models of Apple's iPhone and iPad devices) exist for consumers with similar and/or better feature sets, including several devices offered at or below the price point of the Apple devices implicated by an exclusion order and cease and desist order. Because of these numerous alternatives, such remedial relief would have little qualitative impact on consumers and the public interest. In addition, given the small percentage of imported devices that would be currently affected, the overall impact on the public interest would be negligible.

II. QUESTION 2: AVAILABLE 3G AND 4G ALTERNATIVES

What third, fourth, and later generation products (if any) are currently available in the U.S. market that are authorized by Samsung to utilize the technology covered by the asserted claims of the '348 patent? Are these products acceptable substitutes for the accused iPhones and iPads and are they widely viewed to be acceptable substitutes for the accused iPhones and iPads?

RESPONSE:

Numerous 3G and 4G mobile devices are currently available in the United States that would not be impacted by an exclusion order and cease and desist order. These devices generally fall into three categories: (1) Apple devices not accused of infringing the '348 patent in

[10] Apple discontinued the third generation iPad when it released the fourth generation. (*See id.* ¶¶ 6, 17).

their current configurations; (2) Samsung devices; and (3) third-party devices. Because many of these devices are widely viewed as substitutes, if not improvements over the Apple devices that would be subject to exclusion, consumers would not be negatively impacted by the issuance of an exclusion order and cease and desist order in this investigation.

First, as discussed in response to Question 1, the current configurations of Apple's iPhone 4 (CDMA version), iPhone 4S, iPhone 5, iPad 2 (CDMA version), iPad 4, iPad mini and Wi-Fi only iPad would not be subject to any remedial order for a violation based on infringement of the '348 patent. These devices are widely viewed as replacements for the legacy iPhone 4 and iPad 2 devices that would be subject to remedial orders.

Market analysts have viewed the iPhone 4S and iPhone 5 as significant evolutions from the iPhone 4, due to increased processing power, upgraded camera, increased storage capacity, improved display, 1080p HD video recording, and Siri functionality. (*See* Ex. H, Mulhern Decl. ¶ 27). Apple customers agree, choosing the iPhone 4S and iPhone 5 nine times out of ten over the iPhone 4 in October 2012. (*See id.* ¶¶ 12, 15). As with the iPhone, market analysts have also noted multiple improvements of the iPad (third and fourth generation) and iPad mini over the iPad 2. For example, the fourth generation iPad has increased processor speed and improved display and the fourth generation iPad and iPad mini have increased memory, upgraded camera, and 1080p HD video recording. (*See id.* ¶ 33). The current configurations of the iPad and iPad mini are widely viewed as acceptable substitutes for the iPad 2. (*See id.*).

Second, Samsung offers numerous 3G and 4G devices that are viewed by consumers as substitutes for, or improvements over the iPhone 4. (*See id.* ¶¶ 22-26, 28-30). Many of these devices have feature sets that equal or exceed those found in Apple's iPhone 4. (*See id.*).

[11] [redacted]

Samsung also offers multiple variations of its Galaxy Tab on multiple carrier networks. (*See id.* ¶¶ 31, 35-36). As with its mobile phones, Samsung's tablets have feature sets comparable to, or better than those found in Apple's iPad 2. (*See id.*).

Finally, many other manufacturers offer 3G and 4G devices in the United States that are comparable to, and compete with the iPhone 4. (*See id.* ¶¶ 22-26, 28-30). Further, all wireless carriers that offer the accused iPhone 4 and iPad 2 devices offer alternative, substitutable mobile devices at comparable price points. For example, AT&T sells the Samsung's Captivate Glide, Galaxy Exhilarate, Focus 2, Focus S; Nokia's Lumia 820, Lumia 900 and Lumia 920 (refurbished); HTC's One VX and Titan II; LG's Escape; Pantech's Burst, Flex and Pocket; RIM's BlackBerry Bold 9900 (refurbished) and BlackBerry Torch 9810 (refurbished); and Sharp's FX Plus. (*See id.* ¶ 29). Many of these devices, including the Samsung Focus 2, Samsung Galaxy Exhilarate, HTC One VX, LG Escape and Pantech Flex have been rated higher than the iPhone 4 by Consumer Reports. (*See id.*). These comparably-priced and higher-rated products each offer functionality commonly used on smartphones, including text messaging, taking photos or videos, sending photos or videos to another person (or posting them online), playing music, internet browsing, emailing, access to various applications ("apps"), gaming, social networking, navigation, watching video, accessing Twitter, online banking and participating in a video call or video chat. (*See id.*). Similarly, four of the seven non-Apple tablet models offered by AT&T are priced lower than the iPad 2. (*See id.* ¶ 36).

[redacted]

III. QUESTION 3: TAILORING A REMEDY

In what ways, if any, should a remedy with respect to infringement of the '348 patent be specifically tailored to avoid harm to the public interest, as identified in 19 U.S.C. §§ 1337(d)(1) and (f)(1)?[12]

RESPONSE:

In its December 3, 2012 brief, Apple requested that "any remedy should contain a certification provision," because "[p]ractice of the patents asserted in this investigation is not readily determined by visual inspection." (Doc. ID 498369 at 71). Samsung agrees that a certification provision would be appropriate under Customs' supervision. Apple should be permitted to certify that the imported devices contain [redacted] are non-UMTS only, and/or Wi-Fi only and are therefore not subject to an exclusion order based on infringement of the '348 patent. The inclusion of a certification provision would obviate the need for the Commission to deviate from its normal practice for fashioning exclusion orders and cease and desist orders.

IV. QUESTION 4: COVERED DEVICES AND NETWORKS

With respect to the '348 patent, Samsung's infringement case before the Commission relied upon accused third and fourth generation products that operate on the AT&T wireless network. If the Commission were to issue remedial orders covering articles covered by the asserted claims of the '348 patent, would such an order cover (a) Apple products that operate on other wireless networks in the United States, and (b) later generation Apple products (e.g., iPhone 5, later iPad versions)?

[12] The Commission expressly requested that the parties not comment on issues relating to standards setting organizations here and, for that reason, we do not comment on those issues (including FRAND issues) in our response

RESPONSE:

At the time the complaint was filed, Apple's iPhones and iPads with UMTS connectivity were only available through AT&T. Since then, Apple has expanded its sales to other UMTS carriers. Because all iPhone 4 (UMTS version) and iPad 2 (UMTS version) devices infringe the asserted claims of the '348 patent, regardless of carrier customer, they would be subject to the Commission's remedial orders.[13] However, AT&T remains the largest UMTS iPhone 4 carrier by volume.[14] (*See* Ex. H, Mulhern Decl. ¶¶ 9-10).

Based on Samsung's understanding, the current configurations of the iPhone 4 (CDMA version), iPhone 4S, iPhone 5, iPad 2 (CDMA version), iPad (third and fourth generations) and iPad mini contain [redacted]. Accordingly, unless these devices are altered to incorporate [redacted], they would not be subject to an exclusion order or cease and desist order. Similarly, future devices incorporating [redacted] would not be subject to an exclusion order or cease and desist order.

V. QUESTION 5: NEGOTIATION HISTORY

> 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.

[13] Although the iPhone 3G, iPhone 3GS and original iPad have been discontinued, to the extent any of these devices with UMTS connectivity are imported or sold in the United States, they would also be subject to any remedial relief.

[14] T-Mobile announced that it would carry the iPhone 4, iPhone 4S and iPhone 5 beginning in April 2013. (*See id.* ¶ 9).

RESPONSE:

Before asserting the '348 patent against Apple, Samsung offered to license Apple all of its UMTS (3G)[15] declared-essential patents, including the '348 patent, as part of a comprehensive cross-license of the parties' mobile device-related patent portfolios. Apple failed to respond to that offer and ignored Samsung's repeated requests to return to the negotiating table for five months. Apple then abruptly sued Samsung as part of a coordinated global campaign of litigation against manufacturers of Android-based products. Despite having been sued by Apple without warning, Samsung continued working diligently to engage Apple in negotiations for a license to Samsung's declared-essential patents, and those efforts continue now. Over the course of the past two-and-a-half years, Samsung has made repeated offers to Apple for a license to its declared-essential UMTS patents including the '348 patent. Apple, however, has not demonstrated any genuine interest in obtaining such a license. A detailed history of the parties' negotiations is set forth in Annex 1 and copies of the parties' written correspondence and licensing presentations are attached as Ex. C1 to C44.

A. <u>Background</u>

After introducing the iPhone in 2007, Apple released a UMTS version, the iPhone 3G, on July 11, 2008. Although Apple was not licensed under Samsung's patents, the parties had an ongoing business relationship in which Samsung supplied a number of important components for Apple's products, including the iPhone 3G, and thus Samsung did not contemplate litigation or even insist that Apple obtain a license at that time.

In 2008, a number of companies introduced touchscreen-based smartphone products that ran Google's open-source operating system called Android and competed directly with the

[15] UMTS is also referred to as WCDMA or Wideband CDMA in Samsung's license agreements.

iPhone. Apple's co-founder and former Chairman and CEO, the late Steve Jobs, did not welcome the competition from Android smartphones, declaring: "I will spend my last dying breath if I need to, and I will spend every penny of Apple's $40 billion in the bank, to right this wrong" and "I'm going to destroy Android, because it's a stolen product. I'm willing to go thermonuclear war on this."[16]

Samsung introduced its first Android-based smartphone in 2009 and released a series of Android-based smartphones thereafter, including the widely popular Galaxy S family of products. On August 4, 2010, over one year after Samsung's release of these successful Android-based smartphones, Apple for the first time accused Samsung of infringing its patents.

B. Summary Of Negotiations

[redacted]

[16] Isaacson, Walter, Steve Jobs, New York: Simon & Schuster, 2011, p. 511.

[redacted]

3. [redacted] Apple Prepared For Litigation

On April 15 2011, as part of its "thermonuclear war" on Android, Apple sued Samsung in the Northern District of California seeking, among other things, damages for alleged patent

infringement, as well as an injunction that would prevent Samsung from selling Android-based devices and other products in the United States.

Samsung filed suit against Apple in the Northern District of California on April 27, 2011. In that action, Samsung asserted a number of patents, including several that Samsung had disclosed to ETSI in accordance with ETSI's IPR Policy, declaring that they "may be or may become 'ESSENTIAL'" to the UMTS standard. Samsung also filed the complaint that ultimately led the Commission to institute this Investigation (337-TA-794) on July 27, 2011 based on Apple's infringement of several patents, including two that had been declared as potentially essential to ETSI's UMTS standard.

Apple, in turn, filed a complaint with the ITC, asserting that Samsung was violating Section 337 by importing into the United States devices that infringe seven of Apple's patents, including three hardware patents, two software patents, and two design patents. In response, the ITC instituted Investigation No. 337-TA-796 on August 2, 2011.

4. Samsung's Initial Unilateral License Offer and Efforts to Reopen License Negotiations

As discussed in Samsung's response to Question 6 below, Samsung had never aggressively asserted its declared-essential UMTS patents or sought to use those patents to keep competitors out of the market. In fact, [redacted] Samsung, however, was aware that other companies with declared-essential patent portfolios publish headline rates at which they state they are willing to license their patents. In practice, these companies do not enter into licenses at these rates, but rather execute the same kinds of broad cross-licenses that Samsung and Apple had been discussing before litigation, typically with one company making a balancing payment to adjust for differences in the relative strength of each party's patent portfolio and the relative sales of products covered by the licensed technology.

Because Samsung does not aggressively assert its declared-essential UMTS patents and had not previously established an initial headline rate for a unilateral license to its declared-essential UMTS patents, Apple's letter prompted Samsung to formulate initial terms for a unilateral license to that portfolio. On July 25, 2011, Samsung sent a letter to Apple that quoted a unilateral headline rate of 2.4% to be applied to the average sales price of Apple's products. (*See* Ex. C13, July 25, 2011 letter from Samsung to Apple.) In that letter, Samsung indicated its preference for a negotiated cross-license agreement, which, depending on its scope, would result in a lower cash outlay by Apple based on the obvious expectation that Apple would likely negotiate these terms down.

For months, Apple refused to make a single counteroffer, sending repeated letters that merely criticized the terms stated in Samsung's July 2011 letter. (*See, e.g.*, Ex. C14 (August 18, 2011 letter), Ex. C18 (October 31, 2011 letter), Ex. C20 (December 24, 2011 letter).) As Apple

continued its aggressive litigation campaign with Samsung, with hundreds of depositions being taken, Samsung continued its attempts to convince Apple to return to the negotiation table. (*See e.g.,* Ex. C21 (January 31, 2012 letter), Ex. C24 (April 9, 2012 letter), Ex. C21 (April 25, 2012 letter).) Samsung provides a summary of all its correspondence with Apple, including the letters cited above, in Annex 1.

5. [redacted]

[redacted]

6. [redacted]

7. [redacted]

[redacted]

[redacted]

8. [redacted]

[redacted]

VI. QUESTION 6: LICENSE SUMMARY

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.

RESPONSE:

Samsung has entered into at least thirty-three licenses covering its declared-essential UMTS patents, including the '348 patent. Exhibit I provides an overview of the Samsung licenses that cover the '348 patent. Copies of the licenses are attached as Exhibits D1-D40. [redacted]

[redacted]

[redacted]

Samsung's licensing goal is to avoid litigation and obtain patent peace. [redacted]

VII. QUESTION 7: LICENSING TERMS

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.

RESPONSE:

Samsung has attempted to negotiate a license with Apple to its declared essential UMTS patents for two-and-a-half years. [redacted]

[redacted]

Samsung is in compliance with its obligations under Clause 6.1 of the ETSI IPR Policy. CX-908 ¶ 6.1.

[redacted]

Portfolio licensing eliminates the threat of litigation for a class of products between cross-licensees, achieves "freedom to design," and as such is common practice in the industry. Indeed, as noted in Samsung's responses to Questions 5 and 6 above, Apple initially proposed a portfolio license to Samsung's UMTS patents, [redacted]

[redacted]

[redacted]

Apple has not demonstrated that it has any genuine interest in negotiating a license to Samsung's declared-essential UMTS patents. [redacted] Consistent with ETSI's requirement that owners of declared-essential patents be prepared to license those patents, to the extent they are in fact essential, to those who practice ETSI standards, the terms of Samsung's offer to Apple would not increase, or otherwise become more onerous for Apple, in the event the Commission were to enter an exclusion order.

VIII. QUESTION 8: *GEORGIA-PACIFIC* FACTORS

> 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?

RESPONSE:

Although certain *Georgia-Pacific* factors may be useful in assessing whether the terms proposed by Samsung to Apple are consistent with Samsung's obligations under Clause 6.1 of the ETSI IPR Policy, the *Georgia-Pacific* test as a whole is not generally applicable to this inquiry in the context of the Samsung negotiations with Apple.

The *Georgia Pacific* test was not crafted to test whether a particular licensing offer was FRAND within the meaning of a particular IPR policy. In *Georgia Pacific*, the Federal Court for the Southern District of New York set forth an non-exhaustive list of fifteen factors for determining a "reasonable royalty" to award in damages to a plaintiff that successfully proved infringement of a valid patent. *Georgia-Pac. Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970) *modified sub nom. Georgia-Pac. Corp. v. U.S. Plywood-Champion*

Papers, Inc., 446 F.2d 295 (2d Cir. 1971). Since then, very few courts have discussed those factors in the context of determining whether an offer was FRAND. *See Microsoft Corp. v. Motorola, Inc.*, C10-1823JLR, 2012 WL 5248439 at *7-8 (W.D. Wash. Oct. 22, 2012); *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 n.8 (3d Cir. 2007). In *Microsoft Corp. v. Motorola, Inc.*, the defendant argued that the *Georgia Pacific* factors could be applied to an offer to license an entire portfolio of SEPs to determine the FRAND rate. 2012 WL 5248439 at *7-8 . Because this was heard on a motion to strike an expert's testimony and plaintiff did not oppose the application of the individual factors, the court did not address the factors individually or apply them to a FRAND determination. *Id.* Another court that considered this matter concluded that only some of the factors apply because the license offers being tested for FRAND were "package" proposals and not "per unit." *ESS Tech., Inc. v. PC-Tel, Inc.*, C-99-20292 RMW, 2001 WL 1891713 (N.D. Cal. Nov. 28, 2001). The Federal Circuit has not heard the issue yet.

The cornerstone of the *Georgia-Pacific* test is the hypothetical negotiation, in which the infringer approaches the patentee on the eve of infringement and the patent is known to be valid and infringed. This differs from actual license negotiations, including those that are required to negotiate a license on fair, reasonable, and non-discriminatory terms within the meaning of the ETSI IPR Policy. As here, the parties may negotiate not just a monetary amount but also attempt to weigh their portfolios against each other and then craft a balancing payment based on the relative strength of the portfolios and the parties' respective sales. As the extensive history of the parties' negotiations demonstrates here, Samsung has continually attempted to engage Apple in the negotiation process and has offered licenses based on a variety of structures with a wide range of possible terms. Apple has resisted these attempts.

A. Some Of The Georgia Pacific Factors Do Not Apply To The FRAND License Offer Determination Required Here

Several of the *Georgia Pacific* factors do not apply, or would apply differently, in the FRAND context because there is a fundamental difference between a "reasonable royalty" damages determination and a FRAND negotiation process that ETSI requires. To determine "reasonable royalty" damages, a fact finder must work forward to create a hypothetical negotiation from whole cloth. *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1312 (Fed.Cir.2011); *Georgia-Pac. Corp*, 318 F. Supp. at 1121. This must be done assuming a negotiation on the eve of infringement between a willing licensor and a willing licensee whom both assume that the patent is valid and infringed and both reasonably and voluntarily try to reach an agreement. *Id.* In contrast, to determine whether an actual offer, or series of offers in the context of an ongoing negotiation, complies with the licensing requirements of an IPR policy, a fact finder must examine the actual negotiations and the conduct of the parties. These negotiations can include, as here, discussions concerning an extensive portfolio of patents.Factors 3, 4, 5, and 15 of the *Georgia Pacific* factors do not apply because of the nature of the ETSI licensing obligations themselves and the specific facts of this case.

Factor number 3 asks for

> **3.** The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.

This factor does not apply because the non-discriminatory component of ETSI's licensing policy effectively precludes an exclusive license for patents that are, in fact, essential to an ETSI standard. Under ETSI's IPR Policy, a patent owner cannot refuse to negotiate with any other party asking for a license to a patent that is essential to implement an ETSI standard. Moreover,

although the parties may agree to certain territorial and manufacturing restrictions, the licensor cannot unilaterally demand that the licensee agree to such restrictions.

Factor number 4 asks for:

> **4.** The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.

Again, this does not apply because ETSI's IPR Policy precludes a refusal by the licensor to license others who wish to practice an ETSI standard to an essential patent. For example, the licensor may not limit licenses to certain classes of licensees such as suppliers of downstream products as distinguished from suppliers of components used in those products. Therefore, Samsung could not and would not endeavor to withhold licenses from others for its standard essential patents as demonstrated above.

Factor number 5 asks for

> **5.** The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter.

This factor does not apply because the non-discriminatory component of ETSI's licensing requirements prohibits the licensor from offering different license terms to a competitor than a non-competitor for an essential patent.

Factor 15 asks for

> **15.** The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee- who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention- would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

As discussed above, this hypothetical negotiation is not an appropriate device for assessing whether an actual offer, or series of negotiations, was –without the many assumptions set forth in factor 15 – in compliance with ETSI obligations.

B. The Georgia Pacific Factors That Are Most Relevant Here Show That Samsung's Offer To Apple Was Fair and Reasonable

Factor 1 queries

> **1.** The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.

Samsung's licenses with other companies show that Samsung's outstanding offer to Apple is consistent with those past license agreements. In response to question 7, above, Samsung provided an overview of these agreements. Apple has no basis to assert that Samsung's outstanding offer is a violation of its obligations to ETSI.

Factor 2 queries

> **2.** The rates paid by the licensee for the use of other patents comparable to the patent in suit.

Apple's actions also show that Samsung's offer was fair, reasonable, and non-discriminatory. [redacted]

At bottom, Samsung's current outstanding offer is fair and reasonable, whether measured by the *Georgia-Pacific* analysis or some other test, and is consistent with its existing licenses involving the '348 patent, and thus in not in any way discriminatory.

CONCLUSION

For the foregoing reasons, and for the reasons detailed in Samsung's prior submissions, the Commission should issue an exclusion order and cease and desist order in this investigation because such remedial relief will not negatively affect the public interest.

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Respectfully submitted,

/s/ S. Alex Lasher

Charles K. Verhoeven
QUINN EMANUEL URQUHART & SULLIVAN, LLP
50 California Street, 22nd Floor
San Francisco, CA 94111

Kevin P.B. Johnson
Victoria F. Maroulis
QUINN EMANUEL URQUHART & SULLIVAN, LLP
555 Twin Dolphin Drive, 5th Floor
Redwood Shores, CA 94065

Eric Huang
QUINN EMANUEL URQUHART & SULLIVAN, LLP
51 Madison Avenue, 22nd Floor
New York, NY 10010

William Price
Robert J. Becher
QUINN EMANUEL URQUHART & SULLIVAN, LLP
865 S. Figueroa St., 10th Floor
Los Angeles, CA 90017

Paul F. Brinkman
Alan L. Whitehurst
S. Alex Lasher
QUINN EMANUEL URQUHART & SULLIVAN, LLP
1299 Pennsylvania Ave. NW, Suite 825
Washington, DC 20004

Charles F. Schill
STEPTOE & JOHNSON LLP
1330 Connecticut Avenue, NW
Washington, DC 20036

Counsel for Complainants
Samsung Electronics Co., Ltd. and
Samsung Telecommunications America, LLC

In the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Table Computers

Inv. No. 337-TA-794

CERTIFICATE OF SERVICE

I, Jon Tap, hereby certify that on this 4th day of April, 2013, copies of the foregoing document were served upon the following parties as indicated:

The Honorable Lisa R. Barton Acting Secretary U.S. International Trade Commission 500 E Street, SW Washington, D.C. 20436	☐ Via First Class Mail ☒ Via Hand Delivery (8 copies) ☐ Via Overnight Courier ☐ Via Electronic Mail ☒ Via EDIS
The Honorable E. James Gildea Administrative Law Judge U.S. International Trade Commission 500 E Street, SW Washington, D.C. 20436 Email: sarah.zimmerman@usitc.gov	☐ Via First Class Mail ☒ Via Hand Delivery (2 copies) ☐ Via Overnight Courier ☒ Via Electronic Mail
Lisa Murray Office of Unfair Import Investigations U.S. International Trade Commission 500 E Street, SW Washington, D.C. 20436 Email:Lisa.Murray@usitc.gov	☐ Via First Class Mail ☐ Via Hand Delivery ☐ Via Overnight Courier ☒ Via Electronic Mail
Nina S. Tallon Wilmer Cutler Pickering Hale and Dorr LLP 1875 Pennsylvania Avenue, NW Washington, D.C. 20006 Email: WHAppleSamsungITC-794Service@wilmerhale.com ***Counsel for Apple Inc.***	☐ Via First Class Mail ☐ Via Hand Delivery ☐ Via Overnight Courier ☒ Via Electronic Mail

/s/ Jon Tap
Jon Tap