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# RECENT DECISIONS PROVIDE SOME CLARITY ON HOW COURTS AND GOVERNMENT AGENCIES WILL LIKELY RESOLVE ISSUES INVOLVING STANDARD-ESSENTIAL PATENTS

*Steven M. Amundson\**

## INTRODUCTION

“Telephones talk to each other, the Internet works, and hairdryers plug into electrical sockets because private groups have set ‘interface’ standards, allowing compatibility between products made by different manufacturers.”<sup>1</sup> By allowing compatibility, standards reduce or eliminate costs for consumers who switch between different manufacturers’ products.<sup>2</sup> Standards also increase manufacturing volumes and promote price competition.<sup>3</sup> In the United States, there are about 50,000 standards developed by over 600 private-sector industry groups.<sup>4</sup>

Industry groups that negotiate and agree upon technical standards to ensure the compatibility of different manufacturers’ products are called standard-setting organizations (or SSOs). Through member consensus, SSOs typically choose the technology to include in a standard from among competing technologies. “[V]oluntary consensus standards, whether mechanical, electrical, computer-related, or communications-related, have incorporated important

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<sup>1</sup> Mark A. Lemley, *Intellectual Property Rights & Standard-Setting Organizations*, 90 CAL. L. REV. 1889, 1893 (2002).

<sup>2</sup> *Standard Essential Patent Disputes and Antitrust Law: Hearing Before the Subcomm. on Antitrust, Competition Policy and Consumer Rights of the S. Comm. on the Judiciary*, 113th Cong. 3–4 (2013) (statement of Suzanne Munck, Chief Counsel for Intellectual Property, Federal Trade Commission), available at <http://www.ftc.gov/public-statements/2013/07/prepared-statement-federal-trade-commission-concerning-standard-essential>.

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

<sup>4</sup> See Am. Nat’l Standards Inst., *Overview of the U.S. Standardization System*, STANDARDSPORTAL.ORG, [http://www.standardsportal.org/usa\\_en/standards\\_system.aspx](http://www.standardsportal.org/usa_en/standards_system.aspx) (last visited Dec. 14, 2013).

technical advances that are fundamental to the interoperability of many of the products on which consumers have come to rely.”<sup>5</sup>

This Article discusses recent decisions by courts and government agencies in patent-infringement cases involving standards. And it includes points to consider when litigating those cases, such as potential pitfalls when making license offers or seeking court action.

In the following sections, this Article explains how SSOs typically deal with patents related to standards. It then outlines issues arising from such patents. After that, this Article describes how courts have determined royalty rates for such patents, what makes a patent or a patent claim essential to a standard, and the positions of various courts and government agencies regarding the availability of injunctive relief.

### I. STANDARD-ESSENTIAL PATENTS

Implementing a standard may require use of patented technology.<sup>6</sup> Where a standard requires use of patented technology, the patent is called an “essential” patent or a standard-essential patent.<sup>7</sup>

An owner of a standard-essential patent may gain market power and exploit that advantage by (1) employing the patent to exclude competitors or (2) seeking higher royalties than implementers would have paid before standard adoption when alternatives to the patented technology could have been selected.<sup>8</sup> This exploitation is termed patent hold-up.<sup>9</sup> Patent hold-up can undermine the standard-setting process, discourage innovation as well as standard adoption, and cause consumers to pay excessive prices.<sup>10</sup> Excessive prices can impose an anticompetitive tax on new products incorporating the patented technology, thus impeding instead of promoting innovation.<sup>11</sup>

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<sup>5</sup> U.S. DEP’T OF JUSTICE & U.S. PATENT & TRADEMARK OFFICE, POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS 3–4 (Jan. 8, 2013), available at [http://www.uspto.gov/about/offices/ogc/Final\\_DOJ-PTO\\_Policy\\_Statement\\_on\\_FRAND\\_SEPs\\_1-8-13.pdf](http://www.uspto.gov/about/offices/ogc/Final_DOJ-PTO_Policy_Statement_on_FRAND_SEPs_1-8-13.pdf) [hereinafter DOJ-PTO POLICY].

<sup>6</sup> *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1067 (W.D. Wis. 2012).

<sup>7</sup> *Id.*

<sup>8</sup> DOJ-PTO POLICY, *supra* note 5, at 4.

<sup>9</sup> See Joseph Farrell et al., *Standard Setting, Patents & Hold-Up*, 74 ANTITRUST L.J. 603, 603–04 (2007); see also *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 310–14 (3d Cir. 2007).

<sup>10</sup> *Microsoft Corp. v. Motorola, Inc.*, No. 10-1823, 2013 WL 2111217, at \*10–11 (W.D. Wash. Apr. 25, 2013).

<sup>11</sup> Mark A. Lemley & Carl Shapiro, *Patent Holdup & Royalty Stacking*, 85 TEX. L. REV. 1991, 1993 (2007).

To reduce the potential for abuse, SSOs typically have rules for the participants in the standard-setting process that require the participants to state before standard adoption whether they own any patents necessarily infringed by someone implementing the prospective standard.<sup>12</sup> Those rules usually require that owners of standard-essential patents agree to (1) grant royalty-free licenses to those who implement the standard or (2) grant licenses under reasonable and nondiscriminatory (RAND) terms or fair, reasonable, and nondiscriminatory (FRAND) terms.<sup>13</sup> One federal judge has noted that “the word ‘fair’ adds nothing to ‘reasonable’ and ‘nondiscriminatory.’”<sup>14</sup> The acronym RAND predominates in the United States, while the acronym FRAND predominates elsewhere.<sup>15</sup>

If an owner of a standard-essential patent does not agree to grant a royalty-free license or one on RAND terms, the SSO can revise the proposed standard to design around or avoid the patent.

An owner of a standard-essential patent may agree to grant a royalty-free license to create a market for its product that would not exist absent adoption of a particular standard. Or it may also own patents covering preferable, but nonessential, aspects of standard implementation, and thus expect royalties based on those related but nonessential patents.

When an owner of a standard-essential patent commits to licensing on RAND terms, it does so for the intended benefit of the SSOs’ members as well as others who implement the standard, and both the members and implementers are third-party beneficiaries with rights to sue for breach of the patentee’s commitment.<sup>16</sup> An owner of a standard-essential patent who commits to licensing on RAND terms does not have to specify those terms before the SSO adopts the standard.<sup>17</sup> Hence, disputes can arise at the time of licensing about what are and are not RAND terms. SSOs typically have policies preventing them from assisting in determining RAND terms and resolving issues between

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<sup>12</sup> *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d at 1067; *see* *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 876 (9th Cir. 2012).

<sup>13</sup> *See, e.g.*, *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d at 1067; *Vizio, Inc. v. Funai Elec. Co.*, No. 09-0174, 2010 WL 7762624, at \*1 n.3 (C.D. Cal. Feb. 3, 2010); *see also* *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at \*6; *Barnes & Noble, Inc. v. LSI Corp.*, 849 F. Supp. 2d 925, 931–37 (N.D. Cal. 2012).

<sup>14</sup> *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 912 (N.D. Ill. 2012) (Posner, J., sitting by designation); *see also* *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at \*12.

<sup>15</sup> *See* DOJ-PTO POLICY, *supra* note 5, at 1 n.2.

<sup>16</sup> *See, e.g.*, *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d at 884–85; *Realtek Semiconductor Corp. v. LSI Corp.*, No. 12-3451, 2013 WL 2181717, at \*5 (N.D. Cal. May 20, 2013); *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d at 1083–85, 1087; *Microsoft Corp. v. Motorola, Inc.*, 864 F. Supp. 2d 1023, 1030–33 (W.D. Wash. 2012).

<sup>17</sup> *See* *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d at 876–77.

patentees and implementers.<sup>18</sup> Thus, if a dispute arises and the parties cannot resolve it on their own, a courthouse may provide the only forum for its resolution.

## II. ISSUES ARISING FROM STANDARD-ESSENTIAL PATENTS

Disputes between patentees and implementers may present many issues: How do the *Georgia-Pacific* factors, typically considered in patent cases when determining a reasonable royalty, apply to a RAND commitment?<sup>19</sup> Can a patentee provide a volume discount, e.g., seek a higher royalty from implementer *A* who produces 1,000 units per year and a lower royalty from implementer *B* who produces 50,000 units per year? If the licensee also owns patents, can an owner of standard-essential patents account for patents licensed to it by the licensee (called a cross license), e.g., seek a higher royalty from implementer *C* who will not cross-license patents and a lower royalty from implementer *D* who will cross license patents? How can a patentee price a standard-essential patent when licensed along with nonessential patents? If multiple entities own multiple patents covering a single standard, how can one entity price its standard-essential patent to permit the other entities to receive reasonable royalties (called royalty stacking)? In the event of litigation, what relief can an implementer obtain, and can a patentee obtain injunctive relief for a RAND-encumbered patent? Can a purchaser of a RAND-encumbered patent disavow a seller's RAND commitment? Do a seller's deceitful acts vis-à-vis an SSO extend to a purchaser of a RAND-encumbered patent such that an implementer may rely on those deceitful acts as a defense in an infringement action brought by the purchaser?

Recent decisions in cases concerning cell phones and other wireless devices shed light on some of these issues as well as others involving standard-essential patents.

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<sup>18</sup> See *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d at 1084–85.

<sup>19</sup> In *Georgia-Pacific Corp. v. United States Plywood Corp.*, the district court compiled a list from what it called a “conspectus of the leading cases” of fifteen factors generally relevant when determining a reasonable royalty for a patent license. 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d Cir. 1971). Those factors include royalties paid by others under the patent in suit, royalties paid by the licensee under comparable patents, the nature and scope of the license, e.g., exclusive or nonexclusive, the patentee's established policy of licensing or not licensing its patents, the relationship between the parties, e.g., whether they compete directly against each other, and the profitability of products made under the patent in suit. *Id.* The Federal Circuit has approved use of the *Georgia-Pacific* factors when determining a reasonable royalty. See, e.g., *Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 26–27 (Fed. Cir. 2012); *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1109 (Fed. Cir. 1996); *SmithKline Diagnostics, Inc. v. Helena Labs. Corp.*, 926 F.2d 1161, 1168 (Fed. Cir. 1991).

### A. How to Determine a RAND Royalty Rate

In *Microsoft v. Motorola*, a district court in Seattle provided a framework for determining a RAND royalty rate.<sup>20</sup> The dispute in that case involved two standards: (1) International Telecommunication Union (ITU) standard H.264 for video coding, and (2) Institute of Electrical and Electronics Engineers (IEEE) standard 802.11 for wireless local area networking (WLAN, commonly called Wi-Fi).<sup>21</sup> For each of those standards, Motorola owned a portfolio of essential patents and committed to license those patents on RAND terms.<sup>22</sup>

Motorola alleged that several Microsoft products, including Windows and the Xbox, employed the H.264 standard and that the Xbox employed the 802.11 standard.<sup>23</sup> Motorola offered to license the 802.11 standard-essential patents for 2.25% of the end-product price.<sup>24</sup> Motorola also offered to license the H.264 standard-essential patents for 2.25% of the end-product price.<sup>25</sup> Soon after receiving those offers, Microsoft sued Motorola for breach of contract, claiming that Motorola breached its RAND commitments to the IEEE and the ITU by making unreasonable offers.<sup>26</sup>

The district court decided that Motorola's RAND commitments to the IEEE and the ITU created enforceable contracts between Motorola and the respective SSOs.<sup>27</sup> The court also decided that implementers of the respective standards were third-party beneficiaries who could sue for breach of Motorola's RAND commitments.<sup>28</sup> To permit a jury to determine whether Motorola's offers to Microsoft breached Motorola's obligations to license on RAND terms, the court conducted a bench trial before a jury trial to establish RAND royalty rates for Motorola's two groups of standard-essential patents.<sup>29</sup> Because RAND terms could conceivably encompass more than one rate, the court established RAND royalty ranges so that a jury in a subsequent trial could compare Motorola's offers with those ranges.<sup>30</sup>

In particular, the district court ruled that (1) the RAND rate for the 802.11 standard-essential patents ranged from 0.8 to 19.5 cents per unit and (2) the

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<sup>20</sup> *Microsoft Corp. v. Motorola, Inc.*, No. 10-1823, 2013 WL 2111217, at \*10–20 (W.D. Wash. Apr. 25, 2013).

<sup>21</sup> *Id.* at \*1.

<sup>22</sup> *Id.* at \*1, \*21, \*27, \*53.

<sup>23</sup> *Id.* at \*42, \*54.

<sup>24</sup> *Id.* at \*2.

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *Microsoft Corp. v. Motorola, Inc.*, No. 10-1823, 2012 WL 5993202, at \*4 (W.D. Wash. Nov. 30, 2012).

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

<sup>29</sup> *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at \*1–3; *Microsoft Corp. v. Motorola, Inc.*, 2012 WL 5993202, at \*4–5.

<sup>30</sup> *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at \*3.

RAND rate for the H.264 standard-essential patents ranged from 0.555 to 16.389 cents per unit.<sup>31</sup> Thus, in a subsequent trial, a jury will use those ranges to evaluate the reasonableness of Motorola's license offers to Microsoft when deciding whether Motorola breached its RAND commitments.

In addition, the district court determined Motorola's damages for patent infringement by establishing particular RAND rates for the products at issue, i.e., 3.471 cents per unit for the 802.11 standard-essential patents and 0.555 cents per unit for the H.264 standard-essential patents.<sup>32</sup> Commentators have estimated that those royalties translate into about \$1.8 million in annual payments, a vastly lower amount than the \$4 billion in annual payments that Motorola wanted.<sup>33</sup>

In determining RAND royalty rates for Motorola's standard-essential patents, the district court adopted "a modified version of the *Georgia-Pacific* factors to recreate a hypothetical negotiation between the parties."<sup>34</sup> Among other things, the court evaluated (1) the importance of the patents to the standard at issue and (2) the importance of the standard and the patents to the products at issue.<sup>35</sup> According to the court, a RAND royalty rate should reflect "the contribution of the patented technology to the capabilities of the standard, and in turn, the contribution of those capabilities of the standard to the implementer and the implementer's products."<sup>36</sup>

Also, because industry standards like the ones at issue can require the use of "hundreds or thousands" of patents owned by numerous entities, the district court considered royalty stacking and "the need to ensure that the aggregate royalties associated with a given standard are reasonable."<sup>37</sup>

The district court decided that the proper method for determining a RAND royalty rate for a standard-essential patent should minimize the risk of patent hold-up and therefore assess patent value just before standard adoption.<sup>38</sup> At that point, the standard presumably could have employed alternatives to the patented technology.<sup>39</sup> So an assessment at that point limits the royalty to the

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<sup>31</sup> *Id.* at \*4, \*85–87, \*100–01.

<sup>32</sup> *Id.* at \*4, \*16–17, \*85–86, \*99–100.

<sup>33</sup> *See, e.g.*, Janet I. Tu, *Microsoft and Motorola Return to Court for More Patent Battling*, SEATTLE TIMES (Aug. 26, 2013, 6:15 AM), <http://blogs.seattletimes.com/microsoftpri0/2013/08/26/microsoft-and-motorola-return-to-court-for-more-patent-battling/>.

<sup>34</sup> *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at \*3, \*16–20.

<sup>35</sup> *Id.* at \*3, \*19–20.

<sup>36</sup> *Id.* at \*20.

<sup>37</sup> *Id.* at \*11; *see id.* at \*12.

<sup>38</sup> *Id.* at \*12, \*19; *see also* SK hynix Inc. v. Rambus Inc., No. 00-20905, 2013 WL 1915865, at \*19 (N.D. Cal. May 8, 2013); *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913 (N.D. Ill. 2012).

<sup>39</sup> *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at \*19; *see also* *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d at 913.

value of the patent itself rather than the value conferred once the patent becomes essential, i.e., the hold-up value.<sup>40</sup> As another court has observed, once the patent becomes essential, “the patentee’s bargaining power surges because a prospective licensee has no alternative to licensing the patent.”<sup>41</sup>

After a jury trial in *Microsoft v. Motorola*, the jury found that Motorola breached its RAND commitments and returned a verdict for Microsoft.<sup>42</sup> The jury awarded damages of about \$11.5 million to compensate Microsoft for relocating a distribution center out of Germany.<sup>43</sup> And based on the finding that Motorola violated its duty of good faith and fair dealing, the jury awarded damages of about \$3 million to compensate Microsoft for attorney fees and litigation costs.<sup>44</sup>

The jury’s decision should send a clear message to owners of standard-essential patents that an initial license offer should propose a reasonable rate. A patentee may want to document the process employed to determine the rate in an initial license offer to use defensively if an implementer files a breach-of-contract action.

Regarding the method for determining a RAND royalty rate, in *SK hynix v. Rambus*, a district court in San Jose agreed with the court in *Microsoft v. Motorola* that the method should minimize the risk of patent hold-up and therefore assess patent value just before standard adoption.<sup>45</sup> In *SK hynix*, the patentee, Rambus, willfully destroyed numerous documents when litigation was reasonably foreseeable.<sup>46</sup> Accordingly, the court decided to sanction Rambus by limiting it to a RAND royalty because the court believed that a RAND royalty would not disadvantage the infringer Hynix vis-à-vis its competitors.<sup>47</sup> The parties then briefed the RAND issues for the 1995-1996 timeframe, i.e., the period just before standard adoption.<sup>48</sup> After briefing, however, the court concluded that the actual royalty rates negotiated and paid by Hynix’s competitors after 2000 constituted “a more appropriate and straightforward way to mitigate the prejudice” to Hynix caused by Rambus’s spoliation.<sup>49</sup> Although those actual royalty rates were reached after litigation, the court decided to use

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<sup>40</sup> *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at \*12, \*19; *see also SK hynix*, 2013 WL 1915865, at \*19; *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d at 913.

<sup>41</sup> *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d at 913.

<sup>42</sup> Verdict Form at 2–3, *Microsoft Corp. v. Motorola, Inc.*, No. 10-1823 (W.D. Wash. Sept. 4, 2013), ECF No. 909.

<sup>43</sup> *Id.* at 2.

<sup>44</sup> *Id.* at 2–3.

<sup>45</sup> *SK hynix*, 2013 WL 1915865, at \*19.

<sup>46</sup> *Hynix Semiconductor Inc. v. Rambus Inc.*, 897 F. Supp. 2d 939, 985 (N.D. Cal. 2012); *SK hynix*, 2013 WL 1915865, at \*19.

<sup>47</sup> *Hynix Semiconductor*, 897 F. Supp. 2d at 986–87; *SK hynix*, 2013 WL 1915865, at \*1, \*20.

<sup>48</sup> *SK hynix*, 2013 WL 1915865, at \*20.

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



them in sanctioning Rambus because they were negotiated “after Rambus’s misconduct was disclosed” and therefore reflected Rambus’s spoliation.<sup>50</sup> In contrast to those actual royalty rates, the court decided that a RAND royalty would amount to “a non-competitive rate” and cause “significant prejudice” to Hynix.<sup>51</sup>

Consequently, the district court’s statements about the proper method for determining a RAND royalty rate constitute dicta. Still, the decision in *SK hynix* evidences an emerging consensus concerning the proper method for determining a RAND royalty rate. Further, the court in *SK hynix* noted that the use of royalty rates negotiated to settle litigation may run afoul of decisions disapproving the use of settlement agreements to establish reasonable-royalty damages.<sup>52</sup> But the court distinguished those decisions because it used the actual royalty rates negotiated and paid by Hynix’s competitors to fashion an appropriate sanction rather than determine Rambus’s damages.<sup>53</sup>

*B. A Court May Decline to Determine RAND Terms Unless the Licensee Agrees to Accept Them Without Qualification*

In *Microsoft v. Motorola*, Microsoft represented to the district court that it would accept a license to Motorola’s standard-essential patents on RAND terms.<sup>54</sup> In another case involving Motorola’s standard-essential patents, Apple stated that it would not necessarily accept a license on court-determined RAND terms.<sup>55</sup> In *Apple v. Motorola*, Apple asserted a breach-of-contract claim, among others, based on Motorola’s alleged breach of its RAND commitments.<sup>56</sup> Only shortly before trial did it become clear to the district court that Apple would not commit to be bound by a court-determined RAND rate.<sup>57</sup> Instead, Apple sought “only a ceiling on the potential license rate that it could use for negotiating purposes” with Motorola.<sup>58</sup> The court concluded that the relief sought by Apple

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<sup>50</sup> *Id.* at \*20–21.

<sup>51</sup> *Id.* at \*20.

<sup>52</sup> *Id.* at \*21 (citing *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 77 (Fed. Cir. 2012)).

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

<sup>54</sup> *Microsoft Corp. v. Motorola, Inc.*, No. 10-1823, 2012 WL 4827743, at \*8 (W.D. Wash. Oct. 10, 2012).

<sup>55</sup> *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-178, 2012 WL 7989412, at \*2–3 (W.D. Wis. Nov. 8, 2012); *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-178, 2012 WL 5416931, at \*1 (W.D. Wis. Nov. 2, 2012).

<sup>56</sup> *Apple, Inc. v. Motorola Mobility, Inc.*, 2012 WL 7989412, at \*1; *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1066 (W.D. Wis. 2012).

<sup>57</sup> *Apple, Inc. v. Motorola Mobility, Inc.*, 2012 WL 7989412, at \*2–3; *Apple, Inc. v. Motorola Mobility, Inc.*, 2012 WL 5416931, at \*1.

<sup>58</sup> *Apple, Inc. v. Motorola Mobility, Inc.*, 2012 WL 7989412, at \*3; *see Apple, Inc. v. Motorola Mobility, Inc.*, 2012 WL 5416931, at \*1.

would not resolve the dispute and have no practical effect.<sup>59</sup> Hence, the court dismissed Apple's breach-of-contract claim without prejudice.<sup>60</sup> So *Apple v. Motorola* demonstrates the danger if a party declines to commit to be bound by a court-determined RAND rate.

### C. What Makes a Patent or a Patent Claim Essential to a Standard

Providing further clarity to the law concerning RAND obligations, a district court in Chicago addressed issues involving essentiality to a standard, in particular, IEEE standard 802.11.<sup>61</sup> In that case, Innovatio owned more than twenty patents allegedly covering wireless internet access.<sup>62</sup> It asserted those patents against numerous stores, restaurants, hotels, and other commercial users of wireless internet technology located throughout the United States.<sup>63</sup> After various manufacturers of allegedly infringing devices filed an action against Innovatio seeking declarations of noninfringement and invalidity, Innovatio asserted a counterclaim against the manufacturers for infringement.<sup>64</sup>

The parties disputed whether all of the asserted patent claims were essential to IEEE standard 802.11, and thus whether the RAND commitments by Innovatio's predecessors in interest applied to all of the asserted patent claims or just some of them.<sup>65</sup> Presumably, Innovatio could request higher royalties or injunctive relief for infringement of nonessential patent claims.

The parties agreed that the RAND commitments by Innovatio's predecessors bound Innovatio, and that the IEEE bylaws defined the extent of those commitments.<sup>66</sup> But the parties disagreed as to who had the burden to prove essentiality to the standard.<sup>67</sup> The district court analogized the existence of a RAND obligation to the existence of a license.<sup>68</sup> Because a patent challenger in a typical patent case has the burden of establishing a license—an affirmative defense to infringement—the court decided that the alleged infringers had the burden of establishing a RAND obligation.<sup>69</sup> Additionally, because the IEEE bylaws contemplate standard-essential patents containing both essential and

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<sup>59</sup> *Apple, Inc. v. Motorola Mobility, Inc.*, 2012 WL 7989412, at \*5; *Apple, Inc. v. Motorola Mobility, Inc.*, 2012 WL 5416931, at \*3.

<sup>60</sup> *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-178, 2012 WL 5943791, at \*2-3 (W.D. Wis. Nov. 28, 2012).

<sup>61</sup> *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11-9308, 2013 WL 3874042 (N.D. Ill. July 26, 2013).

<sup>62</sup> *Id.* at \*1.

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

<sup>64</sup> *Id.*

<sup>65</sup> *Id.* at \*2.

<sup>66</sup> *Id.* at \*4-5, 7.

<sup>67</sup> *Id.* at \*7.

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

<sup>69</sup> *Id.*; see FED. R. CIV. P. 8(c)(1) (identifying "license" as an affirmative defense).

nonessential claims, and because each patent claim constitutes a separate invention, the court decided to address essentiality on a claim-by-claim basis rather than on a patent-by-patent basis.<sup>70</sup>

In answering the question what makes a patent claim essential to IEEE standard 802.11, the district court analyzed the paragraph in the IEEE bylaws defining “Essential Patent Claim.”<sup>71</sup> According to the court, that definition provides a two-part test for determining essentiality: “(1) at the time of the standard’s adoption, the only commercially and technically feasible way to implement a particular mandatory or optional portion of . . . the standard was to infringe the patent claim; and (2) the patent claim includes, at least in part, technology that is explicitly required by or expressly set forth in the standard . . . .”<sup>72</sup> The court then considered the disputed patent claims and decided that all were essential to the standard.<sup>73</sup>

The district court’s test for determining essentiality comports with a test that the Federal Circuit employed in an analogous context. In a case involving compact discs and a Recordable CD Standard that two industry participants prepared, the Federal Circuit considered a patent essential to the standard if it was “reasonably necessary” to practice the patent when implementing the standard due to the absence of “commercially practicable” alternatives.<sup>74</sup>

In *In re Innovatio*, the district court addressed only IEEE standard 802.11.<sup>75</sup> But its analytical framework of looking to the IEEE bylaws could apply to other standards based on RAND commitments to other SSOs. Thus, in answering the essentiality question for a different standard from a different SSO, a court could analyze that SSO’s policies just as the district court in Chicago analyzed the IEEE’s policies.

After a bench trial in *In re Innovatio*, the district court set the RAND rate for the 802.11 standard-essential patents at 9.56 cents per unit.<sup>76</sup> The court based that royalty on the \$14.85 average price of the Wi-Fi chip embedded in each product and rejected Innovatio’s request for royalties based on end-product price.<sup>77</sup> Innovatio’s request would have resulted in royalties ranging from \$4.72 per unit for a laptop computer to \$16.17 per unit for a tablet computer to \$36.90

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<sup>70</sup> *In re Innovatio*, 2013 WL 3874042, at \*7–8.

<sup>71</sup> *Id.* at \*8–10.

<sup>72</sup> *Id.* at \*10.

<sup>73</sup> *Id.* at \*13–27.

<sup>74</sup> *Princo Corp. v. Int’l Trade Comm’n*, 563 F.3d 1301, 1303, 1310–11 (Fed. Cir. 2009) (citing *Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004, 1018 (Fed. Cir. 2008)), *vacated*, 583 F.3d 1380, 1381 (Fed. Cir. 2009); *U.S. Philips Corp. v. Int’l Trade Comm’n*, 424 F.3d 1179, 1182, 1194–95 (Fed. Cir. 2005).

<sup>75</sup> *In re Innovatio*, 2013 WL 3874042, at \*7–10.

<sup>76</sup> *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11-9308, 2013 WL 5593609, at \*3–4, \*84–86, \*88 (N.D. Ill. Oct. 3, 2013).

<sup>77</sup> *Id.* at \*21–34, \*77–82.

per unit for a bar-code scanner.<sup>78</sup> The court reasoned that basing the RAND rate on the average price of the Wi-Fi chip best served the rate's nondiscriminatory objective because it prevented Innovatio from discriminating "between licensees on the basis of their position in the market."<sup>79</sup>

Notably, the district court considered royalty stacking and compared the RAND rate for Innovatio's 802.11 standard-essential patents to the RAND rate for Motorola's 802.11 standard-essential patents that the Seattle court determined in *Microsoft v. Motorola*.<sup>80</sup> The Chicago court viewed the 9.56-cent rate as "comfortably within" the 0.8 to 19.5 cents range set by the Seattle court.<sup>81</sup> As for the 3.471-cent rate used by the Seattle court to calculate Motorola's damages for patent infringement, the Chicago court found that Innovatio's patents had "moderate to moderate-high importance to the standard" but that Motorola's patents had "minimal value to the standard."<sup>82</sup> Thus, the Chicago court reasoned that a multiplier of about three appropriately accounted for the greater importance of Innovatio's patents to the standard.<sup>83</sup>

#### *D. The Unavailability of Injunctive Relief as a Remedy for Infringement*

With regard to the relief available in the event of litigation, several courts have concluded that a patentee's commitment to license a standard-essential patent on RAND terms conflicts with a request for injunctive relief that would prohibit use of the patent. By agreeing to license the standard-essential patent on RAND terms, the patentee voluntarily relinquishes the right to exclude in exchange for having the patented technology included in the standard.<sup>84</sup>

Various decisions in the *Microsoft v. Motorola* case discussed above illustrate the analysis. There, Microsoft filed a breach-of-contract action in the Seattle court based on Motorola's alleged breach of its RAND commitments, and then Motorola sued Microsoft for patent infringement in a different district court.<sup>85</sup> The cases were consolidated in the Seattle court.<sup>86</sup> Motorola sued Microsoft in Germany as well as the United States, asserting standard-essential patents in both countries.<sup>87</sup> In Germany, Motorola requested injunctive relief

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<sup>78</sup> *Id.* at \*22.

<sup>79</sup> *Id.* at \*74.

<sup>80</sup> *Id.* at \*74–75, \*86–87.

<sup>81</sup> *Id.* at \*86.

<sup>82</sup> *Id.* at \*77, \*85, \*87.

<sup>83</sup> *Id.* at \*87.

<sup>84</sup> See Jonathan L. Rubin, *Patents, Antitrust, & Rivalry in Standard-Setting*, 38 RUTGERS L.J. 509, 531 (2007).

<sup>85</sup> *Microsoft Corp. v. Motorola, Inc.*, 871 F. Supp. 2d 1089, 1094–95 (W.D. Wash. 2012).

<sup>86</sup> *Id.* at 1095.

<sup>87</sup> *Id.* at 1096.

prohibiting Microsoft from selling allegedly infringing products in Germany.<sup>88</sup> German law does not recognize third-party contractual rights.<sup>89</sup> So in Germany, Microsoft could not defeat Motorola's request for injunctive relief by asserting that Motorola's RAND commitments entitled Microsoft to a license. Consequently, Microsoft asked the Seattle court to issue a preliminary injunction preventing Motorola from enforcing any injunctive relief obtained from the German court.<sup>90</sup>

In evaluating Microsoft's preliminary-injunction motion, the court considered the following four factors: (1) likelihood of success on the merits; (2) irreparable harm absent the requested injunction; (3) the balance of hardships; and (4) the public interest.<sup>91</sup> The court noted that where the injunction would prevent a party from litigating a similar claim in a foreign court, certain anti-suit-injunction factors replace the likelihood-of-success factor, in particular:

- (1) whether or not the parties and the issues are the same, and whether or not the first action is dispositive of the action to be enjoined; (2) whether the foreign litigation would frustrate a policy of the forum issuing the injunction; and (3) whether the impact on comity would be tolerable.<sup>92</sup>

The court found that the anti-suit-injunction factors and the preliminary-injunction factors favored an order barring Motorola from enforcing any injunctive relief obtained from the German court.<sup>93</sup> For instance, the court determined that the Microsoft-requested anti-suit injunction would serve the public interest by "ensuring standard essential patents are accessible to all comers under RAND terms" and "permitting Microsoft's customers, who rely on Microsoft's information technology services, to conduct business uninterrupted."<sup>94</sup>

On appeal, the Ninth Circuit upheld the anti-suit injunction under the abuse-of-discretion standard.<sup>95</sup> In doing so, the appellate court said that "injunctive relief against infringement is arguably a remedy inconsistent with the licensing commitment."<sup>96</sup> And the appellate court decided that (1) a patentee's commitment to license a standard-essential patent on RAND terms

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<sup>88</sup> *Id.*

<sup>89</sup> *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 879 (9th Cir. 2012).

<sup>90</sup> *Microsoft Corp. v. Motorola, Inc.*, 871 F. Supp. 2d at 1096.

<sup>91</sup> *Id.* at 1102–03 (citing *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 22 (2008)).

<sup>92</sup> *Id.* at 1097 (citing *Applied Med. Distribution Corp. v. Surgical Co. BV*, 587 F.3d 909, 913 (9th Cir.2009)) (footnote omitted).

<sup>93</sup> *Id.* at 1098–103.

<sup>94</sup> *Id.* at 1103.

<sup>95</sup> *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 875, 881, 889 (9th Cir. 2012).

<sup>96</sup> *Id.* at 885.

creates a contract governing the patentee's ability to enforce the patent and (2) a third-party beneficiary can sue for a breach of that contract.<sup>97</sup>

About two months after the Ninth Circuit's decision, the district court determined that Motorola could not obtain any form of injunctive relief for its standard-essential patents in any country.<sup>98</sup> The court noted that a patentee must establish irreparable harm and the inadequacy of legal remedies to obtain injunctive relief.<sup>99</sup> The court then concluded that Motorola could not establish irreparable harm because: (1) Microsoft was entitled to license Motorola's standard-essential patents on RAND terms; (2) Microsoft agreed to accept a license on RAND terms; (3) a license agreement will become a reality at some point; and (4) Microsoft's royalty payments under that agreement will constitute Motorola's remedy for infringement.<sup>100</sup> Because that remedy "will make Motorola whole," the court ruled that Motorola had an adequate legal remedy for Microsoft's use of Motorola's standard-essential patents.<sup>101</sup>

Similarly, in *Barnes & Noble v. LSI*, a district court in San Francisco concluded that a patentee's RAND commitment rendered injunctive relief unavailable as a remedy for infringement of a standard-essential patent.<sup>102</sup>

Additionally, in *Realtek v. LSI*, a district court in San Jose considered the propriety of injunctive relief as a remedy for infringement of a standard-essential patent and reached the same conclusion.<sup>103</sup> In *Realtek*, LSI's subsidiary, Agere, owned two patents designated as essential to IEEE standard 802.11.<sup>104</sup> Realtek, a Taiwanese corporation, supplied integrated circuits to customers in the United States for use in products practicing that standard.<sup>105</sup> In late 2002, Agere offered to license its 802.11 standard-essential patents to Realtek for five percent of Realtek's selling price.<sup>106</sup> In response, Realtek asked for more information about Agere's infringement contentions.<sup>107</sup> But the parties ceased communications in early 2003 with no resolution of the licensing or infringement issues.<sup>108</sup>

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<sup>97</sup> *Id.* at 884–85.

<sup>98</sup> *Microsoft Corp. v. Motorola, Inc.*, No. 10-1823, 2012 WL 5993202, at \*6–8 (W.D. Wash. Nov. 30, 2012).

<sup>99</sup> *Id.* at \*5 (citing *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006)).

<sup>100</sup> *Id.* at \*6.

<sup>101</sup> *Id.*

<sup>102</sup> *Barnes & Noble, Inc. v. LSI Corp.*, 849 F. Supp. 2d 925, 943–44 (N.D. Cal. 2012) (citing Answer to Counterclaim and Demand for Jury Trial at 26, *Apple Inc. v. Samsung Elecs. Co.*, No. 11-1846 (N.D. Cal. July 21, 2011)).

<sup>103</sup> *Realtek Semiconductor Corp. v. LSI Corp.*, No. 12-3451, 2013 WL 2181717, at \*1, \*9–10 (N.D. Cal. May 20, 2013).

<sup>104</sup> *Id.* at \*1.

<sup>105</sup> *Id.*

<sup>106</sup> *Id.* at \*2.

<sup>107</sup> *Id.*

<sup>108</sup> *Id.* at \*2, \*7.

Years later, in early 2012, LSI contacted Realtek and asserted that Realtek's integrated circuits as incorporated into certain third-party products infringed its 802.11 standard-essential patents.<sup>109</sup> LSI asked Realtek to immediately stop the allegedly infringing activities.<sup>110</sup> Less than a week later, LSI filed a complaint with the International Trade Commission (ITC) under section 337 of the 1930 Tariff Act, which makes patent infringement an unfair trade practice.<sup>111</sup> LSI requested injunctive relief from the ITC, e.g., an order excluding the accused products from entry into the United States.<sup>112</sup> Shortly after that, Realtek requested that LSI license the two patents at issue on RAND terms.<sup>113</sup> LSI responded with a proposed license.<sup>114</sup> Realtek then sued LSI for, among other things, breach of contract.<sup>115</sup> According to Realtek, the proposed license unreasonably provided for royalties that exceeded Realtek's selling price because the license based royalties on end-product pricing rather than the value of the Realtek-supplied components.<sup>116</sup>

Realtek requested a partial summary judgment on its breach-of-contract claim based on the contention that LSI's initiation of the ITC proceeding before offering a license, by itself, breached LSI's obligation to license on RAND terms.<sup>117</sup> Realtek asserted that seeking injunctive relief in an ITC proceeding "is inherently inconsistent with a patent holder's RAND obligations."<sup>118</sup> In light of that assertion, Realtek requested a preliminary injunction preventing LSI from enforcing any injunctive relief obtained from the ITC until after the district court determined RAND terms for LSI's standard-essential patents.<sup>119</sup>

The district court agreed with Realtek that LSI breached its obligation to license on RAND terms "by seeking injunctive relief against Realtek before offering Realtek a license."<sup>120</sup> The court concluded that seeking injunctive relief before offering a license "is inherently inconsistent and a breach of defendants' promise to license the patents on RAND terms."<sup>121</sup> The court reasoned that by "promising to license on RAND terms," a patentee admits that "monetary damages, namely a RAND royalty, would be adequate compensation for any injury it has suffered as a result of . . . allegedly infringing conduct."<sup>122</sup> The

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<sup>109</sup> *Id.* at \*2.

<sup>110</sup> *Id.*

<sup>111</sup> *Id.*; see 19 U.S.C. § 1337(a)(1)(b) (2012).

<sup>112</sup> *Realtek*, 2013 WL 2181717, at \*2.

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

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

<sup>115</sup> *Id.* at \*2–3.

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

<sup>117</sup> *Id.* at \*3.

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

<sup>119</sup> *Id.* at \*4.

<sup>120</sup> *Id.* at \*7.

<sup>121</sup> *Id.* at \*6.

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

court also reasoned that the pending threat of injunctive relief gives the patentee “inherent bargaining power in any RAND licensing negotiation.”<sup>123</sup>

In evaluating Realtek’s request for a preliminary injunction, the district court considered the following four factors: (1) likelihood of success on the merits; (2) irreparable harm absent the requested injunction; (3) the balance of hardships; and (4) the public interest.<sup>124</sup> The court concluded that each factor favored an order barring LSI from enforcing any injunctive relief obtained from the ITC.<sup>125</sup> For instance, the court determined that the Realtek-requested injunction barring LSI would serve the public interest by making clear that “commitments to make patents available on reasonable terms matter.”<sup>126</sup>

Consistent with the district court rulings discussed above, the Federal Trade Commission (FTC) has contended that seeking injunctive relief against a willing licensee of a RAND-encumbered patent constitutes an unfair method of competition.<sup>127</sup> In particular, the FTC maintained that Google and its predecessor Motorola violated RAND commitments by (1) asserting standard-essential patents against Apple and Microsoft in various district courts as well as the ITC and (2) seeking injunctive relief.<sup>128</sup> The FTC claimed that this conduct likely limited competing products, increased costs for consumers and competitors, undermined the standard-setting process, and therefore violated section 5 of the FTC Act.<sup>129</sup> That statute authorizes the FTC to prohibit unfair methods of competition.<sup>130</sup>

To resolve the FTC proceeding, Google agreed to a consent order that requires it to abide by its RAND commitments.<sup>131</sup> When Google alleges infringement of RAND-encumbered patents, the consent order generally prohibits Google from enforcing injunctive relief in pending cases and seeking injunctive relief in future cases.<sup>132</sup> But Google may request injunctive relief as a

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

<sup>124</sup> *Id.* at \*8 (citing *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008)).

<sup>125</sup> *Id.* at \*8–9.

<sup>126</sup> *Id.* at \*6, \*9 (quoting Jon Leibowitz, Fed. Trade Comm’n Chairman, Opening Remarks at the Google Press Conference, As Prepared for Delivery 3 (Jan. 3, 2013), *available at* [http://ftc.gov/sites/default/files/documents/public\\_statements/opening-remarks-federal-trade-commission-chairman-jon-leibowitz-prepared-delivery/130103googleleibowitzremarks.pdf](http://ftc.gov/sites/default/files/documents/public_statements/opening-remarks-federal-trade-commission-chairman-jon-leibowitz-prepared-delivery/130103googleleibowitzremarks.pdf)).

<sup>127</sup> Complaint at 1 ¶ 1, *In re Motorola Mobility LLC & Google Inc.*, FTC File No. 121-0120, (July 23, 2013), *available at* <http://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolacmpt.pdf>.

<sup>128</sup> *Id.* at 4–5 ¶¶ 24–27.

<sup>129</sup> *Id.* at 5–6 ¶¶ 28–31.

<sup>130</sup> 15 U.S.C. § 45(a) (2012).

<sup>131</sup> Decision and Order at 1–2, 7, *In re Motorola Mobility LLC & Google Inc.*, FTC File No. 121-0120 (July 23, 2013), *available at* <http://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolado.pdf>.

<sup>132</sup> *Id.* at 7–8.



remedy for infringement in narrow circumstances, e.g., if no district court in the United States can exercise jurisdiction over the potential licensee, if the potential licensee has refused to accept a license on RAND terms as determined by a court or through arbitration, or if the potential licensee has stated that it will not agree to a license on any terms.<sup>133</sup>

According to the consent order, Google must provide a potential licensee with a written offer to license containing all material terms for the standard-essential patents at issue.<sup>134</sup> If the parties cannot agree on terms, the potential licensee may have any contested terms determined by a court or through binding arbitration.<sup>135</sup> The consent order specifies circumstances in which Google must provide the potential licensee with a written offer to enter into binding arbitration.<sup>136</sup>

Of course, the consent order does not bind owners of standard-essential patents other than Google. But an implementer may cite the FTC's position when trying to defeat a request for injunctive relief if sued for infringing a RAND-encumbered patent.

#### *E. Injunctive Relief as a Remedy for Infringement in ITC Proceedings*

Almost all tribunals that have considered the propriety of injunctive relief for standard-essential patents have concluded that injunctive relief conflicts with a patentee's RAND commitment. But the ITC has not. In an investigation involving Samsung (complainant) and Apple (respondent) under section 337 of the 1930 Tariff Act, Samsung asserted that certain iPhone, iPod, and iPad devices infringed four of its patents.<sup>137</sup> The administrative law judge issued an initial determination finding that the Apple devices did not infringe any of the asserted patents.<sup>138</sup>

The Commission decided to review the initial determination in its entirety.<sup>139</sup> After that review, the Commission ruled that some Apple devices infringed one of the asserted patents, in particular, a standard-essential patent.<sup>140</sup> Samsung had declared that patent essential to a telecommunications standard for cellular networks and had committed to license it on RAND terms.<sup>141</sup> Despite

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<sup>133</sup> *Id.* at 8.

<sup>134</sup> *Id.* at 8–9.

<sup>135</sup> *Id.* at 9.

<sup>136</sup> *Id.* at 10–11.

<sup>137</sup> Certain Elec. Devices, Including Wireless Commc'n Devices, Portable Music & Data Processing Devices, and Tablet Computers, USITC Inv. No. 337-TA-794, at 1, 4–5 (July 5, 2013) (Final) *available at* <http://essentialpatentblog.com/wp-content/uploads/2013/07/337-TA-794-Commission-Opinion-Public-Version.pdf>.

<sup>138</sup> *Id.* at 1.

<sup>139</sup> *Id.*

<sup>140</sup> *Id.* at 3, 21–34.

<sup>141</sup> *Id.* at 1–2, 41, 43–44.

Samsung's RAND commitment, the Commission concluded that Apple failed to prove (1) the existence of a license as an affirmative defense, and (2) that Samsung acted unreasonably when negotiating with Apple.<sup>142</sup> The Commission determined that the Tariff Act's public-interest factors did not preclude injunctive relief.<sup>143</sup> Hence, the Commission decided to issue (1) an exclusion order preventing Apple from importing infringing devices and (2) a cease-and-desist order preventing Apple from selling infringing devices already imported.<sup>144</sup> One commissioner dissented from that decision based on the Tariff Act's public-interest factors.<sup>145</sup>

Under the Tariff Act, the President engages in a policy evaluation of an ITC decision to issue injunctive relief.<sup>146</sup> Within sixty days after the ITC issues an order, the President may disapprove—or veto—the order for policy reasons.<sup>147</sup> The President has delegated that authority to the U.S. Trade Representative (USTR).<sup>148</sup>

In the investigation involving Samsung and Apple, the USTR sent the ITC a letter that disapproved the ITC's orders regarding Apple's infringing devices.<sup>149</sup> Among other things, the USTR discussed the policy considerations set forth in section 337 and its legislative history, such as public welfare, competition, and consumers in the United States.<sup>150</sup> The USTR also discussed the DOJ-PTO policy statement concerning RAND-encumbered patents.<sup>151</sup> That policy statement noted that voluntary-consensus standards have become increasingly important and serve the public interest in many ways, such as efficient resource allocation.<sup>152</sup> That policy statement also noted that a patentee's RAND commitment could make injunctive relief inconsistent with the public interest and harm competition and consumers, e.g., where a patentee employs the threat of injunctive relief to pressure an implementer to accept onerous

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<sup>142</sup> *Id.* at 45–64.

<sup>143</sup> *Id.* at 107–14.

<sup>144</sup> *Id.* at 106–07, 119.

<sup>145</sup> *Id.* at D1–D8.

<sup>146</sup> 19 U.S.C. § 1337(j)(2) (2012).

<sup>147</sup> *Id.*

<sup>148</sup> Assignment of Certain Functions Under Section 337 of the Tariff Act of 1930, 70 Fed. Reg. 43251 (July 21, 2005).

<sup>149</sup> Letter from Michael B.G. Froman, U.S. Trade Representative, to Hon. Irving A. Williamson, Chairman, U.S. Int'l Trade Comm'n (Aug. 3, 2013), available at [http://www.ustr.gov/sites/default/files/08032013%20Letter\\_1.PDF](http://www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF) [hereinafter USTR Letter].

<sup>150</sup> *Id.* at 1; see 19 U.S.C. § 1337(d)(1) (2012); S. Rep. No. 93-1298, at 193, 197, 199 (1974).

<sup>151</sup> USTR Letter, *supra* note 149, at 1–2 (citing DOJ-PTO POLICY, *supra* note 5).

<sup>152</sup> DOJ-PTO POLICY, *supra* note 5, at 2–3.

licensing terms.<sup>153</sup> The USTR agreed that the threat of injunctive relief could permit a patentee to gain “undue leverage” and engage in patent hold-up.<sup>154</sup>

The USTR explained that the disapproval rested on a “review of the various policy considerations discussed above as they relate to the effect on competitive conditions in the U.S. economy and the effect on U.S. consumers.”<sup>155</sup> The USTR apparently agrees with the DOJ-PTO position that the public interest should preclude injunctive relief where the infringer (1) acted within the scope of the patentee’s RAND commitment and (2) is willing and able to license on RAND terms.<sup>156</sup> But if the infringer refuses to accept a license on RAND terms, e.g., as determined by a court, the public interest would not preclude injunctive relief.<sup>157</sup> Further, injunctive relief in an ITC proceeding “could be appropriate if a putative licensee is not subject to the jurisdiction of a court that could award damages.”<sup>158</sup>

After explaining the basis for the disapproval, the USTR advised the ITC that in future cases involving RAND-encumbered patents, the ITC should (1) “thoroughly and carefully” consider public-interest issues and (2) “have the parties develop a comprehensive factual record” related to those issues.<sup>159</sup> That advice coupled with the USTR’s disapproval of the ITC’s orders should decrease the ITC’s attractiveness as a forum for owners of standard-essential patents.

Nevertheless, the ITC usually grants injunctive relief to a prevailing patentee, e.g., an exclusion order barring infringing products from entry into the United States or a cease-and-desist order directing an infringer to discontinue infringing activities in the United States.<sup>160</sup> Thus, owners of non-standard-essential patents should still expect injunctive relief if they prevail at the ITC because those patents do not implicate the same public-interest and competition concerns as standard-essential patents.

The USTR’s position on RAND-encumbered patents may cause the ITC to determine royalty rates, which it typically does not do since it does not decide patent-infringement damages.<sup>161</sup> For instance, in a section 337 investigation involving Ericsson (complainant) and Samsung (respondent), Ericsson owned

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<sup>153</sup> *Id.* at 6.

<sup>154</sup> USTR Letter, *supra* note 149, at 2.

<sup>155</sup> *Id.* at 3.

<sup>156</sup> DOJ-PTO POLICY, *supra* note 5, at 9.

<sup>157</sup> USTR Letter, *supra* note 149, at 2 n.3; DOJ-PTO POLICY, *supra* note 5, at 7; *see* Realtek Semiconductor Corp. v. LSI Corp., No. 12-3451, 2013 WL 2181717, at \*7 (N.D. Cal. May 20, 2013); Apple, Inc. v. Motorola, Inc., 869 F. Supp. 2d 901, 913–14 (N.D. Ill. 2012).

<sup>158</sup> USTR Letter, *supra* note 149, at 2 n.3; DOJ-PTO POLICY, *supra* note 5, at 7.

<sup>159</sup> USTR Letter, *supra* note 149, at 3.

<sup>160</sup> *See* 19 U.S.C. §§ 1337(d)–(g) (2012).

<sup>161</sup> *See id.*

several standard-essential patents and cited the USTR's letter within two weeks after the USTR sent it.<sup>162</sup> In particular, Ericsson relied on the USTR's letter when asking the ITC to determine RAND terms for its standard-essential patents so that the ITC could make injunctive relief conditional on Samsung's refusal to accept a license on RAND terms.<sup>163</sup>

Samsung responded to Ericsson's request by asserting, among other things, that the ITC lacks jurisdiction to determine binding RAND terms and that even if the ITC had jurisdiction, that determination would require a substantially different evidentiary record than the existing record.<sup>164</sup> Samsung argued, however, that the USTR's letter had an important impact on Ericsson because the letter's reasons for vetoing injunctive relief also applied to Ericsson's standard-essential patents so that Ericsson could not obtain injunctive relief.<sup>165</sup> Hence, Samsung proposed termination of the investigation in favor of a concurrent district court case involving the same RAND issues.<sup>166</sup>

The ITC has not yet acted on Ericsson's request.

#### CONCLUSION

Different SSOs may have policies concerning standard-essential patents that differ significantly, even to the point of expressly prohibiting patentees from seeking injunctive relief.<sup>167</sup> In view of the recent decisions discussed above, an owner of a RAND-encumbered patent should thoroughly analyze its RAND commitment before filing a complaint with the ITC or requesting injunctive relief from a district court. Before taking either action, a patentee should study the SSO's policies to determine (1) whether the SSO prohibits seeking injunctive relief and (2) whether the commitment applies to every claim in a RAND-encumbered patent or just the essential claims. If the patentee believes that injunctive relief is available for nonessential claims, it should carefully analyze the infringement issues for those claims. By definition, an accused

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<sup>162</sup> Ericsson's Notice of New Authority at 2, Certain Elec. Devices, Including Certain Wireless Commc'n Devices, Tablet Computers, Media Players & Televisions, & Components Thereof, USITC Inv. No. 337-TA-862 (Aug. 14, 2013), *available at* <http://essentialpatentblog.com/wp-content/uploads/2013/08/337-TA-862-Ericsson-Notice-of-New-Authority.pdf>.

<sup>163</sup> *Id.* at 4, 7–10.

<sup>164</sup> Samsung Respondent's Response to Ericsson's Notice of New Authority (Pub. Version) at 2, 6–8, Certain Elec. Devices, Including Certain Wireless Commc'n Devices, Tablet Computers, Media Players & Televisions, & Components Thereof, USITC Inv. No. 337-TA-862 (Aug. 26, 2013), *available at* <http://essentialpatentblog.com/wp-content/uploads/2013/08/337-TA-862-Samsung-Response-to-Ericsson-Notice-of-New-Authority.pdf>.

<sup>165</sup> *Id.* at 12.

<sup>166</sup> *Id.* at 11–12.

<sup>167</sup> *See* Lemley, *supra* note 1, at 1904–06.

product or process does not necessarily incorporate the technology covered by nonessential claims. Thus, for nonessential claims, an infringement assertion should rest on something more than the contention that the accused product infringes because it practices the standard at issue. Otherwise, the patentee takes a risk that an alleged infringer will claim a violation of Rule 11 for the patentee asserting nonessential claims.<sup>168</sup>

Also, before filing a complaint with the ITC or requesting injunctive relief from a district court, the patentee should make a good-faith license offer. An initial license offer that proposes an unreasonable rate may expose the patentee to breach-of-contract damages.

In the event of litigation, the patentee should continue to negotiate license terms in good faith. And in an ITC proceeding, the patentee should marshal evidence that public-policy considerations, e.g., as set forth in section 337 and its legislative history, favor injunctive relief.

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<sup>168</sup> See FED. R. CIV. P. 11(b) (requiring reasonable basis for claims, defenses, and contentions).