



# Intellectual Property NEWSLETTER

Legal Policy Section – Antitrust Division – Summer 2015

## Supreme Court

- October Term 2014
  - Kimble v. Marvel Enterprises, No. 13-720: *Brulotte* Post-Expiration Patent Royalty Rule
  - Commil USA, LLC v. Cisco Systems, Inc., No. 13-896: Scientist Requirement for Induced Patent Infringement
  - Teva Pharmaceuticals USA Inc. v. Sandoz Inc., No. 13-854: Standards of Review for Factual Findings Made During Claim Construction
- October Term 2013
  - Alice Corp. v. CLS Bank Int'l, 134 S. Ct. 2347 (2014): Patentable Subject Matter
  - Limelight Networks, Inc. v. Akamai Technologies Inc., 134 S. Ct. 2111 (2014): Liability for Induced Patent Infringement
  - Octane Fitness LLC v. Icon Health & Fitness Inc., 134 S. Ct. 1749 (2014) and Highmark Inc. v. Allcare Health Management Systems, Inc., 134 S.Ct. 1744 (2014): Exceptional Case Standard under 35 U.S.C. § 285
  - Nautilus Inc. v. Biosig Instruments, Inc., 134 S.Ct. 2120 (2014): Standard for Indefiniteness under 35 U.S.C. § 112, ¶ 2
  - Petrella v. Metro-Goldwyn-Mayer Inc., 134 S.Ct. 1962 (2014): Laches Defense in Civil Copyright Claim
  - American Broadcasting Cos. v. Aereo, Inc., 134 S.Ct. 2498 (2014): Public Performance under the Copyright Act
- October Term 2012
  - Bowman v. Monsanto Co., 133 S. Ct. 1761 (2013): Monsanto Prevails in Restricting Licensees from Re-Planting ROUNDUP Ready Seeds
  - FTC v. Actavis, Inc., 133 S. Ct. 2223 (2013): Reverse Payments and the “Scope-of-the-Patent” Rule
  - Already, LLC v. Nike, Inc. 133 S.Ct. 721 (2013): Covenant Not to Sue Moots Trademark Invalidity Counterclaim
  - Molecular Pathology v. Myriad Genetics, Inc., 133 S.Ct. 2107 (2013): Patentability of DNA

## Lower Court Actions

- Patent Assertion Entity Activities
  - Intellectual Ventures LLC, v. Capital One Financial Corp. (E.D. Va) and Intellectual Ventures LLC, v. Capital One Financial Corp. (D.MD)
  - Cascades Computer Innovation LLC v. RPX Corp., No. 12-CV-1143 (N.D. Cal.)
  - In re Innovatio IP Ventures, 11 CV 9308 (N.D. Ill)
- Patent Infringement Remedies
  - Federal Circuit Vacates Jury RAND Determination in Ericsson, Inc. v. D-Link Systems, Inc. (Fed. Cir. 2014)
  - Federal Circuit Opines on Calculating the Royalty Base for a Reasonable Royalty in VirtnetX v. Cisco Sys., Inc. (Fed Cir. 2014)
  - District Judges Determine RAND Rates in Two Court Cases Involving Infringement of Standard Essential Patents
- Other District Court RAND Cases
  - Realtek Semiconductor Corp. v. LSI Corp., 946 F. Supp. 2d 998 (N.D. Cal. 2013) (C-12-03451)
  - Apple and Ericsson Seek Rulings on the Appropriate Licensing Rate for Ericsson’s Allegedly Standard-Essential Patents
- Injunctive Relief
  - Federal Circuit Clarifies when Injunctive Relief may be available to an Owner of a FRAND-Encumbered Patent
  - Patent Owners Required to Show a Causal Nexus for Injunctions
- IP-Antitrust Interface
  - New York State Wins Product Hopping Case Involving a Patented Drug for Alzheimer Disease
  - Federal Circuit Concludes That Direct Purchasers Have Walker Process Standing

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

**Administrative Actions**

- DOJ-U.S. Patent and Trademark Office (PTO) Joint Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments
- Presidential Disapproval of ITC's Samsung v. Apple Determination
- DOJ Business Review Letters
  - Proposed Update to its Patent Policy
  - IPXI Patent License Market
- DOJ Enforcement Actions
- DOJ and FTC Comments to PTO on Patent Quality
- Federal Trade Commission Enforcement Actions
  - FTC-Google Settlement Regarding FRAND Commitments
  - FTC-Bosch Settlement Regarding FRAND Licensing
- International Trade Commission Cases
  - InterDigital v. Nokia and Microsoft: InterDigital Seeks ITC Exclusion Order for its Declared Standard-Essential Patents

**Speeches**

- Antitrust Source Interview with DAAG Renata Hesse
- AAG Bill Baer - International Antitrust Enforcement: Progress Made; Work to Be Done – AAG Bill Baer
- DAAG Renata Hesse – A Year in the Life of the Joint DOJ-PTO Policy Statement on Remedies for F/RAND Encumbered Standards-Essential Patents
- DAAG Renata Hesse - At the Intersection of Antitrust & High-Tech: Opportunities for Constructive Engagement
- DAAG Renata Hesse - The Art of Persuasion: Competition Advocacy at the Intersection of Antitrust and Intellectual Property
- DAAG Renata Hesse - IP, Antitrust, and Looking Back on the Last Four Years
- DAAG Renata Hesse - Six "Small" Proposals for SSOs Before Lunch
- Acting AAG Joseph Wayland - Antitrust Policy in the Information Age: Protecting Innovation and Competition

**International**

- Qualcomm and China's NRDC Agree to Settle Antimonopoly Law (AML) Action for \$975 Million and Conduct Remedies
- European Court of Justice Advisor Issues Advisory Ruling on Standards for Seeking Injunctions in Matter Involving SEPs
- The European Commission finds that Motorola's Use of Injunctive Relief on a FRAND-Encumbered Patent Essential to a Standard Against a Willing Licensee is an Abuse of Dominance
- European Commission: Samsung Agrees Not to Seek Injunctions in Europe on SEPs for Smartphones and Tablets
- Foreign Competition Authorities Issue Revised IP Guidelines
  - Canada
  - Korea
  - China
  - European Union

**Workshops**

- Patent Assertion Entity Activities Workshop (December 10, 2012)

**Legislation**

- Patent Reform/PAE Activity

*INTELLECTUAL PROPERTY*  
*NEWSLETTER*  
*SUMMER 2015*

## Supreme Court Review

### October Term 2014

#### Kimble v. Marvel Enterprises, No. 13-720: Supreme Court Review Upholds the *Brulotte* Post- Expiration Patent Royalty Rule

The Supreme Court granted certiorari in the post-patent expiration patent royalty case of *Kimble v. Marvel Enterprises, No. 13-720*.

**Question Presented:** Whether the Court should overrule *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) which held that “a patentee’s use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*.”

The policy goal behind the 1964 *Brulotte* decision was to avoid the potential harm associated with extending a patent monopoly beyond the set patent term. In this case, Kimble’s patent expired, but the settlement agreement it reached with Marvel to resolve a patent infringement and contract dispute concerning a Spiderman web-blaster toy called for ongoing royalty payments post-patent expiration. The parties were unaware of the *Brulotte* rule at the time of entering into the settlement.

The Ninth Circuit held that, under *Brulotte*, Marvel was no longer required to pay royalties on its sales of the Spiderman toy once the patent expired. Although in the antitrust context a *per se* rule against collecting patent royalties beyond patent expiration has been criticized by many economists and legal scholars, *Brulotte* is a patent law rule. Thus, the Solicitor General recommended that *Brulotte* should not be overruled. The SG argued that *Brulotte* is a narrow patent rule and *stare decisis* considerations counselled against overruling it. The SG also pointed to other factual issues with the case (i.e., the case does not involve a royalty-bearing patent *license* but rather Kimble’s patent was sold to Marvel as part of a settlement). You can access the OSG’s brief on the merits here:

[OSG’s Merits Brief](#)

**Holding:** The Court ruled that *Brulotte* is still good law. The Court’s opinion closely follows the reasoning set forth in the Solicitor General’s merits brief. The Court explained that the *Brulotte* rule is grounded in patent law. Slip op. 3-5. The Patent Act allows for a patentee to sell or license the patent for royalty payments. See 35 U.S.C. § 154(a)(1). The Act also states that the patent typically expires 20 years from the application date; after that time period, the invention passes to the public. See 35 U.S.C. § 154(a)(2). The Court explained that *Brulotte* is in line with several other patent cases that struck down measures limiting free access to formerly patented or unpatentable inventions and held that a licensing agreement that involves collecting royalties after patent expiration is “unlawful *per se*.” Slip op. 3-6. The Court acknowledged that *Brulotte* may prevent some efficient licensing agreements. Slip op. 5-6. The Court, however, attempted to allay concerns about the rigidity of *Brulotte* by stating that there are alternative business arrangements that can achieve the parties’ desired allocation of risk and timing of payments. *Id.* The Court further held that *stare decisis* considerations weighed against overruling *Brulotte* especially where, as here, *Brulotte* interprets the Patent Act. The Court stated that since *Brulotte* interpreted a statute, *stare decisis* applied with more force. The Court went on to say that the doctrines underlying *Brulotte* (i.e., the patent statute and other precedents) have not changed, and *Brulotte* has not proved difficult to apply. It also rejected Kimble’s argument that the antitrust rule of reason would provide a more workable rule. Slip op. 11-12. Further, the Court opined that even if *Brulotte* was based on faulty economic analysis or if the *Brulotte* rule led to decreased innovation, Congress should change the current policy, not the Court. Slip op. 14-18.

Justice Alito (joined by the Chief Justice and Justice Thomas) stated, in dissent, that the Court’s opinion affirmed a “baseless and damaging precedent.” The dissent characterized *Brulotte* as a judge-made rule based on an economic rationale that has been debunked; allowing royalty payments after patent expiration may be pro-competitive, as such a practice may be consistent with parties’ risk preferences and budgetary constraints. Op. 1-4. (Alito, J., dissenting). The dissent opined that, as *Brulotte* did, here the rule often functions to upset parties’ contractual expectations. The dissent also criticized the Court’s

*INTELLECTUAL PROPERTY*  
*NEWSLETTER*  
*SUMMER 2015*

reliance on stare decisis. “Our traditional approach to *stare decisis* does not require us to retain *Brulotte*’s *per se* rule. *Brulotte*’s holding had no basis in the law. Its reasoning has been thoroughly disproved. It poses economic barriers that stifle innovation. And it unsettles contractual expectations.” *Id.* at 6. The dissent also criticized the majority for placing too much weight on Congress’s failure to overturn *Brulotte* as an approval of the rule. *Id.* at 7.

[Read the Supreme Court Opinion](#)

**Commil USA, LLC v. Cisco Systems, Inc., No. 13-896: Supreme Court Opines on Induced Patent Infringement**

**Question Presented:** “Whether the Federal Circuit erred in holding that a defendant’s belief that a patent is invalid is a defense to induced infringement under 35 U.S.C. § 271(b).”

**Holding:** The Court held that Cisco’s belief that a patent is invalid is not a defense to charges of inducing infringement of the patent. The Court reasoned that “because infringement and validity are separate issues under the Act, belief regarding validity cannot negate the scienter required under [§ 271\(b\)](#).” 2015 WL 2456617 \*8. It vacated the Federal Circuit’s opinion holding that a good faith belief of invalidity was a sufficient defense to induced infringement. In addition, the Court disagreed with the Government’s reading of *Global Tech Appliances Inc. v. SEB S.A.*, 131 S.Ct. 2060 (2011) – it clarified that liability for induced patent infringement requires both that (1) the defendant knew of the patent and (2) it knew that “the induced acts constitute patent infringement.” *Id.* at \*6. In its amicus brief on the merits, the Government read *Global Tech* to only require knowledge of the patent for liability to attach. Thus, to prove inducement, the plaintiff must show (1) knowledge of the patent and (2) knowledge that the defendant’s acts are infringing. But a good faith belief that the patent is invalid is not a valid defense.

Justice Scalia pointed out in dissent that the Court’s opinion “increases the in terrorem power of patent trolls.” The Court’s opinion addresses non-practicing entities and states that “district courts have the authority and responsibility to ensure frivolous cases are dissuaded.” 2015 WL 2456617 at \*10.

The Solicitor General’s amicus brief supported Commil and argued that the Federal Circuit’s erred because the good faith belief defense is inconsistent with the text, structure, and purposes of the relevant Patent Act provisions.

[OSG’s Merits Brief](#)

[Read the Supreme Court Opinion](#)

**Teva Pharmaceuticals USA Inc. v. Sandoz Inc.: Supreme Court Opines on Standards of Review for Factual Findings Made During Claim Construction**

**Question Presented:** Whether a district court’s factual finding in support of its construction of a patent claim term may be reviewed de novo or only for clear error.

**Holding:** The Court held that the appellate court must apply a “clear error,” not a de novo, standard of review. The Court explained “when the district court reviews only evidence intrinsic to the patent (the patent claims and specifications, along with the patent’s prosecution history), the judge’s determination will amount solely to a determination of law, and the Court of Appeals will review that construction de novo.” But “in some cases” the Court explained that “the district court will need to look beyond the patent’s intrinsic evidence and to consult extrinsic evidence in order to understand, for example, the background science or the meaning of a term in the relevant art during the relevant time period. In cases where those subsidiary facts are in dispute, courts will need to make subsidiary factual findings about that extrinsic evidence. . . . and this subsidiary fact-finding must be reviewed for clear error on appeal.”

The likely impact of this decision is that fewer claim construction cases will be reversed on appeal. For further discussion, see <http://patentlyo.com/patent/2015/01/partial-deference-construction.html>

[Read the Supreme Court Opinion](#)

**October Term 2013**

The Supreme Court decided a number of IP law cases during the October 2013 term. Below is a brief

*INTELLECTUAL PROPERTY  
NEWSLETTER  
SUMMER 2015*

summary of each holding and a link to where you can find more information.

**[Alice Corp. v. CLS Int'l, 134 S. Ct. 2347 \(2014\)](#)**

**Holding:** The business method/software claims at issue related to a computer program mitigating “settlement risk” ( i.e., the risk that only one party to a financial transaction will pay what it owes) are drawn to an abstract idea; merely requiring generic computer implementation failed to transform that abstract idea into a patent-eligible invention.

[OSG’s Merits Brief](#)

[Read the Supreme Court Opinion](#)

**[Limelight Networks, Inc. v. Akamai Technologies Inc., 134 S. Ct. 2111 \(2014\)](#)**

**Holding:** A defendant is not liable for inducing infringement under § 271(b) when no one has directly infringed under § 271(a) or any other statutory provision.

[OSG’s Merits Brief](#)

[Read the Supreme Court Opinion](#)

**[Octane Fitness LLC v. Icon Health & Fitness Inc., 134 S. Ct. 1749 \(2014\)](#)**

**Holding:** The Federal Circuit’s framework for determining whether a case is exceptional under 35 U.S.C. § 285, which provides for attorneys fees in patent infringement cases in two circumstances: (1) “when there has been some material inappropriate conduct,” or (2) when the litigation is both “brought in subjective bad faith” and “objectively baseless” is not consistent with the ordinary meaning of the term “exceptional.” “[A]n ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is ‘exceptional’ in the case-by-case exercise of their discretion, considering the totality of the circumstances.”

[OSG’s Merits Brief](#)

[Read the Supreme Court Opinion](#)

**[Highmark Inc. v. Allcare Health Management Systems, Inc., 134 S.Ct. 1744 \(2014\)](#)**

**Question Presented:**

**Holding:** The Court considered whether a district court’s exceptional-case finding under 35 U.S.C. § 285, based on its judgment that a suit is objectively baseless, is entitled to deference. It held that an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court’s § 285 determination. Although questions of law may in some cases be relevant to the § 285 inquiry, that inquiry generally is, at heart, “rooted in factual determinations.”

[OSG’s Merits Brief](#)

[Read the Supreme Court Opinion](#)

**[Nautilus Inc. v. Biosig Instruments, Inc., 134 S.Ct. 2120 \(2014\)](#)**

**Holding:** The Court lessened the standard for invalidating a patent on the basis that it is indefinite under 35 U.S.C. § 112, ¶ 2, which requires that patent claims “particularly poin[t] out and distinctly clai[m] the subject matter which the applicant regards as [the] invention.” The Court held that a patent is invalid for indefiniteness if its claims, read in light of the patent’s specification and prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention. In so holding, the Court rejected the Federal Circuit’s standard which required a patent claim to be “amenable to construction,” and not “insolubly ambiguous” in order to survive a validity challenge under § 112, ¶ 2.

[OSG’s Merits Brief](#)

[Read Supreme Court Opinion](#)

**[Petrella v. Metro-Goldwyn-Mayer Inc., 134 S.Ct. 1962 \(2014\)](#)**



**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

**Holding:** The Court considered whether the nonstatutory defense of laches is available without restriction to bar all remedies for civil copyright claims filed within the three-year statute of limitations prescribed by Congress, 17 U.S.C. § 507(b) (This section provides that “[n]o civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued.”). The Court held that laches cannot be invoked as a bar to a claim for civil copyright damages brought within § 507(b)’s three-year window. But in extraordinary circumstances, laches may, at the very outset of the litigation, curtail the relief equitably awarded.

[OSG’s Merits Brief](#)

[Read the Supreme Court Opinion](#)

**American Broadcasting Cos. v. Aereo, Inc., 134 S.Ct. 2498 (2014)**

**Holding:** A company “publicly performs” a copyrighted television program when it retransmits a broadcast of that program to thousands of paid subscribers over the Internet through its technology (e.g., antennas, transcoders, and servers). A transmission is public “irrespective of the number of discrete communications it makes and irrespective of whether it transmits using a single copy of the work or . . . using an individual personal copy for each viewer.” Subscribers constitute “the public” under the Copyright Act when the company communicates the same contemporaneously perceptible images and sounds to a large number of people who are unrelated and unknown to each other.

[OSG’s Merits Brief](#)

[Read the Supreme Court Opinion](#)

**October Term 2012**

**Bowman v. Monsanto Co., 133 S. Ct. 1761 (2013): Monsanto Prevails at the Supreme Court in Restricting Licensees from Re-Planting ROUNDUP Ready Seeds**

In a short 10 page opinion, the Supreme Court held that the doctrine of patent exhaustion did not bar Monsanto from preventing farmers from replanting its patented ROUNDUP Ready seeds. Justice Kagan, writing for a unanimous Court, wrote that patent exhaustion “does not permit a farmer to reproduce patented seeds through planting and harvesting without the patent holder’s permission.” Under the doctrine of patent exhaustion, “the initial authorized sale of a patented item terminates all patent rights to that item.” *Id.* at 1766 (citing *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, (2008)). The doctrine, however, “leaves untouched the patentee’s ability to prevent a buyer from making new copies of the patented item.” This is because “the patent holder has ‘received his reward’ only for the actual article sold, and not for subsequent recreations of it.”

[OSG’s Merits Brief](#)

[Read the Supreme Court Opinion](#)

**Federal Trade Commission v. Actavis, Inc., 133 S.Ct. 2223 (2013): Supreme Court Decides “Reverse Payments” Case and Rejects the “Scope-of-the-Patent” Rule**

In a 5-3 decision, the Supreme Court resolved a circuit split, rejecting the “scope-of-the-patent” rule and finding that payments from a branded drug company (the patent holder) to a generic firm (the alleged patent infringer) in the settlement of patent infringement litigation (“reverse payments”) should be subject to a “rule of reason” analysis. *Federal Trade Commission v. Actavis, Inc.*, 133 S. Ct. 2223 (2013).<sup>1</sup> Questions remain on how reverse payment cases will be tried in practice and whether *Actavis*’s reach will extend to other areas of antitrust and IP law.

<sup>1</sup> In November 2012, Watson acquired Actavis and adopted its name. Before that merger, the case was titled *FTC v. Watson Pharmaceuticals, Inc.*

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

[Read Full Summary](#)

[Read the Supreme Court Opinion](#)

[Read the Solicitor General's Brief on Behalf of the FTC](#)

[Read the IP Resources Page tracking developments post-Actavis](#)

**Already, LLC v. Nike, Inc. 133 S.Ct. 721 (2013):  
Supreme Court Holds that Covenant Not to Sue  
Moots Trademark Invalidity Counterclaim**

The issue in *Nike* was whether a covenant not to enforce a trademark against a competitor's current or previous footwear product designs and "any" future "colorable imitations thereof" was sufficient to moot the competitor's declaratory judgment invalidity counterclaim. Applying the voluntary cessation doctrine, the Supreme Court unanimously found that the covenant rendered the case moot.

[Read Full Summary](#)

[Read the Supreme Court Opinion](#)

[OSG's Merits Brief](#)

**Molecular Pathology v. Myriad Genetics, Inc., 133 S.Ct. 2107 (2013): The Supreme Court Considers the Patentability of DNA**

In *Association for Molecular Pathology v. Myriad Genetics, Inc.*, the Court considered the validity of patents related to the BRCA1 and BRCA2 genes. *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013). Mutations in these genes can dramatically increase the risk of developing breast or ovarian cancer. Myriad Genetics discovered the precise location and sequence of the genes, and obtained patents claiming, inter alia, (a) naturally occurring segments of DNA by virtue of their isolation from the rest of the human genome and (b) synthetically created DNA containing the same protein-coding information found in a segment of natural DNA but omitting portions within the DNA segment that do not code for proteins.

The Court held that a naturally occurring DNA segment is a product of nature and not patent eligible merely because it has been isolated, while the synthetic DNA is patent eligible because it is not naturally occurring. In an opinion joined in full by all justices except Justice Scalia, Justice Thomas reiterated that laws of nature, natural phenomena, and abstract ideas are not patentable. Applying this rule to the isolated DNA segment, the Court explained that Myriad "found an important and useful gene" but, no matter how brilliant its discovery, it "did not create anything." And merely "separating that gene from its surrounding material is not an act of invention." In contrast, the synthetic DNA is not naturally occurring and hence Myriad "creates something new." The Court made clear that it was not determining whether the synthetic DNA claims met the other statutory requirements, that the case involved no method claims (e.g., an innovative method of manipulating genes), and that it was not considering the patentability of DNA in which the natural sequence has been altered.

Justice Scalia authored a brief concurring opinion, joining the Court's opinion except for parts "going into fine details of molecular biology," which he was unable "to affirm . . . on my own knowledge or even my own belief."

[Read the Supreme Court Opinion](#)

[OSG's Merits Brief](#)

## **Lower Court Actions**

### **Patent Assertion Entity Activities**

Concerns have been raised about patent assertion entities (PAEs) that purchase patents and assert them against existing products. Operating companies have attempted to protect themselves against infringement suits by PAEs by, among other things, participating in the "defensive" buying of patents and suing PAEs for some of their activities. Two recent cases arising out of these activities are described below.

*INTELLECTUAL PROPERTY*  
*NEWSLETTER*  
*SUMMER 2015*

Intellectual Ventures LLC, v. Capital One Financial Corp. (E.D. Va.)

Intellectual Ventures LLC, v. Capital One Financial Corp. (D. MD)

Intellectual Ventures (IV) is a PAE that aggregates and holds thousands of patents, including about 3500 patents that it claims are relevant to the banking industry. In June, 2013 it sued Capital One in Virginia for patent infringement when the bank refused to take a license to its entire banking portfolio on the terms of IV's offer. In response to the infringement allegations, Capital One raised a patent misuse defense and antitrust counterclaims under Section 2 of the Sherman Act and Section 7 of the Clayton Act, arguing that IV violated the antitrust laws through a combination of targeted patent acquisitions, secrecy about its assets, and the threat to impose endless litigation costs. The district court (E.D. Va.) dismissed Capital One's claims in December 2013, and later held, on summary judgment, that the remaining IV patents-in-suit were invalid and not infringed.

IV appealed the invalidity findings to the United States Court of Appeals for the Federal Circuit (and an earlier claim construction decision). Capital One cross-appealed the antitrust ruling arguing that the district court erred by holding that the antitrust claims failed because Capital One and IV were not competitors, and the court wrongly assumed that the market power associated with the portfolio is lawful. The bank further argued that the district court erred when it held that Capital One had not alleged an exception to Noerr-Pennington immunity, as it was part of Intellectual Venture's "monopolization strategy to threaten serial litigation without regard to the merits." According to Capital One, IV "subjects its targets to millions of dollars in litigation costs per case and the associated knowledge that the lawsuits will never end until the target buys a license to thousands of patents not in suit." The bank also argued that its allegation that the relevant market was coextensive with IV's patents was sufficient to support its claims and that it plausibly argued monopoly power, antitrust injury, and attempted monopolization.

In January 2014, IV filed a second suit for infringement against Capital One in district court in Maryland, and, again, Capital One filed antitrust counterclaims that were very similar to those lodged in the Virginia case.

Capital One argued that it could better support its antitrust counterclaims in this case by using, among other things, information obtained through discovery in the Virginia case, the fact that IV did not succeed in its prior infringement case, and the fact that IV filed a "serial" action in Maryland. The Judge concluded that Capital One's claims were not barred by res judicata because they were based on events that occurred after they filed their counterclaims in the Eastern District of Virginia. He further concluded that Capital One sufficiently stated claims for purposes of surviving a plausibility challenge and to proceed to discovery. The judge in the Maryland case was more sympathetic to Capital One's claims that IV's own patent portfolio could comprise a relevant market, noting that Capital One sufficiently alleged that it has "no viable option other than to license the patents at issue from Plaintiffs/Counter-Defendants." The court also concluded that Capital One sufficiently alleged market power (alleging a 100% share, where they failed to allege share in E.D. VA, and high barriers to entry) and unlawful acts of monopolization in its aggregation, assertion and secrecy. Similar antitrust counterclaims and patent misuse defense are pending in another case, *Intellectual Ventures I LLC v. Toshiba Corp.*, No. 13-cv-00453-SLR (D.Del.).

In late March, 2015 [\*Capital One filed a motion to dismiss\*](#) its appeal of the antitrust claims in the E.D. VA case, arguing that the question before the Federal Circuit – whether Capital One's antitrust counterclaims, as pleaded before discovery, alleged enough facts about the relevant market and Intellectual Ventures' conduct to state a claim – is effectively irrelevant because the District of Maryland has allowed Capital One's new antitrust counterclaims based on a more developed pleading. Capital One reasoned that if the Federal Circuit reversed the dismissal of the claims on appeal, Capital One would simply move to consolidate the claims in Maryland. If the Federal Circuit affirmed the dismissal, Capital One said, it would have no effect on the Maryland case, which is "based on new conduct and a far more developed record." In contrast, IV argued that "dismissing this appeal would result in a manifest waste of judicial resources — forcing a second district court to resolve a set of legal issues fully briefed before this court, only as a prelude to an inevitable appeal of those same issues to this court from a judgment in that second case."



**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

Capital One's motion was granted and its cross appeal on the antitrust claims was dismissed (Apr. 7, 2015). Oral argument was heard on the patent infringement issues on May 6, 2015.

**Cascades Computer Innovation LLC v. RPX Corp., No. 12-CV-1143 (N.D. Cal.)**

A number of operating companies are members of RPX Corporation (RPX), which characterizes itself as a "defensive patent aggregator" offering defensive buying and patent acquisition, and licensing among other services. (See RPX [website](#)).

In January 2013, the Northern District of California [dismissed](#), with leave to amend, antitrust claims brought by Cascades Computer Innovation, a PAE, against RPX. The Cascades complaint arose out of breakdown in licensing negotiations between Cascades, RPX and certain RPX members. In a separate suit, Cascades brought an antitrust action against RPX and a number of its members alleging that they formed a buying cartel, agreed not to separately negotiate with Cascades, and entered into a group boycott not to license Cascades' patents. While one of the RPX members settled (Motorola), the others moved to dismiss the antitrust claims. The court found that Cascades complaint was deficient under the standard articulated in *Twombly*, and that Cascades failed to allege "who, did what, to whom (or with whom), where and when?" The court also noted that Cascades failed to explain how its alleged harm resulted from a group boycott rather than "individual business disputes" between Cascades and the defendants.

In February 2014, Cascades filed an [amended complaint](#), with more specific allegations. In its complaint, Cascades alleged that RPX and its members (and HTC Corporation, Motorola Solutions Inc., Samsung Group) participated in a conspiracy to monopsonize the market to license Cascades' patents in violation of Sections 1 and 2 of the Sherman Act and California unfair competition laws. In December 2013, the Northern District of California denied motions to dismiss the antitrust claims. The district court held that Cascades had alleged sufficient facts to support a reasonable inference that the defendants and RPX engaged in a "hub-and-spoke" conspiracy in which

they collectively agreed to refrain from negotiating individual licenses with Cascades and only negotiate a collective license through RPX. 2013 WL 6247594, at \*1. The defendants denied colluding and argued that RPX withdrew from licensing negotiations because Cascades overpriced its patent licensing. They also argued members could license individually. 2013 WL 6247594, at \*7. The court found, however, that Cascade's factual allegations need only be plausible and it was "reasonable to infer the existence of a restraint on trade in the form of a secondary, 'off-the-books' agreement or understanding to deal only through RPX, despite being contractually permitted to do otherwise." *Id.* at 12. The court also rejected the defendants' argument that their conduct was protected by the *Noerr-Pennington* doctrine because their decisions to accept or reject the individual licensing offers from Cascades were actually decisions on whether or not to settle Cascades' pending patent infringement lawsuits. The litigation is pending and no trial date has been set.

**In re Innovatio IP Ventures, 11 CV 9308 (N.D. Ill.)**

After acquiring patents from Broadcom Corporation, Innovatio IP Ventures (Innovatio) sent more than 8,000 demand letters to bakeries, restaurants, coffee shops, hotels and other small business alleging infringement of its WiFi-related patents and demanding that these targets pay for a license. A number of Innovatio's patents were encumbered by a RAND licensing commitment made to a standards-setting body and by pre-existing licenses. A number of manufacturers of the products that incorporated the patented technology, Cisco Systems, Inc., Motorola Solutions, Inc., and Netgear, Inc. (collectively the "Manufacturers") filed declaratory judgment actions against Innovatio, alleging that Innovatio had fraudulently enforced its patents against the Manufacturers' customers. The Manufacturers' complaint alleged breach of contract and promissory estoppel claims as well as violations of the Racketeer Influenced and Corrupt Organizations Act (RICO), state unfair competition claims, civil conspiracy and breach of contract. The infringement and declaratory judgment actions were consolidated as *In re Innovation IP Ventures* in the Northern District of Illinois.

**Innovatio's Noerr-Pennington Defense**

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

In defense of its patent enforcement campaign, Innovatio argued that its pre-litigation conduct was *Noerr–Pennington* protected. The district court agreed and granted Innovatio’s motion to dismiss the RICO, unfair competition and conspiracy claims. See *In re Innovatio IP Ventures, LLC Patent Litigation*, 921 F.Supp.2d 903 (N.D. Ill. 2013) (Holderman, C.J.). The court noted that controlling precedent held that the *Noerr–Pennington* doctrine extends beyond the antitrust and labor law context, and also to pre-suit communications, which the court found the letters to be. As such, the court reasoned that, unless a “sham,” these communications could not be challenged as a RICO, unfair competition, or civil conspiracy violation. *Id.* at 911-914.

The Manufacturers alleged that the licensing campaign was a sham because Innovatio asserted infringement before offering a RAND license, offered the license on terms less favorable than RAND, and failed to disclose its RAND obligations. The court reasoned that a RAND commitment, without more, is not an actual express license providing a defense to infringement and that Innovatio had “at least [] a plausible argument that its infringement claims are still viable despite its alleged RAND obligations.” *Id.* at 914-917.

The Manufacturers also alleged that Innovatio’s infringement claims were a sham because the asserted patents are subject to a variety of existing licenses. The court was not persuaded, noting that Manufacturers did not allege that Innovatio knew that any particular target was using wireless products containing components subject to those licenses. *Id.* at 917-919.

Though the court did find that Innovatio made some misrepresentations regarding its patents, it concluded that these misrepresentations were not material enough to affect the outcome of a litigation proceeding, and thus were insufficient to render the activity a sham. *Id.* at 919-922.

#### **RAND Breach and Promissory Estoppel Claims**

The court rejected Innovatio’s argument that Manufacturers lacked standing to bring breach of contract and promissory estoppel claims premised on alleged breaches of RAND obligations made by prior owners of its patents. The court concluded that the

RAND commitments created a contract not just with the standard-setting body, but also with its members, which included Cisco. Hence, Cisco could recover damages that flowed from a breach. The court determined that the other Manufacturers were third-party beneficiaries of the contract. It decided these parties could pursue breach-of-contract claims, but, because they were not direct beneficiaries, they could not pursue damages on the theory that Innovatio’s failure to offer RAND licenses to the targets harmed them. However, they could pursue damages if they demonstrated harm from a failure to offer a RAND license to the Manufacturers themselves. *Id.* at 922-925.

Following the court’s ruling on the motion to dismiss the Manufacturers’ claims, the parties and the court agreed that the best course toward resolving the parties’ disputes would be to pause and evaluate the potential damages available to Innovatio if the Manufacturers were found to infringe the claims of Innovatio’s patents. In September 2013, there was a bench trial on the appropriate royalty rate for Innovatio’s WiFi portfolio and a court-mandated settlement conference. Both Innovatio and the Manufacturers agreed that the court should apply the smallest-salable-practicing-patent-unit test to determine the royalty. (This test is discussed further on pages 13-14 below). Innovatio contended the test should apply to the entire system, and include direct and indirect revenue that the targets obtain from offering WiFi services, while the Manufacturers argued that the base should be the WiFi chip that incorporates the WiFi functionality. In October 2013, Judge Holderman issued an opinion determining a RAND rate for infringed SEPs, see 2013 WL 5593609 \*3 (N.D. Ill. 2013). (See discussion page 15.)

#### **Patent Infringement Remedies**

##### **Reasonable Royalty Damages**

The Federal Circuit has recently decided a number of cases that concern the interface of antitrust and intellectual property, particularly in the area of patent damages and FRAND-encumbered patents (SEPs). Notable cases follow.

#### **Federal Circuit Vacates Jury RAND Determination in *Ericsson, Inc. v. D-Link***

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

**Systems, Inc., 773 F.3d 1201 (Fed. Cir. 2014)**

**The District Court Opinion**

Ericsson sued D-Link and others (including Dell) in E.D. Tex. for infringing various patents essential to the IEEE 802.11(n) standard, for which Ericsson allegedly made RAND commitments to IEEE. Defendants were original equipment manufacturers (OEMs) that produced end-products compliant with the 802.11 standard. The OEMs bought chips from Intel that incorporated Ericsson's technology but did not pay royalties to Ericsson. (Intel, the Wi-Fi chip supplier for the accused products, intervened.) The jury awarded Ericsson damages of \$10 million (approximately \$0.15 per infringing device).

D-Link moved for JMOL and a new trial, on grounds that the jury's findings were not supported by the evidence. D-Link also argued that Ericsson's damages expert violated the Entire Market Value Rule (EMVR) by relying on licenses that were based on the value of end products, and that the jury was improperly instructed on RAND.

Defendants also asked the court to 1) determine the RAND rate for Ericsson's 802.11n essential patent portfolio; 2) determine whether Ericsson breached its RAND obligations by not licensing chip makers; and 3) make a determination that Ericsson is not entitled to injunctive relief.

The trial court denied the motions, and found that the jury award (\$0.15 per product) was an appropriate ongoing RAND rate. In addition, Ericsson did not violate RAND by offering Intel a license at \$0.50 per unit; and Defendants did not negotiate with Ericsson in good faith, as they failed to engage Ericsson in RAND licensing negotiations after the initial offer. In so ruling, the court declined to determine the RAND rate for Ericsson's 802.11n essential patent portfolio since the jury already determined an appropriate RAND royalty for the infringed patents and the parties did not indicate that they would accept a license based on the court's RAND determination for the portfolio. Judge Davis further found Ericsson did not violate its RAND obligations by refusing to license chip makers (Intel) because it offered a license to Intel in March 2013.

Moreover, Defendants had no breach of contract remedy against Ericsson because the court found Ericsson gave notice of its intention not to license chip makers to the IEEE. Finally, Judge Davis found that since Ericsson did not seek an injunction, the court need not determine whether one was appropriate.

D-Link appealed.

**Federal Circuit Decision**

On appeal, Defendants raised issues related to infringement and damages. This summary only discusses the Federal Circuit's opinion concerning damages.

**Admissibility of License Evidence**

Defendants argued that damages calculations based on licenses tied to the entire value of licensed products were improper where the technology at issue related only to a component of the products. D-Link argued that the trial court committed prejudicial error by not excluding Ericsson's damages expert's testimony on the licenses in question, and by allowing Ericsson's counsel to compare the cost of the end product (a laptop) to the royalty requested at trial (for technology practiced by Wi-Fi chips). 773 F.3d, 1201, 1225-1229.

Ericsson countered that its expert engaged in analysis that apportioned damages appropriately for the patents at issue, and that jury amount was consistent with industry norms. *Id.* at 1225-26.

The court held that the evidence of licenses was properly admitted. In so doing, the court explained that "the ultimate combination of royalty base and royalty rate must reflect the value attributable to the infringing features of the product, and no more. . . . The essential requirement is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product." *Id.* at 1226. A related evidentiary principle is that "where a multi-component product is at issue and the patented feature is not the item which imbues the combination of other features with value, care must be taken to avoid misleading the jury by placing undue emphasis on the value of the entire product." *Id.* Applying these principles, the court held

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

that the district court did not err by failing to exclude the license evidence. *Id.* at 1227.

Finally, the court noted: “Prior licenses . . . are almost never perfectly analogous to the infringement action . . . Recognizing that constraint, however, the fact that a license is not perfectly analogous generally goes to the weight of the evidence, not its admissibility . . . . [W]here expert testimony explains to the jury the need to discount reliance on a given license to account only for the value attributed to the licensed technology, as it did here, the mere fact that licenses predicated on the value of a multi-component product are referenced in that analysis . . . is not reversible error.” *Id.* at 1227-28. The court added that when licenses based on multi-component products are admitted, the court should give instructions that explain the need to apportion the royalty to the incremental value of the patented feature (over and above *Georgia-Pacific* factors 9 and 13, which allude to apportionment concepts, but are not sufficient). *Id.* at 1228.

#### **RAND Jury Instructions**

Defendants argued at trial that the court should instruct the jury on hold-up and royalty stacking. Instead, the district court added an additional factor to the *Georgia-Pacific* factors, noting that the jury “may . . . consider Ericsson’s obligation to license its technology on RAND terms.” *Id.* at 1229. On appeal, D-Link argued that the district court erred by giving the jury the customary *Georgia-Pacific* factors and by failing to instruct the jury on patent hold-up and royalty stacking. (The district court rejected Defendants’ arguments that the jury’s verdict failed to account for royalty stacking because Defendants’ expert never identified an actual royalty stack and conceded that very little of the 802.11 standard was patented. The court also found Defendants failed to present any evidence of actual hold-up as a result of Ericsson’s licensing practices.)

#### **(1) Georgia-Pacific Factors**

The court criticized the district court’s rote application of all 15 *Georgia-Pacific* factors and suggests that trial courts instead focus on the actual RAND clause at bar when crafting jury instructions. The court noted that in RAND cases, many of the *Georgia-Pacific* factors are not relevant (e.g., factor 4, which accounts for the

licensor’s interest in preserving its monopoly by not licensing others; and factor 5, which accounts for the commercial relationship between the parties, and is inconsistent with a non-discrimination commitment). *Id.* at 1230-32. Other factors require adjustment (e.g., factor 8, which accounts for the technology’s “current popularity,” and is “likely inflated” by existence of a standard). *Id.* at 1231-32. Thus, trial courts must consider the evidence in crafting a jury instruction. The court stated that trial courts should consider the patentee’s “actual RAND commitment,” given that RAND terms vary from case to case. *Id.* The court expressly declined to hold that the trial court was required to instruct the jury on a modified set of *Georgia-Pacific* factors as applied by the *Microsoft* and *Innovatio* courts. (See page 15 below for summaries of these opinions.) “We do not hold that there is a modified version of the *Georgia-Pacific* factors that should be used for all RAND-encumbered patents.” *Id.* at 1231. The court opined it was “unwise to create a new set of *Georgia-Pacific*-like factors” for use in RAND cases. *Id.* at 1232. The court concluded that “courts must consider the facts of record when instructing the jury and should avoid rote reference to any particular damages formula.” *Id.* at 1232.

#### **(2) Apportionment Analysis for SEPs**

In general, the court held that when calculating damages for SEPs, (1) the patented feature must be apportioned from all of the unpatented features in the standard; and (2) the patentee’s royalty must be premised on the value of the patented feature, rather than value added by the standard’s adoption of the patented technology. *Id.* at 1232-33. To that end, the court explained that “[j]ust as we apportion damages for a patent that covers a small part of a device, we must also apportion damages for SEPs that cover only a small part of a standard. In other words, a royalty award for a SEP must be apportioned to the value of the patented invention (or at least to the approximate value thereof), not the value of the standard as a whole.” *Id.* at 1232-33. The district court must instruct the jury “to consider the difference between the added value of the technological invention and the added value of that invention’s standardization.” *Id.* at 1233. Thus, excluding the value of standardization from the damages calculation implicitly addresses concerns about hold up. And strict apportionment of damages to



**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

the value of the invention implicitly will address many royalty stacking concerns.

**(3) Instructing on Hold-Up and Royalty Stacking**

In deciding whether to explicitly instruct the jury on hold-up and royalty stacking, the district court must consider the evidence, and “need not instruct the jury on hold-up or stacking unless the accused infringer presents actual evidence” of such (and it must be more than “a general argument that these phenomena are possibilities”). *Id.* at 1234. The court held that D-Link failed to offer evidence of hold-up (e.g., by showing that Ericsson used its SEPs to demand higher royalties from standard-compliant companies) or royalty stacking (e.g., by presenting evidence of other licenses D-Link has taken on Wi-Fi essential patents). *Id.* at 1234. The court thus concluded that the district court did not err by refusing to instruct the jury on hold-up and royalty stacking. *Id.*

**(4) Conclusion on Jury Instructions**

The court concluded that a district court must instruct a jury only on factors relevant to the specific case, but it did not adopt a “Georgia-Pacific-like list of factors” for district courts to apply in every case involving RAND-encumbered patents. *Id.* at 1235. It further held that courts must instruct the jury that royalties must be based on “incremental value.” *Id.* at 1226, 1228, 1232, 1235. (The court also once used the term “incremental benefit.” *Id.* at 1233 (“In other words, the patent holder should only be compensated for the approximate incremental benefit derived from his invention.”)). The court did not define “incremental value.” It simply stated that “district courts must make clear to the jury that any royalty award must be based on the incremental value of the invention, not the value of the standard as a whole or any increased value the patented feature gains from its inclusion in the standard.” *Id.* at 1235.

In sum, the Federal Circuit’s opinion clarifies that in cases involving RAND-encumbered patents, royalties must be properly apportioned to the infringing invention and reflect the value of the patented technology apart from the value it gains from standardization. The court ruled that the district court committed prejudicial error

by failing to instruct the jury on Ericsson’s actual RAND commitment; failing to instruct on apportionment from the standard; failing to instruct that a RAND royalty must be based on the value of the invention, not on value associated with standardization; and by instructing the jury to consider irrelevant *Georgia-Pacific* factors. *Id.*

The court vacated the jury’s damages award and ongoing royalty award, and remanded for further proceedings. *Id.*

**Federal Circuit Opines on Calculating the Royalty Base for a Reasonable Royalty in *VirtnetX v. Cisco Sys., Inc.*, 767 F.3d 1308 (Fed Cir. 2014)**

In *VirtnetX v. Cisco Sys., Inc.*, 767 F.3d 1308 (Fed Cir. 2014), plaintiffs VirnetX and Science Applications International Corporation obtained a jury verdict against Apple based on patent infringement by Apple’s Facetime and VPN On Demand products. The jury found VirnetX’s four patents were valid and infringed, awarding damages of \$368,160,000. Apple appealed. With respect to damages, the Federal Circuit vacated the jury’s damages award. This summary does not discuss the Federal Circuit’s rulings on infringement.

A critical issue when assessing damages for a component of a multi-component complex product is defining the proper royalty base. The patent owner will often advance theories that use the value of the entire device in the damages calculation (i.e., the iPhone). VirnetX advanced three reasonable royalty theories in this matter: one that began with the lowest sales price of each device (iPhone, iPad, etc.) containing the infringing feature and applying a 1% royalty to that base, and two that relied on the “Nash Bargaining Solution” to estimate the incremental profits associated with the Facetime feature.

The Federal Circuit began by explaining the limitations on the entire market value rule, which bases damages on the price of the end product. “No matter what the form of the royalty, a patentee must take care to seek only those damages attributable to the infringing features.” 767 F.3d at 1326 (citing *Garretson v. Clark*, 111 U.S. 120, 121 (1884)). A patent holder must provide “evidence tending to separate or apportion the



**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative." *Id.* (internal quotations omitted). The Federal Circuit explained that "[a] patentee may assess damages based on the entire market value of the accused product *only where* the patented feature creates the basis for customer demand or substantially creates the value of the component parts." *Id.* These strict requirements limiting the entire market value exception ensure that a reasonable royalty "does not overreach and encompass components not covered by the patent." *Id.*

The Federal Circuit held that the district court's jury instruction was legally erroneous when it allowed a second exception to the entire market value rule that would permit a patentee to rely on the entire market value of a multi-component product so long as that product is "the smallest salable unit containing the patented feature." *Id.* The instruction mistakenly suggested that when the smallest salable unit is used as the royalty base, there is no further constraint on the selection of the base. The Federal Circuit explained that the smallest salable patent-practicing unit "is simply a step toward meeting the requirement of apportionment. Where the smallest salable unit is, in fact, a multi-component product containing several non-infringing features with no relation to the patented feature . . . the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology." *Id.* The court further held that VirnetX's expert testimony on the proper royalty base should have been excluded because it relied on the entire market value of Apple's products without demonstrating that the patented features drove the demand for those products.

With regard to the Nash Bargaining Solution, the court held that theory also was flawed. Under the Nash theory, VirnetX's expert began with the assumption that each party would take 50% of the incremental profits associated with the use of the patented feature, and then he adjusted that split based on "the relative bargaining power of the two entities." The court held that while the theory more appropriately (and narrowly) defined the universe of profits to be split by using incremental value, the suggestion that those profits be split on a 50/50 basis—even when adjusted to account

for certain individual circumstances—was insufficiently tied to the facts of the case, and could not be supported.

Thus, the court vacated the damages award and remanded for further proceedings.

As in *D-Link* above, this opinion is relevant to determining royalties in FRAND licensing disputes because it clarifies that royalties must be properly apportioned so that the royalties reflect the value of the patented technology incorporated into the end product.

### **District Judges Determine RAND Rates in Two Court Cases Involving Infringement of Standards-Essential Patents**

#### **Microsoft v. Motorola**

Judge Robart, in *Microsoft v. Motorola*, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013), issued a 207-page opinion determining the RAND rate for Motorola's SEPs that relate to Wi-Fi and video compression technology. This case involved Motorola's patents reading on the H.264 video-compression standard and the 802.11 wireless standard. Motorola maintained that Microsoft's Windows, Xbox, and other products infringed its patents. Microsoft filed this breach-of-contract action, claiming that Motorola had breached its RAND commitment when it proposed licensing terms to Microsoft. (Motorola's conduct also gave rise to antitrust investigations in the United States and the European Union (see Google-Motorola summaries below pages 23, 27)).

In order for the jury to determine whether licensing proposals were made in good faith, the court calculated a RAND rate and, because more than one rate conceivably could qualify as reasonable, a RAND royalty range.

The court started by considering the importance of Motorola's patents to the standard and to Microsoft's products, concluding that the patents at issue were of minor importance. It then set the RAND rates and ranges by looking at comparable licenses, including pool licenses, and adjusting these rates to account for the minor importance of Motorola's patents to Microsoft's products. In determining the RAND rates and range, the court found "the incremental

*INTELLECTUAL PROPERTY*  
*NEWSLETTER*  
*SUMMER 2015*

contribution of the patented technology to the standard [over the next best alternative] can be helpful in determining a RAND rate” but did not apply the approach because it was unpracticable in the case.

Based on the court’s RAND determination, the jury found that Motorola breached its RAND commitments, which it made to two standard-setting organizations, the IEEE (Wi-Fi) and ITU (video compression). Judge Robart issued an Order that denied Motorola’s JMOL motions to overturn the jury’s verdict. *Microsoft v. Motorola*, 2013 WL 5373179 (W.D. Wash. Sept. 24, 2013). Microsoft argued to the jury that Motorola breached its RAND obligations by offering a royalty rate that was not RAND; seeking injunctive relief against Microsoft on the SEPs; and not licensing Microsoft’s chip supplier, Marvell. The jury unanimously found that Motorola breached its contractual commitments and awarded over \$14.5 million in damages to Microsoft. In August 2013, Judge Robart issued a summary judgment ruling that allowed these issues to go to the jury. *Microsoft v. Motorola*, -- F.Supp.2d ----, 2013 WL 4053225 (W.D. Wash. Aug. 12, 2013).

This matter is on appeal to the Ninth Circuit. Motorola has argued, *inter alia*, that the Ninth Circuit cannot hear the appeal because the Federal Circuit has jurisdiction over the case which concerns “substantial questions of patent law” (scope, infringement, and damages); that no reasonable jury could find based on Motorola’s conduct that Motorola breached an alleged obligation of good faith to license its patents on RAND terms; and Motorola was entitled to JMOL on Microsoft’s damages claims because the *Noerr-Pennington* doctrine protects a party from damages as a result of invoking its legal right to seek an injunctions. Motorola further argues that it never agreed to the trial court’s bifurcated procedure for determining the RAND rate/range and that the district court’s RAND determination tainted the jury verdict. Microsoft has argued, among other things, that jurisdiction was proper in the Ninth Circuit; that the evidence supported the jury’s finding of breach of the duty of good faith and fair dealing; *Noerr-Pennington* does not immunize Motorola from breach of contract liability; and Motorola consented to a bench trial procedure to determine a RAND royalty rate/range. Summary of the briefing can be found here: [Lexology](#).

Summaries of the argument can be found on the [Essential Patent Blog](#) and [Foss Patents](#).

#### Innovatio IP Ventures

Judge Holderman issued a similar opinion in *Innovatio IP Ventures*, No. 11 C 9308 2013 WL 5593609 (N.D. Ill. Oct. 3, 2013), which involved the alleged patent infringement of Innovatio’s Wi-Fi technology. This case involved 16 patents (with multiple claims) essential to the 802.11 wireless standard. The court did not analyze the patents or claims separately, but instead grouped them in three families, each reflecting a set of functions relevant to one area of the standard.

Like Judge Robart, Judge Holderman considered the relative importance of the patents to the standard. He found that these patent families were of “moderate” to “high” importance to the standard and the implementers’ products. The court was unable to identify any comparable licenses to use as benchmarks in setting a royalty and instead applied a methodology offered by the implementers’ expert, which essentially divided the profits on the smallest salable unit (the Wi-Fi chip) among the SEPs on a per capita basis, with an adjustment based on the relative “importance” of the patents.

#### Some Common Ground

Both decisions considered the *Georgia-Pacific* (*Georgia Pacific v. United States Plywood, Corp.* 318 F.Supp. 1116 (S.D.N.Y.1970)) hypothetical negotiation framework when determining a reasonable and non-discriminatory royalty (RAND) for SEPs. In determining RAND, both decisions were cognizant of the RAND commitment to the SSO and they focused on the value of the patented technology *ex ante*, before the patents were incorporated into the standard at issue. Both judges further recognized that a RAND rate must motivate innovators to contribute to standards. Judge Holderman explained, “[a] RAND rate must be set high enough to ensure that innovators in the future have an appropriate incentive to invest in future developments and to contribute their inventions to the standard-setting process. As Judge Robart put it, ‘[t]o induce the creation of valuable standards, the RAND commitment must guarantee that holders of valuable intellectual property will receive reasonable

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

royalties on that property.” *Innovatio*, 2013 WL 2111217 at \*11 (quoting *Microsoft*).

Both opinions also take into account royalty stacking, that is when licensees must pay multiple royalties to produce a standard-compliant product. Judge Robart acknowledged the possibility of royalty stacking and found that any RAND royalty must take into account royalties payable to other holders of patents covering the standards in question. Similarly, Judge Holderman considered the problem of royalty stacking and stated that “the court will consider whether the overall royalty of all standard-essential patents would prohibit widespread adoption of the standard.”

### **Other District Court RAND Cases**

#### **Realtek Semiconductor Corp. v. LSI Corp., 946 F. Supp. 2d 998 (N.D. Cal. 2013) (C-12-03451)**

This dispute concerned whether a holder of standard-essential patents may bring a 337 action before the U.S. International Trade Commission (“ITC”), seeking an exclusion order against a party practicing the standard without violating its obligation to license the SEPs on RAND terms. The court determined that LSI’s act of seeking an exclusion order was inconsistent with its RAND obligations and granted Realtek’s motion for partial summary judgment on its breach of contract claim. The court held that LSI breached its contractual obligations to IEEE and to Realtek as a third-party beneficiary by seeking injunctive relief against Realtek before offering Realtek a license to its SEPs. The court also granted a preliminary injunction. The court found Realtek showed that “the threat of an exclusion order has harmed its reputation and poses an imminent threat of customer and revenue loss.” The court also concluded that the balancing of equities weighed in favor of a preliminary injunction. “If Realtek’s products practicing the 802.11 standard were to be excluded from the United States, Realtek would either (1) lose its customers who sell, use, or import Realtek’s component parts into the United States, or (2) be forced to negotiate a license in the disadvantaged position of having an exclusion order hanging over its head.” Finally, the preliminary injunction served the public interest by “mak[ing] clear that commitments to

make patents available on reasonable terms matter.” Therefore, the court granted Realtek’s request for a preliminary injunction preventing LSI from enforcing an ITC order until the LSI met its RAND obligations. *Id.* 1003-10. (The ITC decision was eventually terminated and the Ninth Circuit appeal of the case dismissed since there was no pending ITC action). In June 2014, final judgment was entered against LSI ordering LSI to pay Realtek \$3,825,000 as contractual damages consistent with the jury’s verdict on the breach of contract claim. The court also entered declaratory judgment that LSI must offer Realtek a RAND license.

#### **Apple v. Ericsson & Ericsson v. Apple: Apple and Ericsson Seek Rulings on the Appropriate Licensing Rate for Ericsson’s Allegedly Standard-Essential Patents (January 2015)**

After failed licensing negotiations, Apple and Ericsson countersued each other over the royalty rate that Ericsson has offered to license patents relevant to smart phone technology and the LTE standard. In a declaratory judgment demand, Apple contends that it has not infringed Ericsson’s patents. In addition, Apple contends that Ericsson is seeking excessive royalties for declared-essential patents based on the value of Apple’s end products (e.g., the iPhone) and not the value of the processor chips that include Ericsson’s technology. Apple is seeking a declaratory ruling that (1) specific patents Ericsson has declared as essential to the LTE standard are not in fact essential or infringed by Apple’s patents, or (2) if such patents are essential and infringed, then it asks the court to set reasonable royalties that “(i) use a royalty base of, at most, the component that substantially embodies the alleged invention, and (ii) that apply a reasonable royalty that avoids royalty-stacking problems.” *Apple v. Ericsson*, CV 15-0154 (N.D. Ca January 12, 2015). Ericsson filed a separate suit in the Eastern District of Texas, requesting that the court determine whether Ericsson’s global licensing offer to Apple for Ericsson’s patent portfolios is fair, reasonable, and non-discriminatory (FRAND). Ericsson also filed seven infringement cases in the E.D. Texas and two at the International Trade Commission. Six E.D. Texas cases and one ITC action involve 4G patents that are not FRAND-encumbered.

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

[Read Apple's Complaint](#)

[Read Ericsson's Complaint](#)

[Follow this case through LPS FRAND Litigation Project.](#)

## **Injunctive Relief**

### **Federal Circuit Clarifies When Injunctive Relief may be Available to an Owner of a FRAND-Encumbered Patent**

In *Apple v. Motorola*, 757 F.3d 1286 (Fed Cir. 2014), the U.S. Court of Appeals for the Federal Circuit upheld the district court's denial on summary judgment of an injunction to SEP holder, Motorola (J. Poser, sitting by designation). In so ruling, the court said the *eBay* standard for injunctive relief in patent cases provided "ample strength and flexibility for addressing the unique aspects of [F/RAND] committed patents and industry standards in general."

In *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 391, 394 (2006), a unanimous Supreme Court held that the grant of permanent injunctive relief in a patent case is governed by "traditional principles of equity," specifically a four-factor test that plaintiff must satisfy:

(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

Below Judge Posner, sitting by designation, ruled that neither party was entitled to injunctive relief under *eBay* because, among other things, neither party showed monetary damages were inadequate to compensate them for infringement.

The Federal Circuit expressly rejected "a per se rule that injunctions are unavailable for SEPs [subject to a F/RAND commitment]." The court explained that "[a] patentee subject to [F/RAND] commitments may have difficulty establishing irreparable harm. An injunction, however, may be justified where an infringer

unilaterally refuses a [F/RAND] royalty or unreasonably delays negotiations to the same effect." The court acknowledged the public interest "in encouraging participation in standard-setting organizations but also in ensuring that SEPs are not overvalued." The court noted that district courts are "more than capable of considering these factual issues when deciding whether to issue an injunction." Addressing the facts presented in the appeal, the court concluded that injunctive relief was not appropriate because Motorola's F/RAND licensing "commitments, which yielded many license agreements . . . strongly suggest that money damages are adequate to fully compensate [it] for any *infringement*." *Apple v. Motorola*, 757 F.3d, 1331-32 (Fed. Cir. 2014).

In addition, the Federal Circuit reversed Judge Posner's summary judgment ruling that neither Apple nor Motorola offered adequate proof of damages for patent infringement. Both parties asserted infringement of three patents. Judge Posner found both sets of damages expert reports not credible and excluded almost all of that testimony under *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579 (1993). Without any remedy, the case became moot and Judge Posner dismissed the case with prejudice. In this ruling, Judge Posner explained that "the proper method of computing a FRAND royalty starts with what the cost to the licensee would have been of obtaining, just before the patented invention was declared essential to compliance with the industry standard, a license for the function performed by the patent. That cost would be a measure of the value of the patent qua patent." Judge Posner stated that "the purpose of the FRAND requirements . . . is to confine the patentee's royalty demand to the value conferred by the patent itself as distinct from the additional value—the hold-up value—conferred by the patent's being designated as standard-essential." 869 F.Supp.2d 901 (N.D. Ill. 2012). Motorola provided no evidence for calculating a royalty consistent with this concept.

Reversing the SJ ruling, the Federal Circuit held that "a finding that a royalty estimate may suffer from factual flaws does not, by itself, support the legal conclusion that zero is a reasonable royalty." The court stated that "if a patentee's evidence fails to support its specific royalty estimate, the fact finder is still required to determine what royalty is supported by the record." "Thus, a fact finder may award no damages only when



**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

the record supports a zero royalty award. For example, in a case completely lacking any evidence on which to base a damages award, the record may well support a zero royalty award.” *Apple v. Motorola*, 757 F.3d 1327-28.

### **Patent Owners Required to Show a Causal Nexus for Injunctions**

The Federal Circuit requires under eBay’s irreparable harm factor that the patent holder show “a sufficiently strong causal nexus relates the alleged harm to the alleged infringement.” *Apple Inc. v. Samsung Electronics Co.*, 695 F.3d 1370, 1374 (Fed. Cir. 2012) (Apple II). See also *Apple Inc. v. Samsung Electronics Co.*, 678 F.3d 1314, 1324 (Fed. Cir. 2012) (Apple I)).

#### **Apple I**

In *Apple v. Samsung* (Apple I), Apple alleged the infringement of eight Apple patents and sought a preliminary injunction based on Samsung’s alleged infringement of four patents. The district court denied Apple’s motion for a preliminary injunction in part because Apple failed to provide sufficient evidence of irreparable harm on the first three patents and likelihood of success on the merits with respect to the fourth. Apple appealed. The Federal Circuit rejected Apple’s argument that the district court erred in requiring Apple to demonstrate a nexus between the claimed infringement and the alleged harm on the first three patents. The court explained that,

Sales lost to an infringing product cannot irreparably harm a patentee if consumers buy that product for reasons other than the patented feature. If the patented feature does not drive the demand for the product, sales would be lost even if the offending feature were absent from the accused product. Thus, a likelihood of irreparable harm cannot be shown if sales would be lost regardless of the infringing conduct.

For the fourth patent, the Federal Circuit vacated the denial of preliminary injunctive relief. The court concluded that the district court erred when it found Apple was unlikely to succeed on the merits and vacated and remanded for an analysis of the balance

of hardships and the public interest. On remand, the district court entered a preliminary injunction against Samsung’s Galaxy Tab 10.1 tablet, but the injunction was lifted after the jury found the Tab 10.1 not to infringe.

#### **Apple II**

In *Apple II*, the Federal Circuit resolved an appeal in a separate case that Apple filed in 2012, involving different patents but some of the same products. At issue was the district court’s decision granting Apple’s motion for a preliminary injunction and enjoining Samsung from selling its Galaxy Nexus smartphone. In this case, the court of appeals found an abuse of discretion and reversed. The court held the district court abused its discretion in determining that Apple established a sufficient causal nexus: “Apple’s evidence of causal nexus is limited. Apple has presented no evidence that directly ties consumer demand for the Galaxy Nexus to its allegedly infringing feature.” *Apple II*, 695 F.3d at 1375. The court explained that, “[t]he causal nexus is not satisfied simply because removing an allegedly infringing component would leave a particular feature, application, or device less valued or inoperable,” and “that an application may sell in part because it incorporates a feature does not necessarily mean that the feature would drive sales if sold by itself.” *Id.* at 1376.

On remand, the case was tried to a jury and the jury found substantially in Apple’s favor. The district court, however, denied Apple’s request for a permanent injunction.

#### **Apple III**

In *Apple III*, 735 F.3d 1352 (Fed. Cir. 2013), the Federal Circuit reversed, ruling that the casual nexus test that it applied was too difficult. The court clarified that the casual nexus requirement set forth in Apple I and Apple II applies with equal force in the permanent injunction context. Notwithstanding, the court found that the casual nexus principles “do not mean Apple must show that a patented feature is the one and only reason for consumer demand. Consumer preferences are too complex—and the principles of equity are too flexible—for that to be the correct standard.” The court said that “such a rigid standard could, in practice,



**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

amount to a categorical rule barring injunctive relief in most cases involving multi-function products, in contravention of *eBay*.” 735 F.3d at 1364.

The court explained that rather, the patent holder “must show some connection between the patented feature and demand for Samsung’s products.” “There might be a variety of ways to make this required showing, for example, with evidence that a patented feature is one of several features that cause consumers to make their purchasing decisions. It might also be shown with evidence that the inclusion of a patented feature makes a product significantly more desirable. Conversely, it might be shown with evidence that the absence of a patented feature would make a product significantly less desirable.”

The court also explained that the district court erred by not allowing Apple to show a causal nexus based on viewing the infringed patents in the aggregate. “To hold otherwise could lead to perverse situations such as a patentee being unable to obtain an injunction against the infringement of multiple patents covering different—but when combined, all—aspects of the same technology, even though the technology as a whole drives demand for the infringing product.” *Id.* at 1365.

The court also found the district court erred in its analysis of the inadequacy of legal remedies, another equitable factor under *eBay*. (The last two *eBay* factors are balance of hardships and the public interest not addressed here.) It found the district court abused its discretion by failing to properly analyze whether damages would adequately compensate Apple for Samsung’s infringement of these patents. Although Apple licensed Samsung in other contexts, the district court did not credit Apple’s arguments that it would not license Samsung in this context so that it could produce competing smartphones.

The court affirmed the district court’s conclusion on irreparable harm with respect to Apple’s design patents, notwithstanding the errors. But it found that the district court abused its discretion in analyzing Apple’s evidence of irreparable harm and the inadequacy of legal remedies on the utility patents and remanded the case to the district court to reconsider Apple’s request for a permanent injunction against Samsung’s infringement of its three utility patents.

### **Lower Court Ruling On Remand**

On remand, in August 2014, the district court (J. Koh, N.D. Ca.) once again denied Apple’s request for a permanent injunction. See 2014 WL 7496140 (Aug. 27, 2014). The district court found that Apple did not meet its burden to show irreparable harm to its reputation or goodwill without an injunction and Apple did not show it would suffer lost sales specifically due to Samsung’s infringement of the three patents at issue. The Court concluded that damages for Apple’s alleged irreparable harm in connection with lost sales were difficult to quantify, but this determination did not overcome Apple’s failure to demonstrate a causal nexus between its alleged harm and Samsung’s infringement. Apple further did not demonstrate that money damages were inadequate compensation for the infringement. While the court found that the balance of hardships and public interest factors favored Apple, it ultimately concluded that principles of equity did not support a permanent injunction. Apple has appealed to the Federal Circuit.

### **IP-Antitrust Interface**

#### **State of New York v. Actavis: New York State has a Victory in a Product Hopping Case Involving a Patented Drug for Alzheimer Disease**

The State of New York brought an antitrust action against Actavis and its wholly-owned subsidiary Forest Laboratories, LLC (collectively, “Defendants”). The complaint alleged that as the Defendants’ twice-daily Alzheimer drug Namenda IR neared the end of its patent exclusivity period, they introduced a new patented once-daily version called Namenda XR and withdrew Namenda IR from the market in order to force Alzheimer’s patients who depend on Namenda IR to switch to XR before generic versions of the twice daily drug could become available. This strategy of moving patients from an older version of drug losing patent protection to a new formulation with continuing exclusivity is known as product hopping.

Because generic competition depends heavily on state drug substitution laws that allow pharmacists to substitute generic IR for Namenda IR—but not for XR, New York alleged that Defendants’ forced-switch

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

scheme would likely impede generic competition for IR. In addition, the costs of switching from the once-daily XR drug back to twice-daily generic IR therapy would likely further ensure that the Defendants would maintain their monopoly in the relevant drug market beyond the time granted by their IR patents. The United States District Court for the Southern District of New York issued a preliminary injunction barring the Defendants from restricting access to Namenda IR prior to generic IR entry. The Second Circuit upheld the injunction, finding that New York demonstrated a substantial likelihood of success on the merits of its claim under the Sherman Act, 15 U.S.C. § 2, and made a strong showing of irreparable harm to competition and consumers in the absence of a preliminary injunction. See *New York ex rel. Schneiderman v. Actavis*, -- F.3d -- 2015, WL 3405461 (May 22, 2015).

### **Federal Circuit Concludes That Direct Purchasers Have *Walker Process* Standing**

Ritz Camera, a retailer, brought a *Walker Process* claim against SanDisk, a leading manufacturer of flash memory products. Ritz alleged that SanDisk fraudulently procured two patents necessary to make certain flash memory products, causing Ritz and other direct purchasers to pay supracompetitive prices for those products. SanDisk moved to dismiss the complaint, arguing, inter alia, that Ritz lacked antitrust standing to bring a *Walker Process* claim because Ritz faced no threat of an infringement action and had no other basis to bring a declaratory judgment challenging the validity of the patents. SanDisk contended that direct-purchaser standing would produce “an avalanche of patent challenges” and would undermine limitations on standing to challenge the validity of a patent.

The district court denied the motion, holding that Ritz had standing because, inter alia, its claim involved patents that had been “tarnished” by a determination in a separate proceeding that there were triable issues of fact as to whether the patents were procured by fraud. The Federal Circuit granted interlocutory review. The government filed an amicus brief in support of Ritz, arguing that the decision in *Walker Process* places no limitations on the class of plaintiffs that have standing

to bring suit. Moreover, the government urged the court to reject any limitation on standing requiring that the relevant patents had been “tarnished” in another proceeding.

The Federal Circuit affirmed. The court concluded that “[n]othing in *Walker Process* supports SanDisk’s argument that the rules governing standing to bring patent validity challenged should be imported in an antitrust case simply because one element of the antitrust cause of action requires proof of improper procurement of a patent.” And it saw “no reason to limit the scope of *Walker Process* standing to cases in which the patents have been ‘tarnished’ in another proceeding.” *Ritz Camera & Image, LLC v. SanDisk Corp.*, 700 F.3d 503, 508 (Fed. Cir. 2012).

## **Administrative Actions**

### **DOJ-PTO Joint Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments**

On January 8, 2013, the Department and the PTO issued a joint policy statement that discussed whether exclusionary relief from the International Trade Commission (ITC) is a proper remedy for infringement of standards-essential patents subject to voluntary F/RAND commitments. The Joint Policy Statement explained that exclusionary relief at the ITC to remedy infringement of F/RAND-encumbered SEPs may cause competitive harm by facilitating patent hold-up and, therefore, such relief may be inconsistent with the statutory public interest standard. To mitigate the risks of opportunistic conduct, such as patent hold-up, the statement finds that ITC exclusion orders are not an appropriate remedy, except in narrow circumstances. The Joint Policy Statement can be found here: <http://www.justice.gov/atr/public/guidelines/290994.pdf>.

### **Presidential Disapproval of ITC’s *Samsung v. Apple* Determination**

On August 3, 2013, the U.S. Trade Representative (The USTR) disapproved the International Trade Commission’s (the ITC’s) determination to issue an

## INTELLECTUAL PROPERTY

### NEWSLETTER

### SUMMER 2015

exclusion order in the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. No. 337-TA-794. The disapproval was based on the USTR's "review of the various policy considerations . . . as they relate to the effect on competitive conditions in the U.S. economy and the effect on U.S. consumers."

The USTR framed his disapproval with the [DOJ-PTO Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments](#) (discussed above), stating that he shared similar concerns about potential hold-up or reverse hold-up harms. He suggested that to mitigate the hold-up risks, exclusion orders should be limited to circumstances outlined by the DOJ-PTO joint statement.

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

Letter from Michael B. G. Froman, Amb., U.S. Trade Rep., to Irving A. Williamson, Chairman, U.S. Int'l Trade Comm'n at 2 n.3 (Aug. 3, 2013), [http://www.ustr.gov/sites/default/files/08032013%20Letter 1.PDF](http://www.ustr.gov/sites/default/files/08032013%20Letter%201.PDF).

Going forward, the USTR (1) urged the ITC to "examine thoroughly and carefully" statutory public interest considerations (including competitive conditions in the United States) at both the outset of the investigation as well as when determining whether a particular remedy is appropriate, and (2) pressed the ITC "proactively" to require parties to develop a factual record regarding patent essentiality (if contested by the patent holder) and hold-up or reverse hold-up. Cautioning that he would be scrutinizing future ITC determinations for a fully developed record regarding public-interest factors, the USTR requested that the ITC "make explicit findings on these issues to the maximum extent possible." The USTR's decision emphasized that the patent holder was not without remedy because it could continue to seek damages in the courts and be made whole. The USTR's statement applies to the enforcement of any FRAND-encumbered patent at the ITC, regardless of the national identity of the U.S. patent holder.

[Read the USTR's Disapproval Letter](#)

### DOJ Business Review Letters

#### The Department Issues Business Review Letter to IEEE Regarding an Update to its Proposed Patent Policy

IEEE is a non-profit professional association with over 400,000 members and is engaged in the advancement of technology. The IEEE-SA, an operating unit of IEEE, is a leading developer of international standards. The Patent Policy update under review governed the incorporation of patented technology in IEEE standards.

Participants in IEEE-SA working groups are invited to disclose patent claims that may be essential to a standard under development. Any holder of potentially essential patent claims is asked to submit a Letter of Assurance (an "LOA").<sup>2</sup>

---

<sup>2</sup> The participant chooses one of four options for licensing essential claims:

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

IEEE-SA does not require that a patent holder provide an LOA. However, it considers the absence of an LOA when deciding whether to approve a draft standard that includes patented technology.

In 2007, IEEE-SA updated its Policy to give submitters of LOAs the option of disclosing their most restrictive licensing terms—including maximum rates—in an effort to clarify the IEEE RAND Commitment, but this change was not effective in providing greater certainty regarding the meaning of “reasonable rates” for standard-essential patents. ([\*DOJ issued a positive business review\*](#)).

The proposed Update revised IEEE’s IP policy’s provisions regarding commitments from parties holding patent claims that are essential to IEEE-SA standards to license those claims on reasonable and non-discriminatory (RAND) terms, addressed the availability of injunctive relief, the meaning of a reasonable licensing rate, permissible requests for reciprocal licensing, and the production levels to which the commitment applies.

The stated purpose of the IEEE’s Update is to add clarity to the commitment patent holders voluntarily make regarding the licensing of patent claims essential to IEEE standards on RAND terms.

The Division issued a favorable business review letter on February 2, 2015, and IEEE’s Board of Directors voted to approve the update on February 8, 2015.

(1) It will make a license available, without compensation, for its essential patent claims, to an unrestricted number of applicants for uses implementing the standard;

(2) It will make a license available for its essential patent claims “under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination,” to an unrestricted number of applicants for uses implementing the standard (the “IEEE RAND Commitment”);

(3) It will not enforce its essential patent claims against any person (or entity) complying with the standard; or

(4) It is unwilling or unable to license its essential patent claims without compensation or under reasonable rates, or to agree that it will not enforce those patent claims.

[Read Full Summary of the IEEE Business Review Letter](#)

[Read the Department’s Press Release](#)

[Read the Business Review Letter](#)

## **The Department Issues Business Review Letter for IPXI Patent License Market**

On March 26, 2013, the Department issued a Business Review Letter for Intellectual Property Exchange International (IPXI), which proposed to establish an exchange for the trading of “unit license rights” to sets of patents. While the exchange might increase licensing efficiency, increase sublicense transferability, and improve transparency, the Department declined to state its enforcement intentions, citing inherent uncertainties and potential competitive concerns with the IPXI business model. IPXI has since ceased operations due to its inability to obtain enough willing licensees to participate.

[Read the Department’s Press Release](#)

[Read the Department’s Business Review letter](#)

## **DOJ Enforcement Actions**

In February 2012, the Division closed its investigations of the acquisition of two very significant patent portfolios—each of which included patents that the selling company had declared essential to telecommunications and/or wireless standards and committed to license on fair, reasonable and nondiscriminatory (FRAND) terms. The Division’s investigations focused on whether the acquiring firms would have the incentive and ability to exploit ambiguities in commitments sellers made to license their patents on FRAND terms and thereby raise rivals’ costs or foreclose competition. A more detailed summary of the Division’s investigations can be found here: [Statement of the Department of Justice’s Antitrust Division on its Decision to Close its Investigations of Google Inc.’s Acquisition of Motorola Mobility Holdings Inc. and the Acquisitions of Certain Patents by Apple Inc., Microsoft Corp. and Research in Motion Ltd., February 13, 2012](#)



**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

In February 2014, the Division closed its investigations into Samsung Electronics Co. Ltd.'s use of its portfolio of standards-essential patents that it had committed to license to industry participants on FRAND terms. The Antitrust Division's investigation focused on Samsung's use of FRAND-encumbered SEPs to seek and obtain exclusion orders from the ITC. The Antitrust Division closed its investigation into Samsung's conduct after the U.S. Trade Representative reviewed the exclusion order issued by the ITC against Apple at Samsung's request and overturned it, determining that it was not consistent with the public interest (see next page for more details). See also [Statement of the Department of Justice Antitrust Division on its Decision to close its Investigation of Samsung's use of its Standards-Essential Patents](#)

### **The DOJ and the FTC Submit Comments to the U.S. Patent and Trademark Office (PTO) on Patent Quality (May 7, 2015)**

The DOJ and the FTC submitted comments to the U.S. Patent and Trademark Office (PTO) in response to the PTO's comprehensive initiative to increase the quality of granted patents. The joint comments (available here:

<http://www.justice.gov/atr/public/comments/313716.pdf>) "commend the PTO for its continuing efforts to enhance patent quality focusing on its efforts to give clearer notice of the boundaries of claimed inventions." See [Press Release \(May 7, 2015\)](#). "The submission states that clearer patent notice can encourage market participants to collaborate, transfer technology or—in some cases—to design-around patents, thus leading to a more efficient marketplace for intellectual property and the goods and services that practice such rights." *Id.*

### **Federal Trade Commission Enforcement Actions**

#### **FTC-Google Settlement Regarding FRAND Commitments**

On January 3, 2013, Google agreed to settle the FTC's Complaint regarding alleged breaches by Google and its subsidiary Motorola Mobility to license standard-

essential patents (SEPs) on fair, reasonable, and non-discriminatory, *i.e.*, FRAND terms. (The FTC's investigation into possible anticompetitive conduct by Google was much broader, covering Google's business practices related to its search and search-advertising businesses that are not covered in the order, nor addressed here. Google entered into a separate letter of commitment with respect to some of its search/search advertising practices.) The final Decision and Order was filed on July 23, 2013.

The FTC's Complaint alleged that, before its acquisition by Google, Motorola reneged on licensing commitments made to several standard-setting bodies to license its SEPs relating to smartphones, tablet computers, and video game systems on FRAND terms by seeking injunctions against willing licensees of those SEPs. Google's conduct continued post-acquisition. The Complaint was brought pursuant to the FTC's Section 5 jurisdiction to prohibit unfair methods of competition, not on a Sherman Act theory of liability.

Google's settlement with the FTC requires Google to withdraw its claims for injunctive relief on FRAND-encumbered SEPs and to offer a FRAND license to any company that wants to license Google's SEPs in the future. According to the Commission, the Google settlement "may set a template for the resolution of SEP licensing disputes across many industries, and reduce the costly and inefficient need for companies to amass patents for purely defensive purposes in industries where standard-compliant products are the norm." Commissioners Rosch and Ohlhausen dissented separately on the use of the FTC's Section 5 unfair methods of competition authority to reach Google's enforcement practices for its SEPs.

[Read more of the Google Settlement summary](#)

[Proceed to the FTC matter documents](#)

#### **FTC-Bosch Settlement Regarding FRAND Licensing**

In November 2012, the FTC accepted a Consent Agreement from Robert Bosch GmbH designed to remedy anticompetitive effects resulting from Bosch's acquisition of SPX Service Solutions U.S. LLC from SPX Corporation (SPX) and to remedy SPX's refusal



**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

to license SEPs on FRAND terms, contrary to its prior commitments, in violation of Section 5 of the FTC Act. After promising SAE international that it would license its SEPs on FRAND terms, SPX continued to seek injunctive relief against competitors using those SEPs to implement SAE standards.

The FTC's Complaint alleged that before its acquisition by Bosch, SPX reneged on a licensing commitment made to two SSOs to license its SEPs relating to "air conditioning, recycling, recovery and recharge devices" or "ACRRRs" on FRAND terms by seeking injunctions against willing licensees of those SEPs. According to the Commission, SPX's suit for injunctive relief constituted a failure to license its SEPs pursuant to the FRAND commitments it made while participating in the standard-setting process, and such conduct was an unfair method of competition actionable under Section 5. Bosch abandoned the claims for injunctive relief and agreed to license the SEPs at issue.

The Consent Agreement requires Bosch to offer a royalty-free license to all potential licensees of SEPs and certain other enumerated patents for the purpose of manufacturing ACRRR devices in the United States. (Bosch chose to license these patents to the buyer of its ACRRR business royalty-free, and the FTC found that a license to other market place participants on the same terms was necessary to ensure that the merger remedy is not inequitable in application.) Similar to the Google settlement, Bosch further agreed not to seek injunctive relief against third parties, unless a third party refuses in writing to license an SEP consistent with its letter of assurance, or otherwise refuses to license the SEP on terms determined by a process agreed upon by both parties (e.g., binding arbitration) or a court.

[Read more of the FTC-Bosch Settlement Summary](#)

[Proceed to the FTC matter documents](#)

## **International Trade Commission Cases**

### **InterDigital v. Nokia and Microsoft: InterDigital Seeks ITC Exclusion Order for its Declared Standard-Essential Patents**

Following InterDigital's complaint, the ITC instituted its investigation in *Certain 3G Mobile Handsets and Components Thereof* ("3G Mobile Handsets"), Inv. No. 337-TA-613, in September of 2007, against respondent Nokia (later acquired by Microsoft). The 2007 complaint alleged that Nokia violated section 337 by importing products that infringe four InterDigital patents, all declared essential to ETSI. In April of 2010, the Commission found no infringement and no 337 violation. Up to that point, the ITC's treatment of FRAND-related issues was limited. The Federal Circuit reversed the Commission's determination of noninfringement finding the ITC erred in construing certain critical claim terms in two of the patents and remanded for further proceedings. The Federal Circuit mandate returned jurisdiction to the ITC on January 17, 2013. On March 24, 2014, the Commission issued an order finding that certain infringement-related questions remained open factual issues that should be addressed by the ALJ in the first instance. The Commission also asked the ALJ to take evidence concerning the ITC's public interest analysis, including on issues related to the standard-essential nature of the patents at issue and on evidence of patent hold-up or reverse hold-up. On April 27, 2015, Judge Essex issued an initial determination finding that Nokia's handsets infringe the two InterDigital patents at issue ('966 and '847) and there was no evidence of hold up, but there was evidence of reverse hold up. The ALJ also found that the public interest did not preclude issuing an exclusion order. Judge Essex's opinion and summary of the opinion can be found on [the Essential Patent Blog](#). The ITC issued a [Notice](#) that it will review in part Judge Essex's opinion, including the FRAND-related issues presented in the case. Briefing begins July 10, 2015.

## **Speeches**

### **Interview with Renata Hesse, Deputy Assistant Attorney General, Antitrust Division, U.S. Department of Justice**

In this interview with Antitrust Source DAAG Hesse discusses several issues at the intersection of IP and antitrust, including patent settlements, patent hold up, and the IEEE Business Review Letter.

[Read the Interview](#)

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

**International Antitrust Enforcement:  
Progress Made; Work to Be Done– AAG  
Bill Baer**

On September 12, 2014, AAG Bill Baer delivered a speech at the 14th Annual Conference on International Antitrust Law and Policy at Fordham Law School. Baer addressed four key principles at the intersection of competition law and intellectual property: (1) “intellectual property rights do not necessarily confer market power”; (2) “owners of intellectual property rights who do achieve market power lawfully are free to participate in markets, provided that they not engage in collusive or exclusionary conduct that harms competition”; (3) “enforcement involving intellectual property rights should protect competition rather than competitors”; (4) “antitrust enforcement involving intellectual property rights should not be used to implement domestic or industrial policies.” He also addressed the dangers of price controls in this area. “Enforcers need to be particularly careful about imposing price controls or prohibiting so-called excessive pricing. Pricing freedom in bilateral licensing negotiations is critical for intellectual property owners.”

[Read the speech](#)

**A Year in the Life of the Joint DOJ-PTO  
Policy Statement on Remedies for F/RAND  
Encumbered Standards-Essential Patents  
– DAAG Renata Hesse**

On March 25, 2014, DAAG Renata Hesse delivered a speech to the Global Competition Review’s GCR Live IP & Antitrust USA Conference, in which she discussed the ITC’s remedies for F/RAND-encumbered SEP infringement in light of recent court decisions.

[Read the Speech](#)

**At the Intersection of Antitrust & High-  
Tech: Opportunities for Constructive  
Engagement – DAAG Renata Hesse**

On January 22, 2014, DAAG Renata Hesse delivered a speech to the Stanford Institute for Economic Policy

Research’s Conference on Competition and IP Policy in High-Technology Industries, in which she discussed F/RAND commitments, Patent Assertion Entities, and transparency.

[Read the Speech](#)

**The Art of Persuasion: Competition  
Advocacy at the Intersection of Antitrust  
and Intellectual Property – DAAG Renata  
Hesse**

On November 8, 2013, DAAG Renata Hesse delivered a speech to the Antitrust, Consumer Protection, and Unfair Business Practices Seminar, in which she discussed potential use of Section 2 of the Sherman Act, the Division’s advocacy efforts (the PAE Activity workshop), hold-up, current patent legislation, the IP Guidelines, the IPXI Business Review, and F/RAND commitments.

[Read the Speech](#)

**IP, Antitrust, and Looking Back on the  
Last Four Years – DAAG Renata Hesse**

On February 8, 2013, DAAG Renata Hesse delivered a speech to the Global Competition Review’s Antitrust Law Leaders Forum. During a summary of the Division’s accomplishments, IP topics mentioned included potential use of Section 2 of the Sherman Act, the Division’s advocacy efforts (the PAE Activity workshop & the PTO Roundtable), hold-up, and F/RAND commitments.

[Read the Speech](#)

**Six “Small” Proposals for SSOs Before  
Lunch – DAAG Renata Hesse**

On October 10, 2012, DAAG Renata Hesse delivered a speech to the ITU-T Patent Roundtable. In this speech, DAAG Hesse discussed the importance of standard setting and offered suggestions to improve F/RAND-related patent policy.

[Read the Speech](#)

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

**Antitrust Policy in the Information Age:  
Protecting Innovation and Competition –  
Acting AAG Joseph Wayland**

On September 21, 2012, Acting AAG Joseph Wayland delivered remarks to the Fordham Competition Law Institute. The IP issues discussed included standard setting (and the role of standard setting organizations), patent portfolio acquisitions, and the impact of International-Trade-Commission Exclusion Orders on competition.

[Read the Speech](#)

**International**

**Qualcomm and China's NRDC Agree to  
Settle Antimonopoly Law (AML) Action for  
\$975 Million and Conduct Remedies**

In February 2015, China's National Development and Reform Commission (NDRC), reached a settlement with Qualcomm of \$975 million, which is equal to 8 percent of Qualcomm's Chinese revenues. It focused the investigation on Qualcomm's licensing practices with respect to Chinese mobile device manufacturers. The NRDC found that Qualcomm had abused a dominant position in the wireless standard essential patent (SEPs) licensing market and the baseband chip market. The NRDC alleged that Qualcomm's licensing practices violated the AML in a number of ways: (1) charging unfairly high patent licensing fees, including royalties for expired patents; (2) demanding cross-licenses for free; (3) tying or bundling standard essential patents (SEPs) with non-SEPs; (4) including unfair terms such as no-challenge clauses in its license agreements.

Qualcomm agreed to pay the \$975 million fine and agreed to license its standard essential Chinese patents at 5 percent for 3G mobile devices and 3.5 percent for 4G devices, based on 65 percent of the net selling price in China. Among other prohibitions, Qualcomm cannot require royalty free grantbacks in its licenses or cross-licenses from licensees or tie SEPs with non-SEPs without justification. For more information, see Rill & Kress, [The Application of](#)

[China's Anti-monopoly Law to Essential Patent Licensing: The NDRC/Qualcomm Action, CPI Antitrust Chronicle \(March 2015\).](#)

**European Court of Justice Advisor Issues  
Advisory Ruling on Standards for Seeking  
Injunctions in Matter Involving SEPs**

In November 2014, the European Court of Justice's (ECJ) (Europe's highest court) advocate general ("AG") issued an advisory opinion in the *Huawei v. ZTE*, setting forth the circumstances under which seeking an injunction is an abuse of dominance in the European Union. All eyes are on the ECJ which will decide soon whether to follow the AG's advice.

**Background:** In November 2010, the parties began negotiating a license for Huawei's LTE-essential patents, which are subject to FRAND commitments made at ETSI. After five months of negotiations, in March 2011, Huawei named terms; ZTE sought a cross-license, and later proposed terms, but these terms were not specific. In April 2011, Huawei filed for an injunction in German (Dusseldorf Regional Court). In January 2013, the European Patent Office confirmed validity of the patent, but that decision is on appeal.

The German court chose to stay the case and refer several questions to the European Court of Justice:

- Is it an abuse of dominance for a FRAND-encumbered SEP owner to seek an injunction where the infringer declares it is willing to license, or only where the infringer has made an unconditional offer to license on FRAND terms, and has agreed to pay royalties for prior use?
- Are there time requirements associated with a "willingness to negotiate?"
- Can an offer to license be conditioned on validity and infringement?
- Is the infringer required to render an account of past use and make a commitment to pay past royalties?
- Can other claims (e.g., recall of products, damages, rendering of accounts) constitute an abuse of dominance under similar circumstances?

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

Before moving to the analysis and opinion, the AG makes some important preliminary notes:

- A SEP does not automatically confer a dominant position. Whether the SEP owner has a dominant position must be determined on a case-by-case basis. There may be a rebuttable presumption of market power, which can be rebutted with specific, detailed evidence.
- The German Orange-Book-Standard case had to do with a patent in a de facto standard, not a FRAND-encumbered patent. Thus, the legal standard in that case is not directly applicable to the FRAND/SEP context (and may give the patent owner more latitude to seek injunctions than it should have in the FRAND/SEP context). On the other hand, the EC's Samsung press release suggests that a FRAND-encumbered SEP holder abuses its position in seeking an injunction even where the putative licensee has made only "highly vague and non-binding" offers to negotiate (which may give the patent holder less latitude to seek injunctions than it should have). See Press Release, *infra* pages 29-30, European Commission Accepts Legally Binding Commitments by Samsung Electronics on Standard Essential Patent Injunction (29 Apr. 2014), [http://europa.eu/rapid/press-release\\_IP-14-490\\_en.htm](http://europa.eu/rapid/press-release_IP-14-490_en.htm). Thus, the AG aims to set out a "middle path."

**Analysis/Opinion:** The pursuit of an injunction cannot in itself constitute an abuse of a dominant position. Given the importance of the right of access to the courts, bringing an action for injunction will constitute an abuse "only in exceptional circumstances."

Such exceptional circumstances may exist where: (1) the infringer depends on technology incorporated into a standard; (2) the SEP holder acts at variance with its FRAND commitments; (3) the infringer has shown itself to be "objectively ready, willing and able" to conclude a licensing agreement; and (4) there is an adverse effect on competition. In applying this framework, the conduct of both the SEP holder and the infringer must be examined.

Specifically, before seeking an injunction, the SEP holder must: (1) alert the infringer in writing of infringement, specifying the SEP and the infringement; (2) present a written offer with "all terms normally included in a license," including amount of royalty and method of calculation.

The infringer must respond in a "diligent and serious manner," and if it does not accept the offer, must make a written, reasonable counter-offer. If the infringer's response is "purely tactical and/or dilatory and/or not serious," then an action for injunction would not constitute an abuse of dominance. On the other hand, the conduct of the alleged infringer will not be considered dilatory/not serious if it asks for a FRAND determination by a court; in that case, the SEP owner could ask for a bank guarantee for payment of royalties. The same would apply if the alleged infringer challenged infringement or validity.

The time frame for this exchange must be "assessed in light of the commercial window of opportunity available to the SEP holder for securing a return on its patent in the sector in question." The alleged infringer does not need to have sought a license prior to beginning its implementation of the standard.

A similar framework should apply in cases where the patent owner seeks another exclusionary remedy (e.g., recall of products). Seeking damages for past infringement is not problematic under Article 102.

[See also Law 360, EU Court Adviser Sets Plan For Essential Patent Injunctions \(Nov. 20, 2014\).](#)

### **The European Commission finds that Motorola's Use of Injunctive Relief on a FRAND-Encumbered Patent Essential to a Standard against a Willing Licensee is an Abuse of Dominance**

In July 2014, the European Commission released its decision finding that Motorola's use of injunctive relief on a FRAND-encumbered patent essential to a standard against a willing licensee is an abuse of dominance. The decision is dated April 29, 2014.

The European Commission found that Motorola held a dominant position in the European Economic Area



*INTELLECTUAL PROPERTY*  
*NEWSLETTER*  
*SUMMER 2015*

(EEA) market for the licensing of its SEP (the Cudak patent) which reads on the GPRS technical standard. See ¶ 269-70. GPRS is a technology used for wireless data transmission and it is an integrated part of the GSM standard that replaced first generation (1G) analogue technology. Motorola participated in the European Telecommunication Standards Institute (ETSI) that set the GSM/GPRS standard. ETSI is responsible for setting telecommunication standards in the European Union. ETSI has enacted an IPR policy which requires ETSI members to inform ETSI about all IPR that members may hold in a future standard and they are requested to make their SEPs available to all interested parties on a FRAND basis. Motorola participated in setting the GPRS standard and made such a commitment to ETSI. Decision ¶ 96, 287, 290-99.

The Commission found that due to the wide adoption of GPRS in the EEA, industry participants are locked in to GPRS technology. Notably, subsequent mobile generations and technologies have not replaced GPRS and access remains indispensable to mobile device manufacturers, according to the Commission. Decision ¶¶ 227, 231-236. The Commission rejected Motorola's arguments that it did not hold a dominant position in the market for the licensing of GPRS technology, at least with respect to Apple. The Commission focused on the economic strength Motorola enjoyed in the market as a whole based on its Cudak patent and not on its negotiating position as to Apple. The Commission found that a potential licensee cannot implement the GPRS standard without the Cudak SEP and there are no substitutes for this technology. It did not matter to the Commission that some potential licensees may have bargaining power over Motorola based on their own SEPs. Motorola still had a dominant position in its own technology. See Decision ¶ 239-247.

The Commission also rejected Motorola's other arguments that it could not hold a dominant position vis-a-vis Apple, for example, because Motorola suffered losses in the downstream market. Further, the Commission found that Apple's large patent portfolio was not a constraint on Motorola's dominance; the fact that Apple has asserted non-SEPs against Motorola could not limit the degree of market power conferred on Motorola by the Cudak patent. The Commission also rejected Motorola's argument that Motorola's

dominance is limited by the fact that standard-setting is a "repeat game" and Motorola could suffer repercussions for its conduct in subsequent rounds of standard setting. See Decision ¶¶ 248-270.

In concluding there was an abuse of dominance in the present case, the Commission acknowledged that a patent holder is entitled to seek injunctions and the seeking and enforcement of injunctions cannot by itself constitute an abuse of dominance. In the standard-setting context, however, where the owner of a patent has voluntarily committed to license its SEPs on FRAND terms, the benefits of standard-setting may be jeopardized by the seeking and enforcement of an injunction. The Commission found that Motorola had a special responsibility to ensure that its conduct with respect to the Cudak SEP did not impair competition. The Commission found that Motorola's seeking and enforcement of an injunction against Apple in Germany on the basis of the Cudak patent amounted to an abuse of dominance when Apple negotiated with Motorola and made a second licensing offer that the Commission found was a clear indication that Apple was not an unwilling licensee. Decision ¶ 280. The Commission noted that Apple's second offer allowed Motorola to set royalties according to equitable discretion and the FRAND standard in the industry and that it allowed for full judicial review of the FRAND royalties. In addition, the proposed license covered Apple products claimed to be infringing, and it allowed for an independent determination of appropriate royalty rates for the use by Apple of Motorola's SEP's in old and new Apple products. Decision ¶¶ 301-07.

The Commission found that Motorola's choice to continue the injunction following Apple's second licensing offer was capable of having several anti-competitive effects: a temporary ban on Apple's standard-compliant products; the inclusion of disadvantageous licensing terms to Apple in the post-injunction license; and a negative impact on standard-setting. Decision ¶ 311. The Commission explained that faced with the seeking and enforcement by a SEP holder of an injunction against its products, an implementer of a standard runs the risk that, should it not agree to the licensing terms or royalty rates proposed by the SEP holder, its products will be banned from the market. The latter may lead the implementer of the standardised technology to incur significant costs due to lost sales and damage to



**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

reputation. If a non-infringing redesign of a standard-compliant product is impossible, as in the case of GPRS-compliant products, the standard implementer risks being permanently blocked from access to the market and suffering the direct effects of the injunction . . . . The implementer would have to forego profits of products it can no longer manufacture and sell. In such a scenario, it is therefore not the underlying value of the patented technology which drives the negotiation process and the licensing conditions an implementer is ready to agree to, but rather the potential cost of lost sales and damage to reputation. Decision ¶ 324.

Further, the Commission found that Motorola's entitlement to terminate the post-injunction license if Apple challenged the validity of Motorola's SEP capable of having anticompetitive effect because it could limit Apple's ability to influence the royalty rate and lead other potential licensees to pay for invalid IP. See Decision ¶¶ 336-86. With regard to the negative impact on standard-setting, the Commission found that "in view of the [standardization] process that led to the adoption of the GPRS standard and Motorola's voluntary commitment to license the Cudak SEP on FRAND terms and conditions, implementers of the GPRS standard have a legitimate expectation that Motorola will grant them a licen[s]e over that SEP, provided they are not unwilling to enter into a licen[s]e on FRAND terms and conditions." Decision ¶ 417. Thus, the Commission opined that Motorola's seeking and enforcement of an injunction against Apple in Germany could undermine the confidence in the standard-setting process. The Commission indicated that its decision promotes the proper functioning of standard-setting by ensuring the accessibility of the technology included in the GPRS standard and by preventing hold-up. Id. ¶ 418. The Commission said its decision "strikes a fair balance between, on the one hand, the interests of Motorola to obtain appropriate remuneration for its Cudak GPRS SEP and, on the other hand, the interests of implementers of the GPRS standard to be able to manufacture and sell lawfully standard-compliant products." Id.

The Commission concluded that in the exceptional circumstances of this case and in the absence of an objective justification, Motorola abused its dominant position by seeking and enforcing an injunction against Apple. Motorola was ordered to stop the conduct found

to be an abuse of dominance insofar as it has not already done so and to refrain from repeating such conduct. Motorola was not ordered to pay a fine. The Decision can be found [here](#) and a more detailed summary can be found [here](#) on the IP Resources Pages.

**European Commission: Samsung Agrees Not to Seek Injunctions in Europe on SEPs for Smartphones and Tablets**

In April 2014, Samsung agreed not to seek injunctions in Europe in connection with the alleged infringement of its SEPs related to smartphones and tablets. Samsung also agreed that any licensing disputes over what are fair, reasonable and non-discriminatory ("FRAND") terms for the SEPs in question will be determined by a court, or if both parties agree, by an arbitrator, according to the Commission's Press Release. The European Commission (EC) investigated Samsung's conduct beginning in April 2011, when the company began to seek injunctions against Apple on SEPs related to the European Telecommunications Standardization Institute's (ETSI) 3G UMTS standard for mobile and wireless communications. In December 2012, the EC notified Samsung that it considered Apple a willing licensee and that seeking injunctions against Apple could be an abuse of its dominant position in violation of EU competition law.

In announcing the settlement, the Commission explained that,

The seeking of an injunction based on SEPs may constitute an abuse of a dominant position if a SEP holder has given a voluntary commitment to license its SEPs on FRAND terms and where the company against which an injunction is sought is willing to enter into a licence agreement on such FRAND terms. Since injunctions generally involve a prohibition of the product infringing the patent being sold, seeking SEP-based injunctions against a willing licensee could risk excluding products from the market. Such a threat can therefore distort licensing negotiations and lead to anticompetitive licensing terms that the licensee of the SEP would not have accepted absent the seeking of the injunction. Such an anticompetitive

**INTELLECTUAL PROPERTY**  
**NEWSLETTER**  
**SUMMER 2015**

outcome would be detrimental to innovation and could harm consumers.

See European Comm'n, Antitrust: Commission Accepts Legally Binding Commitments by Samsung Electronics on Standard Essential Patent Injunction (29 Apr. 2014), [http://europa.eu/rapid/press-release\\_IP-14-490\\_en.htm](http://europa.eu/rapid/press-release_IP-14-490_en.htm)

## **Foreign Competition Authorities Issue Revised IP Guidelines**

### **Canada**

The Canadian Competition Bureau updated its Intellectual Property Guidelines in September 2014. The revisions concern when the non-use of an intellectual property right could create a competition issue (see Example 9 (Product Switching), at 33) and the Bureau's enforcement approach to patent pooling arrangements (Example 6), which are generally analyzed under civil and not criminal competition law as in the United States. This is the first phase of the Bureau's efforts to update its intellectual property guidelines. The Bureau recently began the second stage of the revisions which involves seeking comments on issues including patent litigation settlement agreements, the conduct of patent assertion entities, and activity related to standard essential patents. The Division will likely be involved in this effort.

[Read Press Release](#)

[Read the Revised Guidelines](#)

### **Korea**

On December 24, 2014, Korea's Fair Trade Commission amended its Intellectual Property Guidelines that were issued in March 2010. Several new sections supplement the 2010 Guidelines that concern conduct related to standard-essential patents (SEPs), non-practicing entities, and grantbacks. The Guidelines also add a new section on Innovation markets. [See Chart showing updates to the Guidelines.](#)

### **China**

On April 7, 2015, China's State Administration for Industry and Commerce (SAIC) issued "Rules on the Prohibition of Abusive Use of Intellectual Property Right to Exclude or Restrict Competition." The Rules regulate a variety of licensing practices, including patent pooling arrangements, refusals to license IP rights that constitute an essential facility, and the enforcement of standard-essential patents. A link to the official English translation will appear on the IP Resources International Page when it is available.

China's National Development and Reform Commission (NDRC) recently announced that it intends to draft and issue IP Guidelines providing guidance on how to implement China's IP abuse provision of its Antimonopoly Law (AML). These guidelines would be applicable to all three AML agencies (NDRC, the Ministry of Commerce (MOFCOM) and SAIC). Please check the IP Resources International Page for updates.

### **European Union**

#### **TTBE**

In March 2014, the European Commission updated its Technology Transfer Block Exemption (TTBE) Guidelines. The TTBE creates a safe harbor for certain licensing agreements concluded between companies that have limited market power. It also provides guidance on the application of EU competition law to technology transfer agreements that fall outside the safe harbor. Recognizing the patent pools can be pro-competitive, the revised TTBE includes patent pools in the TTBE safe harbor. The revised guidelines also omit certain licensing arrangements from the safe harbor and these provisions are analyzed on a case-by-case basis. These provisions include clauses which allow the licensor to terminate a non-exclusive agreement if the licensee challenges the validity of the intellectual property rights, and clauses that force a licensee to exclusively license improvements to the licensed technology to the licensor. The guidelines also provide guidance on patent settlements.

[Read the Press Release](#)

[Read the Guidelines](#)

# INTELLECTUAL PROPERTY

## NEWSLETTER

### SUMMER 2015

#### EC Horizontal Cooperation Agreement Guidelines

In addition, Section 7 of the European Commission's Horizontal Cooperation Guidelines (2010) include guidance related to standardization agreements, which includes the setting of technical standards by standards bodies. Section 7 recognizes that "standardisation agreements usually produce significant positive economic effects." But standardization can also result in a "reduction in price competition, foreclosure of innovative technologies and exclusion of, or discrimination against, certain companies by prevention of effective access to the standard." 7.3.1. ¶ 264. Standardization agreements can have effects in four markets: (1) product markets; (2) technology markets; (3) the market for standard-setting; (4) a distinct market for testing and certification. 7.3.1. ¶ 261.

The Guidelines explain that "if a company is either completely prevented from obtaining access to the result of the standard, or is only granted access on prohibitive or discriminatory terms, there is a risk of an anti-competitive effect." And add that disclosure of intellectual property rights "up-front may increase the likelihood of effective access being granted to the standard since it allows the participants to identify which technologies are covered by IPR and which are not." 7.3.1. ¶ 268. The Guidelines further explain that this disclosure "enables the participants to both factor in the potential effect on the final price of the result of the standard (for example choosing a technology without IPR is likely to have a positive effect on the final price) and to verify with the IPR holder whether they would be willing to license if their technology is included in the standard." *Id.*

The Guidelines discuss hold up as a competition concern. They recognize that holders of standard-essential patents could hold up implementers of the standard by refusing to license the necessary IPR or by extracting excess rents by way of excessive royalty fees." But they do not presume that holding IP that is essential to a standard is an exercise of market power. 7.3.1. ¶ 269.

Similar to the U.S. approach, certain standardization agreements that are sham agreements or joint efforts to collude violate the competition law without regard to

economic effects. 7.3.1. ¶¶ 273-276. Other agreements are analyzed "with regard to their actual and likely effect on competition." ¶ 277. Some considerations that apply in this analysis include:

- (1) whether members remain free to develop alternative technology
- (2) access to the standard
- (3) the market shares of the goods or services based on the standard should be taken into account; and
- (4) discrimination against any participating or potential members.

According to the guidelines, standard-setting activity is unlikely to restrict competition when "participation in standard-setting is unrestricted and the procedure for adopting the standard in question is transparent, standardization agreements which contain no obligation to comply with the standard and provide access to the standard on fair, reasonable and non-discriminatory terms." ¶ 280.

#### IP Policies of Standards Bodies

According to the Guidelines, a clear and balanced [intellectual property] policy . . . increases the likelihood that the implementers of the standard will be granted effective access to the standards" *Id.* at ¶ 284. Such intellectual property policies would require FRAND commitments that survive the transfer of the IP to third parties and require the good faith disclosure of their IP by participants. Compliance with the competition law by the standard-setting body does not require it to verify whether licensing terms meet the FRAND commitment. *Id.* at ¶ 288. If a standard-setting body's IP policy does not contain these requirements, it would be analyzed for competitive effects on a case-by-case basis. *Id.* at ¶ 298. Standard-setting agreements providing for ex ante disclosures of most restrictive licensing terms, will not, in principle, restrict competition. *Id.* at ¶ 299.

#### Workshops

##### **Patent Assertion Entity Activities Workshop (December 10, 2012)**

# INTELLECTUAL PROPERTY

## NEWSLETTER

### SUMMER 2015

On December 10, 2012, the Antitrust Division and the Federal Trade Commission held a joint public workshop on patent assertion entity (PAE) behavior. The workshop provided a forum for industry participants, academics, economists, lawyers, and other interested parties to discuss the evolution of economic and legal analyses of PAE behavior, including patent acquisitions and licensing activity. The workshop consisted of a series of panels examining, among other topics, the economics of IP licensing, industry experiences with PAE behavior, economic and legal theories and empirical work concerning PAE activity, and the potential efficiencies and harms to innovation and competition that this activity may generate.

[Public Comments, presentations, and more information regarding the workshop are available here.](#)

## **Legislation**

### **Patent Reform and Addressing PAE Activity**

On February 5, 2015, Rep. Goodlatte reintroduced the first patent reform bill of the 114<sup>th</sup> Congress: the Innovation Act which is similar to the reforms introduced during the 113<sup>th</sup> Congress. There is bipartisan support for the bill and co-sponsors include Reps. Defazio, Issa, Nadler, Smith, Lofgren, Chabot, Eschoo, Forbes, Pierlusi, Chaffetz, Jeffries, Marino, Farenthold, Holding, Johnson, Huffman, Honda, and Larsen. Read the Bill: [Innovation Act 2015](#)

Following closely behind, Sen. Grassley introduced the [PATENT Act](#), another bi-partisan comprehensive patent reform initiative. Co-sponsors include Sens. Leahy, Cornyn, Schumer, Lee, Hatch and Kloubuchar.

Litigation reforms included in the bills are:

- Heightened pleading requirements in patent infringement actions;
- Increasing transparency about patent ownership
- Requiring or encouraging more specificity in demand letters in order to prove willful infringement
- Shifting attorney fees and other expenses to the prevailing party (the Innovation Act

appears to put the burden on the nonprevailing party to show its conduct was reasonable, while the PATENT Act is not a presumptive fee shifting rule); and

- Limitations on discovery

The Innovation Act would also include provisions addressing post-issuance proceedings before the USPTO and would require the USPTO to construe claims the same way that a district court does as opposed to their current method of employing the broadest reasonable interpretation. As of this writing, the PATENT Act does not address these proceedings, but Sen. Grassley indicated in a [statement](#) that this will be addressed.

These reforms seek to address some of the complaints raised about PAE licensing and litigation activity. And there may be more legislation addressing patent litigation reform introduced.

Senators Chris Coons (D-DE), Dick Durbin (D-IL) and Mazie Hirono (D-HI) have submitted alternative patent reform legislation, the [STRONG Patents Act](#) of 2015, S. 632, which is viewed as a patentee friendly bill. This bill would make it easier to prove willful infringement and divided infringement. It also largely is focused on the USPTO's inter partes reviews and post-grant proceedings and, like the Innovation Act, would require USPTO's Patent Trial and Appeal Board to construe patent claims in post-issuance proceedings for inter partes or post-grant review in the same manner as a court in a civil action is required to construe claims. Finally, the bill would preempt state laws regarding fraudulent demand letters, and provides that it is an unfair or deceptive practice under Section 5 of the FTC Act to send patent notice letters in bad faith. Read summary of the Bill here, [IP Watchdog](#).

In addition, some states have passed their own bills aimed at PAEs, which prescribes what these entities are required to include in licensing demand letters sent to alleged infringers. For example, in May of 2013, the Vermont state legislature passed [Act 0044](#), which sets forth provisions for courts to determine if a person has made a demand letter in bad faith and provides damages, equitable relief, and reasonable attorney's fees for Vermont companies wrongly pressured into paying licensing fees or a settlement. However, as



*INTELLECTUAL PROPERTY  
NEWSLETTER  
SUMMER 2015*

noted, the STRONG Patents Act seeks to preempt these state laws, as does another bill in the House, the [TROL Act](#),

In May 2014, the FTC [testified](#) before the House Subcommittee on Commerce, Manufacturing and

Trade, of the House Committee on Energy and Commerce, about recent PAE trends and the TROL Act in particular. In this testimony, the FTC notes that the Commission is proceeding with a [study](#) into the competitive impact of PAE activity.

**For additional information about this issue of the Antitrust Division's IP Newsletter, please contact:**

**Frances Marshall, Legal Policy Section  
202.305.2520**

**Jennifer Dixon, Legal Policy Section, Chicago Office  
312.984.7208**

**Erica Mintzer, Legal Policy Section  
202.307.2270**

**Patrick Kuhlmann, Legal Policy Section  
202.305.4639**

**Matthew Mandelberg, Legal Policy Section  
202.598.2413**

**Anupama Sawkar, Legal Policy Section  
202.598.2344**

**Brinkley Tappan, Foreign Commerce Section  
202.598.6571**