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Antitrust Division, U.S. Department of Justice
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Re: Comments of InterDigital, Inc., on the Proposed Update to the 1995 Antitrust Guidelines for the Licensing of Intellectual Property Rights

I. Introduction

InterDigital, Inc. ("InterDigital") is pleased to submit its comments on the proposed update to the 1995 Antitrust Guidelines for the Licensing of Intellectual Property Rights ("Proposed Update").

InterDigital believes that the 1995 Antitrust Guidelines for the Licensing of Intellectual Property Rights ("IP Licensing Guidelines") issued by the Department of Justice and Federal Trade Commission (collectively, "the Agencies") have provided useful guidance to the business community and have also served as an important model for the analysis and treatment of intellectual property licensing by overseas antitrust authorities. InterDigital recognizes that the Proposed Update is not intended to change the Agencies' enforcement approach with respect to the licensing of intellectual property rights ("IPR") or to expand the IP Licensing Guidelines to address other topics and areas. Consequently, most of the proposed revisions to the IP Licensing Guidelines are, as a general matter, relatively modest in scope and effect. Nonetheless, InterDigital strongly recommends that before finalizing the draft revisions included in the Proposed Update, the Agencies scrutinize those revisions from the perspective of how they will be viewed and interpreted by overseas antitrust authorities.

In that regard, InterDigital provides below its comments and recommendations on certain aspects of the Proposed Update that it believes warrant revision by the Agencies.

II. Background on InterDigital

InterDigital, Inc., is a Pennsylvania corporation with headquarters in Wilmington, Delaware. It was founded in 1972 with the objective of developing new and innovative digital wireless technologies. It became a publicly traded company in 1981 and is now a significant

commercial research and engineering organization, with R&D labs in Pennsylvania, New York, California, Canada, United Kingdom, and South Korea. At the end of 2015, InterDigital, Inc. and its affiliates (collectively, "InterDigital") had approximately 330 employees. Nearly half of its employees are engineers, with most of its engineers holding advanced degrees, including more than 50 Ph.Ds. For over four decades, InterDigital has been a pioneer in mobile technology and a key contributor to global wireless standards. InterDigital does not manufacture devices; instead, it has chosen to focus on innovation through advanced research, often collaborating or partnering with other research-focused organizations on specific projects. InterDigital's R&D efforts have resulted in the company owning a portfolio of approximately 20,000 patents and patent applications, spanning some 50 jurisdictions, the vast majority of which were developed in house. Thousands of those patents and patent applications have been disclosed to standard-setting organizations ("SSOs") as potentially standard essential. In 2015, InterDigital's total revenues were $441.4 million, the primary source of which came from the royalties received from licensing its worldwide portfolio of patents covering technologies developed by the company's scientists and engineers.

InterDigital's innovation-centric business model has led the company to be an active participant in the development of some of the most important global technology standards, including standards that have enabled many of the most groundbreaking mobile phone developments. In order to develop those new and innovative technologies, InterDigital's engineers examine the challenges of current technologies and identify future issues that will require innovative solutions. Additionally, the company undertakes standards research at a more fundamental level than most manufacturers, partnering with many universities in research that is not directly product-oriented. This allows InterDigital to contribute to standardization by bridging academic and commercial approaches. SSOs have historically begun developing the next generation of wireless standards approximately seven to eight years prior to adoption, but InterDigital often has started working on developing the technologies relating to those standards several years before even the SSOs' work begins. InterDigital's constant commitment to innovation, and its particular focus on developing new and innovative standards, has benefitted markets, technology, and consumers around the globe.

III. Comments

1. The Proposed Update Should Include Discussion of *eBay*

The Agencies have indicated that the Proposed Update is intended "to modernize the IP Licensing Guidelines without changing the agencies' enforcement approach with respect to

intellectual property licensing" and that the IP Licensing Guidelines "should accurately reflect intervening changes in statutory and case law."[1] InterDigital supports both of those objectives.[2]

One of the most important developments in case law since the issuance of the IP Licensing Guidelines in 1995, and one with particular significance to the application of antitrust law to conduct involving IP licensing, is the U.S. Supreme Court's decision in *eBay, Inc. v. MercExchange, L.L.C.*[3] The Supreme Court held in that case that injunctive relief will not automatically be granted in patent infringement cases. Instead, the Court stated that "the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards."[4] The Court also held that "the creation of a right [to exclude] is distinct from the provision of remedies for violations of that right."[5]

This holding has important implications for the determination of whether a patent owner has market or monopoly power for purposes of antitrust law analysis. The IP Licensing Guidelines emphasize in several places that intellectual property law provides IPR owners with the right or power to exclude others.[6] Implicit in these statements is that the right to exclude is

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[1] Press Release, U.S. Dep't of Justice, FTC and DOJ Seek Views on Proposed Update of the Antitrust Guidelines for Licensing of Intellectual Property (Aug. 12, 2016), https://www.ftc.gov/news-events/press-releases/2016/08/ftc-doj-seek-views-proposed-update-antitrust-guidelines-licensing.

[2] In that regard, InterDigital is concerned that footnote 17's citation to the FTC's 2011 patent policy report, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition*, which contains a number of far-reaching and controversial policy proposals, is not consistent with these objectives. Therefore, we recommend that this citation to the 2011 Report be dropped in favor of one or more of the many authoritative sources that can be cited to support the proposition that licensing revenues can provide an incentive for investment in innovation.

[3] 547 U.S. 388 (2006).

[4] *Id.* at 394.

[5] *Id.* at 392.

[6] *See*, e.g., Proposed Update, *Antitrust Guidelines for the Licensing of Intellectual Property*, U.S. DEP'T OF JUSTICE 3 (Aug. 12, 2016), https://www.ftc.gov/system/files/documents/reports/antitrust-guidelines-licensing-intellectual-property-proposed-update-1995-guidelines-issued-us/ip_guidelines_published_proposed_update.pdf ("In the United States, patents confer rights to exclude others from making, using, or selling in the United States the invention

relevant to the question of whether a patent holder has market power or monopoly power as a result of its ownership of a patent. Although the Proposed Update continues to recognize that a patent does not necessarily confer market power on the patentee, the example used in making this fundamental point is that "there will often be sufficient actual or close substitutes for such product, process, or work to prevent the exercise of market power."[7] Nowhere is there an explicit recognition that, after *eBay*, the decision to grant or deny injunctive relief is an act of equitable discretion by the district court after applying the traditional four-factor test for granting an injunction. This means that the ability of a patent holder to exclude an infringer's products from the U.S. market is far from certain. When this new legal reality is combined with the existence of possible limitations on the ability of a patent holder to seek or maintain royalty rates at supra-competitive levels for a significant period of time,[8] it is apparent that the *eBay* decision is now a highly relevant, if not key, development that the Agencies need to consider in determining the existence of actual market or monopoly power by a patent owner.

Therefore, we recommend that some discussion of the Supreme Court's *eBay* decision, or at least a footnoted reference to that decision, be added to the Proposed Update. We suggest that this discussion be added to section 2.2 of the Proposed Update, or possibly added to the discussion of the power to exclude in footnote 12.

2. Technology Markets

The Proposed Update includes a new footnote 33, which purports to list cases in which U.S. courts have defined technology markets. However, the cases cited in new footnote 33 are not cases in which the court actually defined a technology market. In *Broadcom Corp. v. Qualcomm, Inc.* ("*Broadcom*"), *Apple, Inc. v. Samsung Electronics Co.* ("*Apple*"), and *In re Papst Licensing, GmbH Patent Litigation* ("*Papst*"), the courts merely held that the technology markets alleged by the plaintiff were sufficient to withstand a Motion to Dismiss. Those courts did not make any fact-findings or legal determinations that the alleged technology markets were actually the appropriate relevant markets for purposes of evaluating the plaintiff's antitrust claims. Similarly, in *Hynix Semiconductor Inc. v. Rambus Inc.*, Judge Whyte simply held that there were "genuine issues of material fact regarding the existence of the six alleged technology markets," and that therefore summary judgment was not appropriate. Judge Whyte did not determine that any of those

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claimed by the patent. . . . "Intellectual property law bestows on the owners of intellectual property certain rights to exclude others.") *Id.* at 6.

[7] *Id.*

[8] The IP Licensing Guidelines defines market power as "the ability to profitably to maintain prices above, or output below, competitive levels for a significant period of time." *Id.* at 7.

technology markets existed or constituted relevant markets for purposes of assessing Hynix's antitrust claims.

InterDigital also notes that the *Broadcom* and *Apple* decisions cited in new footnote 33 remain controversial, and the inclusion of a citation to those cases in the Proposed Update could be read as indicating support of those decisions by the Agencies.[9] Such a result would conflict with the Agencies' stated intention of not "expanding the IP Licensing Guidelines to address other topics and areas," in this case the issue of the applicability of the antitrust laws to alleged violations of FRAND commitments in the licensing of standard-essential patents.

Therefore, we recommend that the citations to at least the *Broadcom, Apple,* and *Papst* cases be deleted from the footnote. We recommend that the Agencies consider replacing those citations with some or all of the following decisions, where a technology market was actually defined:

a. *Digene Corp. v. Third Wave Technologies*, 536 F.Supp.2d 996, 1004 (W.D. Wis. 2008), (finding for purposes of a summary judgment motion on the Sherman Act §2 counterclaim that there was a technology market consisting of "both the technology claimed in plaintiff's . . . patent and any competitive alternative technologies that enable laboratories . . . to design or operate testing platforms for use with HPV reagents or detection systems that are sold in the United States").

b. Complaint at 684, *In re Montedison S.p.A.*, 119 F.T.C. 676 (1995) (No. C-3580), 1995 FTC LEXIS 140 (finding three technology markets that would be adversely affected by the reviewed joint venture transaction).

[9] *See, e.g.*, Rambus Inc. v. FTC, 522, F.3d 456, 466 (D.C. Cir. 2008) (holding that "to the extent that [*Broadcom*] may have rested on a supposition that there is a cognizable violation of the Sherman Act when a lawful monopolist's deceit has the effect of raising prices (without an effect on competitive structure), it conflicts with [the Supreme Court's decision in] NYNEX."); Alan Devlin, *Standard-Setting and the Failure of Price Competition*, 65 N.Y.U. ANN. SURV. AM. L. 217, 249, 251 (2009) (criticizing *Broadcom* for, *inter alia*, allowing antitrust claims based on violations of the reasonableness element of FRAND, thereby "creat[ing] a disincentive on the part of prospective licensors to join SSOs."). *See also,* Bruce H. Kobayashi & Joshua D. Wright, *Federalism, Substantive Preemption, and Limits on Antitrust: An Application to Patent Holdup*, 5 J. OF COMPETITION L. & ECON. 469, 472 (2009) (arguing that "the marginal benefit of antitrust enforcement in the patent holdup context is slight, and possibly negative if error and administrative costs are taken into account").

c. Opinion of the Commission, *In re Rambus, Inc.*, No. 9302, slip op. at 9-11, 72 n.394 (Aug. 20, 2006) (defining four relevant technology markets, and noting that respondent does not challenge Complaint Counsel's product market definitions).

3. Enforcement of Invalid IPRs

The Agencies have proposed to add the following language to the end of footnote 94 regarding the possibility that sham litigation to enforce IPRs may raise antitrust concerns:

> "The enforcement of invalid intellectual property rights is distinguishable from licensing agreements where royalties are to be paid after the term of a valid patent right expires. The latter agreements may have 'demonstrable efficiencies' that can be taken into account in an effects-based analysis."

InterDigital believes that the above-quoted language in footnote 94 should be clarified so that it cannot be read to imply that the filing of a patent infringement action that is not objectively baseless would be the basis for enforcement action by the Agencies under a sham litigation theory merely because the asserted patent is ultimately found by the court to be invalid.

Moreover, InterDigital is of the view that it is inappropriate to cite the Supreme Court's decision in *Kimble v. Marvel Entertainment*[10] as support for the above-quoted proposition, as *Kimble* was based on a strict reading of the statutory language of U.S. patent law, not on the Sherman Act. It is far from clear that the Supreme Court would have reached the same conclusion had the case before them been an antitrust case. In fact, the Supreme Court went out of its way to distinguish its ruling in this case from what it might have held had it been an antitrust case. ("If *Brulotte* were an antitrust rather than a patent case, we might answer both questions as Kimble would like. . . . But *Brulotte* is a patent rather than an antitrust case, and our answers to both questions instead go against Kimble.").[11]

Therefore, we recommend that the Agencies delete the reference to *Kimble* in this footnote, or at least make clear that *Kimble* was not an antitrust case.

[10] 135 S. Ct. 2401 (2015)

[11] *See id.* at 2412-13.

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IV. Conclusion

InterDigital greatly appreciates being provided the opportunity to submit comments on the Proposed Update to the IP Licensing Guidelines. If you have any questions about these comments, please contact me at Jannie.Lau@InterDigital.com, by telephone at (302) 281-3614, or by facsimile at (302) 281-3763.

Sincerely,

[REDACTED]

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General Counsel and Secretary