

Frandy fire

Axinn's **Thomas Hedemann, Paul Zeineddin, Ted Mathias** and **Gabriella McIntyre** discuss the year's significant US licensing and SEP verdicts



The US has seen several important decisions this year dealing with standard-essential patents (SEPs) and their fair, reasonable, and non-discriminatory (FRAND) licensing commitments. In *Federal Trade Commission (FTC) v Qualcomm Inc.*,¹ the US Court of Appeals for the Ninth Circuit reversed the district court's holding that Qualcomm's refusal to license rival chip makers was anticompetitive, suggesting that FRAND disputes should generally sound in patent or contract law rather than antitrust. Two other appellate decisions provided important guidance for the role of the jury in FRAND disputes, and an imminent third decision will likely do so as well.

FTC v Qualcomm

Qualcomm owns a portfolio of patents declared essential to practise 3G and 4G cellular standards. Qualcomm licenses its portfolio to hundreds of original equipment manufacturers (OEMs), such as cell phone makers, but not to rival chip makers.² This permits Qualcomm to set royalty rates as a percentage of the end-product sales price as opposed to the price of smaller components.³ Rather than license other chip makers, Qualcomm offers agreements promising "not to assert its patents in exchange for the [rival] company promising not to sell its chips to unlicensed OEMs".⁴ Qualcomm also employs a "no licence, no chips" policy, under which Qualcomm refuses to sell chips to OEMs that do not license its SEPs.⁵ These practices provided Qualcomm a very profitable licensing business and monopoly power in the Code-division multiple access (CDMA) and long-term evolution (LTE) modem chip markets from 2006 to 2016.⁶

In January 2017, the FTC brought an enforcement action against Qualcomm in the Northern District of California, alleging that Qualcomm's practices violated sections 1 and 2 of the Sherman Act by unreasonably restraining trade and unlawfully monopolising

the markets for cellular modem chips in the CDMA and LTE markets.⁷ Judge Koh agreed and issued a permanent, worldwide injunction prohibiting Qualcomm's licensing practices.⁸

On appeal, a three-judge Ninth Circuit panel vacated the judgment and reversed the injunction. Although it found that Qualcomm had engaged in "[h]yper-competitive behaviour... [and] exercised market dominance in the 3G and 4G cellular modem chip markets for many years," the panel concluded that Qualcomm's licensing practices were not anticompetitive.⁹ The panel found, and the FTC conceded, that Qualcomm had no antitrust duty to license its competitors under the narrow *Aspen Skiing*¹⁰ exceptions to the general rule that there is no antitrust duty to deal.¹¹ This is the first US appellate decision to address whether a patentee can choose where to license its SEPs in the supply chain.

The panel reasoned that Qualcomm's agreements not to sue competing chip makers "functionally act as de facto royalty-free licences", and that the FTC failed to show that the FRAND breach would harm competition itself as opposed to competitors.¹² The panel also found that the OEMs did not compete in the same market as Qualcomm, so Qualcomm's royalties were "chip-supplier neutral".¹³

Interestingly, the panel acknowledged "persuasive policy arguments" offered by *amici* that "expressed caution about using antitrust laws to remedy what are essentially contractual disputes between private parties engaged in the pursuit of technological innovation."¹⁴ Although *dicta*, this may signal a higher bar for antitrust claims based on FRAND breaches in the Ninth Circuit.

In late October, the appellate court denied FTC's *en banc* petition¹⁵ in a 3-2 vote, despite *amicus* support by numerous antitrust, intellectual property, and industrial organisation scholars who called the case "one of the most important antitrust cases in the twenty-first century".¹⁶ At the time of

this writing, the FTC has expressed no plans to petition the Supreme Court for review – the only remaining path to upend the decision.

Juries in FRAND disputes

The role of the jury was a recurring theme in FRAND disputes this year. Perhaps most significantly, the Supreme Court denied TCL's petition for *certiorari* in *TCL Communication v Ericsson*,¹⁷ leaving undisturbed the Federal Circuit's December 2019 holding that there is a right to a jury trial in FRAND cases involving rate-setting for past unlicensed sales.

The case commenced in 2014 when, after years of unsuccessful licensing negotiations and infringement suits filed by Ericsson in a half-dozen countries, TCL filed a complaint in the Central District of California seeking, among other things, a judicial determination of a FRAND rate for Ericsson's portfolio. After a bench trial, Judge Selna issued a 150-page opinion setting both a "release payment" for "TCL's past unlicensed sales and a prospective FRAND royalty rate going forward based on the release payment."¹⁸

Ericsson argued on appeal that the district court erred both in not holding a jury trial on the FRAND issues and in its rate-setting methodology. The Federal Circuit resolved the appeal on the jury question, holding that the relief awarded for TCL's past unlicensed sales was legal rather than equitable in nature. The court reasoned that, although ordered in the traditionally equitable form of an injunction, the FRAND rate for past sales was not "in substance materially different from damages for past patent infringement".¹⁹ In addition to vacating the district court's release payment determination, the Federal Circuit also vacated the determination regarding prospective FRAND rates because it was predicated on issues common to the release payment for past sales. Because the Supreme Court denied *certiorari*, the Federal Circuit's decision is now the standard for the foreseeable future: parties will be entitled to demand that a jury determine

a FRAND rate in cases involving past sales.

In *Godo Kaisha IP Bridge 1 v TCL Commc'n Tech Holdings Ltd*,²⁰ the Federal Circuit clarified that "essentiality" presents a question of fact for the jury. Godo sued TCL in the District of Delaware alleging infringement of two patents relating to LTE standards.²¹ At trial, Godo submitted evidence to the jury that (1) the asserted claims were essential to mandatory sections of the operative LTE standard, and (2) the accused products complied with the LTE standard.²² Consistent with past precedent, the District of Delaware "endorsed standard compliance as a way of proving infringement".²³ In other words, if the patent owner can prove that the standard necessitates practice of its patent, then it necessarily follows that a device that complies with that standard infringes the patent. This requires a threshold determination that the patent is essential, a question the district court gave to the jury. The jury ultimately found TCL liable for infringement and awarded damages.²⁴

On appeal to the Federal Circuit, TCL argued that infringement under this theory requires the judge, not the jury, "to make a threshold determination during claim construction that all implementations of a standard infringe the claims".²⁵ TCL based its argument on one sentence in the Federal Circuit's *Fujitsu v Netgear*²⁶ decision: "if a district court construes the claims and finds that the reach of the claims includes any device that practices a standard, then this can be sufficient for a finding of infringement."²⁷ The panel rejected TCL's argument as a misreading of *Fujitsu* and affirmed the district court's jury instruction and verdict. It is now clear that, when disputed, the jury must decide the issue of essentiality.

The last case of note is *HTC Corp v Telefonaktiebolaget LM Ericsson*,²⁸ which is currently on appeal to the Fifth Circuit, and a decision is expected soon. The issue on appeal is whether a jury deciding FRAND breach issues should be instructed on apportionment – a concept under US patent damages law wherein the fact finder must apportion the defendant's profits and the patentee's damages between patented and unpatented features²⁹ – and the non-discrimination element of FRAND.

The case commenced in 2017 when HTC alleging that Ericsson breached its FRAND commitment and asked the court to set the FRAND rate. Among other things, the parties disputed whether a FRAND rate should be calculated based on the price of the end devices or based on the value of the "smallest saleable patent practicing unit" (SSPPU). At trial, HTC proposed jury instructions that explained apportionment and that terms would be deemed discriminatory if they create a "competitive disadvantage" for one licensee

over another. Judge Gilstrap rejected HTC's proposal and instructed instead that "there is no fixed or required methodology for setting or calculating the terms of a FRAND licence."³⁰

The jury concluded that Ericsson's offers to HTC were FRAND, and Judge Gilstrap affirmed "based on the whole of Ericsson's submitted comparable licences".³¹

HTC appealed to the Fifth Circuit, arguing that the jury should have received more comprehensive instructions regarding apportionment, as well as guidance as to how much disparity between comparative licences is permissible under a FRAND framework. Ericsson countered on the procedural ground that HTC waived any challenge to the jury instructions. Ericsson further advanced that ETSI, the standard setting body, deliberately left "FRAND" undefined and that the determination of FRAND rates should not be restricted to US patent damages law, which requires apportionment. As to the non-discrimination instruction, Ericsson argued that HTC "would turn FRAND into a most-favoured-licensee clause".³²

In keeping with its increased focus on FRAND issues over the past four years, the Department of Justice filed a joint *amicus* brief with the US Patent and Trademark Office (USPTO).³³ Although its brief is not submitted in support of either party, the Department of Justice and USPTO have opposed HTC's positions and argued that imposing SSPPU and non-discrimination requirements on FRAND deliberations is not required by patent damages law or contract law, and would make commercial negotiations more difficult and stifle innovation.³⁴

The Fifth Circuit is expected to issue a ruling soon.

Footnotes

- 969 F.3d 974 (9th Cir 2020).
- Id at 984.
- Id.
- Id at 984-85.
- Id at 985.
- Id at 983-84.
- Id at 986.
- Id.
- Id at 1005.
- Aspen Skiing Co v Aspen Highlands Skiing Corp*, 472 US 585 (1985).
- Qualcomm, 969 F.3d at 994-95.
- Id at 996.
- Id at 995-96.
- Id at 997.
- Order denying rehearing *en banc*, *FTC v Qualcomm Inc*, No. 19-16122 (9th Cir 28 Oct 2020).
- Amicus curiae* br of law and economics scholars in support of petition for rehearing *en banc* at 2.

17. *TCL Commc'n Tech Holdings Ltd v Telefonaktiebolaget LM Ericsson*, 943 F.3d 1360 (Fed Cir 2019), cert denied, No. 19-1269 (29 Sept 2020).

18. Id at 4.

19. Id at 24.

20. 967 F.3d 1380 (Fed Cir 2020).

21. Id at 1381.

22. Id at 1381-82.

23. Id at 1383.

24. See *Godo Kaisha IP Bridge 1 v TCL Commc'n Tech Holdings Lt*, No CV 15-634-JFB, 2019 WL 1877189, at *7 (D Del 26 Apr 2019), aff'd, 967 F.3d 1380 (Fed Cir 2020).

25. *Godo Kaisha IP Bridge 1*, 967 F.3d at 1383 (emphasis original).

26. *Fujitsu Ltd v Netgear Inc*, 620 F.3d 1321 (Fed Cir 2010).

27. *Godo Kaisha IP Bridge 1*, 967 F.3d at 1384-85 (quoting *Fujitsu*, 620 F.3d at 1327).

28. Docket No 19-40566 (5th Cir 2019).

29. See, eg, *Ericsson, Inc v D-Link Sys, Inc*, 773 F.3d 1201, 1226 (Fed Cir 2014)

30. *Amicus curiae* br of DoJ/USPTO at 10 (quoting jury instructions below).

31. Id at 640.

32. Appellee br. 20-22.

33. *Amicus curiae* br of DoJ/USPTO at 2.

34. *Amicus curiae* br of DoJ/USPTO at 16-17.

Authors



Thomas Hedemann (top left) is counsel in Axinn's Hartford office, where he focuses his practice on IP litigation.

Paul Zeineddin (top right) is an IP partner in Axinn's Washington, DC office. He has negotiated, litigated, and arbitrated the FRAND aspects of large SEP portfolios.

Ted Mathias is an IP partner in Axinn's Hartford office, where he focuses on trying patent cases.

Gabriella McIntyre is an associate in the IP group in Axinn's Washington, DC office. Her practice focuses on patent litigation.