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**Submission of Qualcomm Incorporated in Response to the Commission’s Request for Written Submissions in *Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745.**

Dear Secretary Barton:

Qualcomm Incorporated respectfully submits these comments in response to the Notice of Commission Decision to Review in Part a Final Initial Determination Finding a Violation of Section 337; Request for Written Submissions issued by the United States International Trade Commission in the matter of *Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745, on June 25, 2012 (the “Commission Request”).

I. STATEMENT OF INTEREST.

Qualcomm is one of the world’s leading technology development and licensing companies whose foremost commitment is to innovation. Understanding that research and development is the lifeblood of innovation, Qualcomm invests enormous amounts in developing new technologies, in particular cellular communications technologies: \$3 billion in 2011, rising from \$2.5 billion the year before. Qualcomm holds a significant patent portfolio licensed worldwide to more than 200 licensees for 3G cellular devices. Qualcomm is also a leading supplier of chipsets for, among other things, cellular devices, for which it licenses technology from other patent holders. Because industry standards are prevalent for cellular devices and infrastructure equipment as well as other communications products, Qualcomm is a very active and longstanding participant in numerous Standard Setting Organizations (“SSOs”).

Qualcomm’s dual technology licensing and chipset supply business model situates it at the intersection of the licensor/implementer tension. As a technology licensor *and* a supplier of chipsets for incorporation into equipment that implements standardized technologies, Qualcomm’s business success depends on access to others’ patents for such equipment and the ability to monetize (and if necessary enforce) its own patents—including standards-essential patents<sup>1</sup> (“SEPs”) and other non-standards-essential patents. Over the years, Qualcomm has participated in ITC investigations as both a petitioner and a respondent and has developed a significant understanding and appreciation of the Commission’s role in the adjudication of intellectual property rights. Qualcomm is therefore well placed to answer the Commission’s questions about whether a patent holder’s undertaking that it is prepared to grant licenses on

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<sup>1</sup> While this submission refers to SEPs, we note that the FRAND undertaking requested in the ETSI IPR Policy relates to “ESSENTIAL IPRs”—*i.e.*, IPR(s) “to the extent that the IPR(s) are or become, and remain ESSENTIAL to practice” the standard. See ETSI Rules of Procedure, 30 November 2011 [hereinafter ETSI IPR Policy], available at <http://www.etsi.org/website/aboutetsi/iprsinetsi/iprsinetsi.aspx> Annex 6 - Appendix A: IPR Licensing Declaration forms.



Fair, Reasonable and Non-Discriminatory (FRAND)<sup>2</sup> terms engages the public interest exception to the availability of an exclusion order under Section 337 of the Tariff Act.<sup>3</sup>

II. A FRAND COMMITMENT CREATES A CONTRACTUAL OBLIGATION AND THUS ITS MEANING DEPENDS ON THE SPECIFIC POLICY OF THE STANDARDS SETTING ORGANIZATION.

A. A FRAND Commitment Is a Contractual Obligation.

Fundamentally, all of the Commission Request's questions 7-13 concern how the existence of a FRAND commitment interacts with the Commission's statutory mandate to issue an exclusion order against infringing, unlicensed, products subject to the Section 337 public interest considerations.<sup>4</sup> The starting point is to recognize a FRAND commitment for what it is: an enforceable contract, rather than a creation of statute, economic theory, or abstract public policy. No law defines, requires, or imposes a FRAND undertaking on a patentee. Instead, when a patentee voluntarily makes a FRAND commitment, it is entering into an agreement with the SSO to which implementers of the standard are third-party beneficiaries.<sup>5</sup> Courts across this country have recognized the contractual nature of a FRAND commitment,<sup>6</sup> and have rightly indicated that they will enforce a patentee's voluntary FRAND undertaking.

B. The Meaning of a FRAND Commitment Is Found in the Intent of the Parties.

Because a FRAND commitment is a creature of contract, its content—like that of any contract—must be found in the intention and understanding of the parties who formed the contract at the time such contract was formed. Thus, in any analysis of the meaning of a FRAND commitment, one must look at the written agreements, policies, and procedures of the relevant SSO at the time the particular FRAND commitment was made.<sup>7</sup> Many SSO licensing

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<sup>2</sup> Because the ETSI IPR policy uses the term “fair, reasonable, and non-discriminatory”, we use the term FRAND undertaking or FRAND commitment in this submission with reference to the ETSI policy and undertakings made to ETSI. Other IPR Policies such as those of the ITU and IEEE call for undertakings on RAND terms, and FRAND/RAND are commonly used interchangeably.

<sup>3</sup> 19 U.S.C. § 1337(d)(1).

<sup>4</sup> *See id.*

<sup>5</sup> *See Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2012 WL 2030098, at \*6 (W.D. Wash. June 6, 2012) (“Additionally, the court reaffirms its prior decision that Microsoft, as a potential user of the 802.11 Standard and the H.264 Standard, is a third-party beneficiary to the agreements between Motorola and the IEEE and Motorola and the ITU.”).

<sup>6</sup> *See, e.g., Research in Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 797 (N.D. Tex. 2008); *Ericsson Inc. v. Samsung Elecs. Co.*, No. 2:06-CV-63, 2007 WL 1202728, at \*3 (E.D. Tex. Apr. 20, 2007).

<sup>7</sup> Similarly, in the context of interpreting the meaning of SSO disclosure obligations, Administrative Law Judge Pender was precisely correct when he wrote that “the *sine qua non* for . . . any analysis for unclean hands, as it would pertain to this case, are the written ETSI agreements, directives, policies, procedures, etc., establishing Motorola's duty or obligation of disclosure . . .”. *Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745, Initial Determination on



policies provide a FRAND licensing framework. While many SSOs have developed comparable FRAND-based IPR policies,<sup>8</sup> FRAND commitments do vary between different SSOs—and over time within an individual SSO<sup>9</sup>—as the IPR policies of SSOs evolve.

As a result, to the extent the Commission’s questions could be read as suggesting that there is necessarily *one* universal answer to whether a FRAND commitment does or does not preclude an exclusion order—regardless of to which SSO and under which policies that commitment was given—we assume that this suggestion was not intended, as it would be inconsistent with the purely contractual nature of FRAND commitments.<sup>10</sup> Thus, the starting point of the Commission’s inquiry should be the text of the applicable SSO IPR Policy and, if necessary, its negotiation history and evolution, to determine what the patent holder understood it was agreeing to when making its FRAND commitment. In the case presently before the Commission, that means carefully analyzing the IPR Policy of ETSI at the time the relevant FRAND commitment was made.<sup>11</sup>

Interpreting the FRAND commitment on a case-by-case basis to give effect to the parties’ intent in making and accepting the FRAND commitment ensures that the consequences of participating in standardization, and entering into contractual agreements with respect to valuable intellectual property rights, remain stable and afford fundamental fairness to contributors of technology. Such stability encourages participation in standardization by all

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Violation of Section 337 and Recommended Determination on Remedy and Bond at 148 (Apr. 24, 2012) [hereinafter “Initial Determination”].

<sup>8</sup> For instance, we are not aware of any SSO IPR policy that includes a blanket exclusion of injunctive or similar relief for patents subject to a FRAND commitment.

<sup>9</sup> For example, § 6.1 of the ETSI IPR Policy provides:

“When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions under such IPR . . .”

The word “irrevocable” preceding “undertaking” was added by consensus in 2008 to clarify that the FRAND undertaking is irrevocable once made. To be clear, such amendments to an SSO policy cannot retroactively impact existing FRAND commitments, which continue to be governed by the policy in place at the time of the undertaking.

<sup>10</sup> See Roger G. Brooks and Damien Geradin, *Taking Contracts Seriously: The Meaning of the Voluntary Commitment to License Essential Patents on ‘Fair and Reasonable’ Terms* in INTELLECTUAL PROPERTY AND COMPETITION LAW 392-394 (Steven Anderman and Ariel Ezrachi eds., Oxford University Press, 2011) [hereinafter Brooks & Geradin OUP], also available at <http://ssrn.com/abstract=1569498>.

<sup>11</sup> The Initial Determination also concluded that Apple infringes U.S. Patent No. 5,636,223 (the “223 Patent”) (*id.* at 68), which is essential to the Institute of Electrical and Electronic Engineers (“IEEE”) 802.11 (“WLAN”) standard promulgated by the IEEE and subject to a RAND commitment made to that SSO. See *Microsoft Corp. v. Motorola, Inc.*, No. 10-CV-1823, 2012 WL 2030098, at \*2 (W.D. Wash. June 6, 2012). The meaning of that RAND commitment and whether it alters the Commission’s authority to issue an exclusion order should be analyzed by reference to the text and negotiating history of the applicable IEEE IPR Policy. In this submission, however, Qualcomm focuses on the meaning of a FRAND commitment to ETSI, under the current ETSI IPR policy.

interested parties, regardless of their business model. SSOs facilitate private coordination in the marketplace by bringing together participants with varying interests—chiefly innovators and implementers.<sup>12</sup> SSOs are able to function so long as they adopt rules that make acceptable tradeoffs between the competing interests of their members and do not undermine the ability to attract broad membership.<sup>13</sup> One such tradeoff has been the adoption of flexible but binding FRAND-based IPR policies—and real world experience shows that this has been key in enabling many SSOs to make standardized technology available for implementers to successfully bring to market.<sup>14</sup>

### III. MOTOROLA’S FRAND COMMITMENT TO ETSI DOES NOT CATEGORICALLY PRECLUDE THE ISSUANCE OF AN EXCLUSION ORDER.

The Initial Determination concluded that certain Apple products infringe U.S. Patent No. 6,246,697 (the “’697 Patent”) held by Motorola.<sup>15</sup> The ’697 Patent was found to be essential to practicing the UMTS cellular communications standard promulgated by ETSI.<sup>16</sup> Motorola made a FRAND undertaking to ETSI, and whether this undertaking affects the availability of an exclusion order turns on the text and history of the ETSI IPR policy.

#### A. Under the ETSI IPR Policy, a FRAND Commitment Does Not Waive the Right to Seek an Exclusion Order Against Unlicensed Infringers.

The historical and documentary record of the ETSI IPR policy has previously been investigated in detail, and is well documented.<sup>17</sup> The evidence is decisive that the ETSI membership expressly did not agree—and that ETSI members making FRAND commitments are not asked to and do not agree—to a categorical waiver of injunctive relief.<sup>18</sup>

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<sup>12</sup> See Richard A. Epstein, F. Scott Kieff & Daniel E. Spulber, *The FTC, IP, and SSOs: Government Hold-Up Replacing Private Coordination*, 8 J. COMPETITION L. & ECON. 1 (2012) 10-13.

<sup>13</sup> See *id.*

<sup>14</sup> See generally Keith Mallinson, WiseHarbor, *A Compendium of Industry and Market Analysis Articles on Intellectual Property in Mobile Communications Standards*, (June 12, 2011) available at <http://www.ftc.gov/os/comments/patentstandardsworkshop/00007-60459.pdf>; Roger G. Brooks, *Patent “Hold-Up,” Standards-Setting Organizations, and the FTC’s Campaign Against Innovators*, 39 AIPLA Q.J. 435, 456-62 (2011).

<sup>15</sup> *Certain Wireless Communication Devices*, Initial Determination at 117.

<sup>16</sup> *Id.* at 118-19.

<sup>17</sup> See Brooks & Geradin OUP; Roger G. Brooks & Damien Geradin, *Interpreting and Enforcing the Voluntary FRAND Commitment*, 9 INT’L J. OF IT STANDARDS AND STANDARDIZATION, Jan.-June 2011 at 12, also available at <http://ssrn.com/abstract=1645878>.

<sup>18</sup> While the ETSI history on this topic primarily pertains to the availability of injunctive relief, it applies equally to exclusion orders and cease and desist orders, which are remedies available from the ITC analogous to injunctive relief. For the sake of convenience, this discussion focuses on exclusion orders, but the comments apply to ITC cease and desist orders as well.

*First*, the language of the ETSI IPR policy itself is utterly *silent* on the question of injunctive relief in any form (including exclusion orders). Thus any contention that the right to an injunction has been waived by an IPR holder making a FRAND commitment to ETSI would have to be by implication or inference, an inference strongly disfavored by law.<sup>19</sup>

*Second*, no implication or inference that the right to an injunction has been waived is possible with respect to the ETSI IPR policy. Language whereby a patentee making a FRAND commitment would have waived all right to injunction was debated and briefly included in an IPR policy adopted in 1993.<sup>20</sup> However, when the current policy was adopted in 1994, that provision was *removed*.<sup>21</sup> The *only* permissible inference from this sequence is that the ETSI membership turned their minds to the question of waiver of injunction and affirmatively decided to *exclude* any such waiver from the content of the FRAND commitment.<sup>22</sup>

B. The Public Interest Requires the Continued Possibility of Exclusion Orders Where the Patent-Holder Has Complied with Its FRAND Undertaking.

While the contractual analysis should govern, we also point out that a blanket rule eliminating the availability of exclusion orders against unlicensed infringers of patents subject to a FRAND commitment would be contrary to the public interest.

*First*, in circumstances where, for example, a patentee has offered to grant a license on FRAND terms and has attempted in good faith to further negotiate such terms with the infringer, but the infringer rejects such terms, a blanket rule eliminating an exclusion order as a remedy would punish the patentee by depriving it of the statutory remedy to which it is entitled upon a showing of infringement of a valid patent, and weaken its legitimate rights in its patent portfolio. This would undermine the public interest of a strong patent system to encourage innovation and investment-based risk<sup>23</sup> and would severely and inappropriately penalize the giving of FRAND commitments and thus impair the ability of standards bodies to encourage participation. If fundamental patent rights are swept away, without regard for the desires or intent of the SSO members, innovators and contributors to the standardization process of

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<sup>19</sup> See *Groves v. Prickett*, 420 F.2d 1119, 1125-26 (9th Cir. 1970) (“As minimum requirements to constitute an ‘implied waiver’ of substantial rights, the conduct relied upon must be clear, decisive and unequivocal of a purpose to waive the legal rights involved.”).

<sup>20</sup> See, e.g., Brooks & Geradin OUP at 406-07.

<sup>21</sup> *Id.*

<sup>22</sup> The recent district court decision in *Apple Inc., v. Motorola, Inc.*, No. 11-CV-08540, 2012 WL 2376664, at \*12-22 (N.D. Ill. June 22, 2012) (Posner J.) neither refers to nor takes into account this history, and therefore is at best questionable authority about whether a FRAND undertaking pursuant to the ETSI IPR policy precludes the availability of injunctive relief.

<sup>23</sup> See *Sanofi-Synthelabo v. Apotex, Inc.*, 470 F.3d 1368, 1383 (Fed. Cir. 2006); accord *Celsis In Vitro, Inc. v. CellzDirect, Inc.*, 664 F.3d 922, 931 (Fed. Cir. 2012) (“We have long acknowledged the importance of the patent system in encouraging innovation”) (internal quotations marks omitted); *Abbott Laboratories v. Andrx Pharmaceuticals, Inc.*, 452 F.3d 1331, 1348 (Fed. Cir. 2006) (“the public is best served by patents that are likely valid and infringed”).



valuable technology protected by intellectual property rights would be incentivized to either decline to participate in SSOs or decline to make FRAND commitments.

*Second*, even when the production of like or competitive articles in the United States is available—*e.g.*, based on alternative standards or different standards implementations—a blanket rule precluding exclusion orders in relation to SEPs subject to FRAND commitments would strip the Commission of its ability to address infringing conduct, and thus further incentivize and reward such conduct. The ironic outcome of such a rule would be that the ITC, which is recognized as one of the most efficient, timely, and effective venues in the United States for enforcing patent rights, would be divested of the ability to enforce patents that are often the most valuable and fundamental to a given technology or industry. Such a blanket rule outcome is neither desirable from a policy perspective nor appropriate—at least in respect of a FRAND commitment made to ETSI and many other SSOs—from a contractual perspective.

#### IV. FAILURE TO OFFER FRAND TERMS TO AN IMPLEMENTER WILLING TO NEGOTIATE IN GOOD FAITH MAY PRECLUDE THE PATENT HOLDER FROM OBTAINING AN EXCLUSION ORDER.

While it is correct that an ETSI FRAND commitment (or a RAND commitment pursuant to the IPR policy of another SSO) does not waive or exclude injunctive relief against an unlicensed infringer, it is also well recognized that a court, after considering all the relevant evidence, may decline to issue an injunction when the infringer would in fact be licensed *but for* the failure of the patentee to comply with its FRAND commitment. This results from the doctrine of estoppel within the Common Law context,<sup>24</sup> and the same result is reached under different doctrinal names in Civil Law countries.<sup>25</sup>

A similar result seems appropriate, important, and achievable by the Commission within the statutory framework of the Tariff Act. ETSI's purpose in requesting a FRAND commitment is twofold: (i) to reduce the risk that patents essential to practicing the standard are unavailable, and (ii) to make certain that patent holders are fairly and adequately rewarded for the use of their patents.<sup>26</sup> Given the clear intent and the voluntary nature of the FRAND commitment, the ITC is entitled to conclude after reviewing the relevant evidence in a particular case that the public interest would be damaged by entering an exclusion order against a party that would be licensed if the patentee had complied with its obligations. Indeed, it could be disruptive of standardized industries and the public interest if parties were able to (a) make FRAND commitments for their patented technologies to be included in a standard; (b) in breach of their FRAND commitments, refuse to license those patents on FRAND terms to an implementer willing to negotiate and enter into a license in good faith; and (c) nevertheless obtain exclusion orders from the Commission against the standard-practicing products of those manufacturers.

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<sup>24</sup> See *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020 (Fed. Cir. 1992).

<sup>25</sup> See *Samsung v. Apple* (Dist. Ct. The Hague, decision dated Oct. 14, 2011).

<sup>26</sup> ETSI IPR Policy §§ 3.1-3.2.

Not surprisingly, at least one Administrative Law Judge has accepted the fundamental premise that an equitable FRAND defense may be invoked by an accused infringer in Commission proceedings—just as it can in a federal court.<sup>27</sup> And, this conclusion is correct. The availability of a FRAND defense is a question that a respondent may raise in any investigation in which an essential patent has been asserted. That defense should be evaluated in accordance with the specific, contractual FRAND-based policy agreed to by the members of the relevant SSO.

V. HOW SHOULD THE COMMISSION EVALUATE A “VIOLATION OF FRAND” DEFENSE?

Some have raised the question of whether the ITC—in both the proceedings before the Administrative Law Judge and in Commission review—is competent to adjudicate affirmative defenses alleging failure to comply with FRAND commitments, and if so *how* it should go about doing so. The ITC is fully competent to determine these issues and, not remarkably, the process is consistent with the determination of other affirmative defenses, particularly contract-based defenses.

A. The Commission Is Competent to Adjudicate “Violation of FRAND” Affirmative Defenses.

In adjudicating a FRAND defense the tribunal will be required to determine whether the patentee’s FRAND commitment has been met. This may not be a simple inquiry, but it is one courts can and do conduct,<sup>28</sup> and that the Commission and its ALJs are equally equipped to conduct. Proceedings before the ALJ involve court-like procedures, including document and testimonial discovery, evidentiary hearings, expert evidence, oral argument, and written submissions—the very same tools a court would employ to decide the same issue. And because the ALJ’s Initial Determination can be reviewed by the Commission, there is the functional equivalent of an “appeal”. In short, there is *no* structural barrier to the ITC considering a FRAND defense, and as noted above, refusing to do so could be seriously prejudicial to both justice and the public interest.

B. FRAND Allows for a Range of Possible Outcomes.

It is notable and important that the terms “fair” and “reasonable” are on their face broad and permissive words. The question raised by a FRAND defense is not “What is the theoretically correct royalty rate and has the patentee offered that rate?”, but “Has the infringer met its affirmative burden of proof to show that the terms offered fall outside the range that can be considered ‘fair and reasonable’.”<sup>29</sup>

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<sup>27</sup> See *Certain Wireless Communications Equipment, Articles Therein, and Products Containing the Same*, Inv. No. 337-TA-577, Order No. 21, 2007 WL 1221125, at \*4 (Feb. 22, 2007) (denying summary judgment on Ericsson’s equitable FRAND defense because “there are material issues of fact as to” detrimental reliance).

<sup>28</sup> Brooks & Geradin OUP at 401-03.

<sup>29</sup> *Id.*

As when assessing reasonable royalty damages for patent infringement, the inquiry into what is fair and reasonable will be factually laden and heavily informed by evidence of real-world market and industry practice, terms agreed to by others to license the patents in question, and of the actual negotiations between the parties.<sup>30</sup> But while a jury awarding royalty-based damages must necessarily pick a specific number in arriving at a damages verdict, courts considering the “reasonableness” of such an award on appeal recognize that “reasonableness” can encompass a substantial range of results, and do not lightly find an award “unreasonable”.<sup>31</sup> It is this cautious appellate review standard that is most closely analogous to the task facing an ALJ or the Commission when asked to hold that terms offered by a patentee are not “fair and reasonable”.

This flexible “range of reasonableness” understanding of FRAND finds support in the history of the ETSI IPR policy and its twin objectives: reducing the risk that SEPs are unavailable<sup>32</sup> while also ensuring that “IPR holders . . . [are] adequately and fairly rewarded for the use of their IPRs”.<sup>33</sup> It is clear from the ETSI IPR policy negotiating history that the ETSI membership *never* intended to reduce the meaning of FRAND to a single or mathematical benchmark. On the contrary, the consensus of ETSI members has consistently resisted and rejected efforts to define FRAND in a manner that might upset the balance that was struck in the 1994 policy text.<sup>34</sup> Thus, post-1994 proposals that would have defined with any greater precision what is FRAND (most of which were directed at advancing a particular commercial interest) have never been accepted by ETSI, nor have efforts to have ETSI identify specific examples of “bad practices” that would be deemed non-FRAND.<sup>35</sup>

C. Objective Market Facts Can and Should Inform the Question of What Is “Fair and Reasonable”.

In light of the intentionally flexible nature of FRAND, the Commission should follow the lead of courts and give substantial deference to the judgment of those who actually participate in the relevant market, by giving strong weight to evidence concerning terms accepted in the market.<sup>36</sup> In particular, evidence that offered terms resemble terms widely accepted in the marketplace for the particular patents in issue should be weighty evidence that

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<sup>30</sup> *Id.* at 396; *see also Microsoft*, 2012 WL 2030098, at \*12 (rejecting a motion for summary judgment that terms offered were not RAND because “Such a finding is heavily fact intensive” and acknowledging expert testimony that “RAND does not dictate specific licensing terms, but provides flexibility with respect to specific deals”).

<sup>31</sup> Brooks & Geradin OUP at 401-02.

<sup>32</sup> ETSI IPR Policy § 3.1.

<sup>33</sup> *Id.* § 3.2 (emphasis in original).

<sup>34</sup> Brooks & Geradin OUP at 399.

<sup>35</sup> *See id.* at 400.

<sup>36</sup> *See, e.g., Georgia-Pacific Corp., v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

those terms are not “unreasonable”.<sup>37</sup> Wide acceptance by those most knowledgeable about the industry and best positioned to evaluate the patent or patents is both directly probative of reasonableness, and also indicates that the offered terms satisfy the “availability” objective of the ETSI IPR policy (*see* § V.B, *supra*). Similarly, evidence that competitors that have accepted licenses on terms similar to those offered and have achieved success in the market should weigh against a finding that the offered terms are “unreasonable”.<sup>38</sup>

D. The Commission Can Also Consider Evidence of Subjective Good or Bad Faith.

The ETSI FRAND undertaking reflects the patentee’s agreement that it is prepared to grant licenses on fair, reasonable and non-discriminatory terms and conditions to interested standards-implementers, with the terms of such licenses to be negotiated by the parties in good faith. As such, a FRAND undertaking gives rise to what the law recognizes as a binding preliminary agreement that contemplates the typically bilateral negotiation of a later agreement to achieve the ultimate contractual objective of the parties.<sup>39</sup> In the context of a FRAND undertaking, the standards-implementer has the knowledge and expectation that it will negotiate the ultimate terms of the license directly with the patentee, knowing that the FRAND undertaking itself is not a license and that its use of a SEP absent a license will be infringing. As a matter of contract law, each party is obligated to negotiate in good faith to achieve the ultimate contractual objective—*e.g.*, a FRAND license.<sup>40</sup> Not surprisingly, the law of contracts recognizes that a breach of this obligation can be by either party, and that failure to reach agreement does not imply that *either* party has acted in bad faith.<sup>41</sup>

The question of “bad faith” is necessarily a fact-intensive inquiry,<sup>42</sup> but it is an inquiry that can be guided by ample precedent. Courts have defined good faith generally, and

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<sup>37</sup> Similarly, courts have noted that evidence of royalties agreed to by others for the particular patent in suit is particularly probative of the “reasonable royalty”. *See Atlantic Thermoplastics Co. v. Faytex Corp.*, 5 F.3d 1477, 1482 (Fed. Cir. 1993) (relying on royalty offered by the patentee to a third party to support a reasonable royalty determination); *see also Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1110 (Fed. Cir. 1996) (“This rate is supported by evidence that Maxwell entered into agreements with other licensees at a royalty rate of \$.10 per pair of shoes.”).

<sup>38</sup> *See* note 37, *supra*.

<sup>39</sup> *See, e.g., IDT Corp. v. Tyco Group, S.A.R.L.*, 13 N.Y.3d 209, 213 n.2, 918 N.E.2d 913, 913 n.2 (2009).

<sup>40</sup> *See, e.g., Microsoft*, 2012 WL 2030098, at \*12 (holding that under Washington law, negotiation of RAND license “must comport with implied duty of good faith and fair dealing inherent in every contract”); *EQT Infrastructure Ltd. v. Smith*, No. 11–CV–0462, 2012 WL 933087, at \*4 (S.D.N.Y. Mar. 20, 2012) (under New York law, binding preliminary agreements “do not commit the parties to their ultimate contractual objective but rather to the obligation to negotiate the open issues in good faith in an attempt to reach the objective within the agreed framework”), quoting *Brown v. Cara*, 420 F.3d 148, 153 (2d Cir. 2005); *Gillenardo v. Connor Broad. Delaware Co.*, No. C.A. 98C-06-015 WLW, 2002 WL 991110, at \*6 (Del. Sup. Ct. Apr. 30, 2002) (applying Delaware law, evidence held to establish an enforceable contract requiring parties to negotiate ultimate terms in good faith).

<sup>41</sup> *Atl. Track & Turnout Co., v. Perini Corp.*, 989 F.2d 541, 545 (1st Cir. 1993) (“That the MBTA and Perini failed to reach an acceptable agreement does not show that the attempted negotiations were in bad faith.”).

<sup>42</sup> *See RGC Int’l Investors, LDC v. Greka Energy Corp.*, No. 01-CV17674, 2001 WL 984689, at \*11 (Del. Ch. Aug. 22, 2001) (“a finding of ‘bad faith’ is necessarily a fact-intensive inquiry.”).

then have evaluated the parties' conduct to determine if they have acted in bad faith,<sup>43</sup> and have, for example, held a defendant to have engaged in "bad faith" when it stopped negotiating in anger in light of the plaintiff's proposal, which was considered unsatisfactory, and made no attempt in good faith to finalize the ultimate agreement.<sup>44</sup>

Most recently, Judge Robart in the Western District of Washington denied Microsoft's motion seeking summary judgment in which Microsoft claimed that Motorola's initial royalty demand was "blatantly unreasonable," and therefore contrary to Motorola's obligation to negotiate in good faith.<sup>45</sup> In so holding, Judge Robart considered Motorola's offer of numerous licensing agreements suggesting that it had received comparable royalty rates to those offered to Microsoft in relation to its SEPs, and concluded that "with respect to any RAND obligations Motorola has with respect to Microsoft . . . the court must engage in a factual comparison between the circumstances of each prior agreement and the circumstances that exist between the parties to this litigation".<sup>46</sup>

In sum, a FRAND undertaking, when considered under established contract law, gives rise to an obligation for both a patentee and a standards-implementer to negotiate the ultimate license terms in good faith. Whether such obligations are met by the parties is a fact-based inquiry that the Commission and its Administrative Law Judges are as equipped to undertake as are Article III courts.

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<sup>43</sup> *Gillenardo*, 2002 WL 991110, at \*8 ("Good faith" means "refraining from arbitrary or unreasonable conduct which has the effect of preventing the other party to the contract from receiving the fruits of the contract", while "bad faith" "implies the conscious doing of a wrong because of dishonest purpose or moral obliquity; it is different from the negative idea of negligence in that it contemplates a state of mind affirmatively operating with furtive design or ill will.").

<sup>44</sup> *See id.*; *see also RGC Int'l Investors*, 2001 WL 984689, at \*8-10 (defendant held to have breached its duty to negotiate in good faith by engaging in the bad faith acts of attempting to renegotiate previously agreed issues and ignoring the obligation to reach an expedited final agreement, including by engaging in conduct designed to force the plaintiff to resort to litigation for the purpose of causing unreasonable delay).

<sup>45</sup> *Microsoft*, 2012 WL 2030098, at \*10.

<sup>46</sup> *Id.* at \*13.



VI. CONCLUSION.

The Commission's inquiry concerning the interaction of a FRAND commitment and the availability of an exclusion order should be answered in accordance with the established contractual nature of the FRAND commitment, and it should involve an assessment of the intent of the parties to the contract established by the FRAND commitment, objective marketplace evidence relating to whether terms offered by the patentee are consistent with its FRAND commitment, and specifically in the instant proceeding, the history and understandings of the specific SSO—here ETSI—involved with the creation of the contractual obligations arising from the FRAND commitment. This meaning of the ETSI FRAND commitment is found in the text and history of the ETSI IPR policy, which clearly establishes that the ETSI membership did not intend that a FRAND commitment include a waiver of the patent holder's right to seek injunctive relief in whatever form. Accordingly, there is no contractual basis for—nor does the public interest favor—a blanket rule eliminating the availability of exclusion orders for infringement of patents subject to a FRAND commitment made pursuant to the ETSI IPR policy. Whether an exclusion order should be granted is a fact-based inquiry which the Commission can and should decide on a case-by-case basis.

Respectfully,

/s/ Eric Reifschneider

Eric Reifschneider  
Senior Vice President & General Manager  
Qualcomm Technology Licensing

The Honorable Lisa R. Barton  
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