

Nos. 2012-1548, 2012-1549

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

APPLE INC. AND NEXT SOFTWARE, INC. (formerly known as NeXT
Computer, Inc.),

Plaintiffs-Appellants,

— v. —

MOTOROLA, INC. (now known as Motorola Solutions, Inc.) AND MOTOROLA
MOBILITY, INC.,

Defendants-Cross-Appellants.

Appeals from the United States District Court for the Northern District
of Illinois, Case No. 11-CV-8540, Judge Richard A. Posner

**BRIEF OF AMICUS CURIAE FEDERAL TRADE COMMISSION
SUPPORTING NEITHER PARTY**

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INTEREST OF AMICUS CURIAE

The Federal Trade Commission (“FTC”) is an independent federal agency, charged with enforcing the antitrust laws, promoting the efficient function of the marketplace, and protecting consumer welfare. *See* 15 U.S.C. §§ 41 *et seq.* The FTC has substantial experience applying its competition policy expertise to the patent system to advance the goals of enhancing consumer welfare and promoting innovation.¹ Among other issues, the FTC has addressed the competitive effects of injunctive relief for infringement of patented technologies that are essential to implementing consensus industry standards.² In filing this amicus brief, the

¹ Fed. Trade Comm’n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* (Mar. 2011) (“2011 FTC IP Report”), available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>; *see also* U.S. Dep’t of Justice & Fed. Trade Comm’n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (Apr. 2007) (“2007 FTC/DOJ IP Report”), available at <http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf>; Fed. Trade Comm’n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (Oct. 2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>; U.S. Dep’t of Justice & Fed. Trade Comm’n, *Antitrust Guidelines for the Licensing of Intellectual Property* (1995), available at <http://www.ftc.gov/bc/0558.pdf>.

² *See* 2011 FTC IP Report at 234-35; 2007 FTC/DOJ IP Report at 35 n.11; Third Party U.S. Federal Trade Commission’s Statement on the Public Interest, *In re Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof*, ITC Inv. No. 337-TA-752 (June 6, 2012), available at <http://www.ftc.gov/os/2012/06/1206ftcgamingconsole.pdf>; Prepared Statement of the FTC Before the U.S. Senate Committee on the Judiciary Concerning “Oversight of the Impact on Competition of Exclusion Orders to Enforce Standard-Essential Patents,” July 11, 2012, available at <http://www.ftc.gov/os/testimony/120711standardpatents.pdf>.

Commission seeks to ensure that any ruling in this case takes into account the competition policy issues associated with injunctions as a remedy for infringement of a standard-essential patent (“SEP”).³

INTRODUCTION

These appeals involve patent infringement claims asserted by Apple, Inc. (“Apple”) and Motorola, Inc. (“Motorola”) against each other relating to technologies used in mobile phones and tablets. After dismissing a number of the patent claims on the merits on partial summary judgment, the district court dismissed all of the remaining claims (involving four Apple patents and one Motorola “standard-essential” patent) on the ground that, assuming infringement, neither Apple nor Motorola offered sufficient evidence to prove damages or an entitlement to injunctive or any other relief. *See* Opinion and Order of June 22, 2012 (“Remedy Op.”).

³ Commissioner Rosch concurs in the submission of this brief. He is of the view that the issuance of injunctive relief is inappropriate where the patent holder has made a FRAND commitment for a standard essential patent, even if the patentee contends that it has met its FRAND obligation. In his view, a FRAND pledge appears to be, by its very nature, a commitment to license; if so, seeking injunctive relief would be inconsistent with that commitment. Commissioner Rosch thus submits that if a court concludes that a party, or its predecessor in interest, made a FRAND commitment with respect to a SEP, an injunction should be denied for that patent. In his view, the only exception to this is when the licensee refuses to comply with the decision of a federal court or some other neutral arbitrator defining the FRAND terms.

The FTC submits this brief to address the district court's application of *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), to Motorola's request for injunctive relief for infringement of its standard-essential patent.⁴ Specifically, the brief explains that the district court properly applied *eBay* in determining that Motorola was not entitled to an injunction, where Motorola had committed to license that patent to anyone willing to accept fair, reasonable, and non-discriminatory ("FRAND" or "RAND") terms, and hence "implicitly acknowledged that a royalty is adequate compensation for a license to use that patent." Remedy Op. at 18-19. More generally, this brief addresses the question of how the *eBay* factors may be applied to mitigate the problem of patent hold-up, namely the use of injunctive relief as "undue leverage in negotiations" to obtain compensation in excess of the actual value of the patented technology. *eBay*, 547 U.S. at 396 (Kennedy, J., concurring); see *Apple Inc. v. Samsung Elecs. Co.*, 695 F.3d 1370, 1375 (Fed. Cir. 2012) (suggesting that injunction is inappropriate when "the patentee seeks to leverage its patent for competitive gain beyond that which the inventive contribution and value of the patent warrant"). The problem of patent hold-up can be particularly acute in the standard-setting context, where an

⁴ For purposes of this brief, the FTC assumes that the district court's factual determinations are correct. While the district court's opinion raises additional issues regarding remedies for infringement of non-standard-essential patents that could have important implications for competition and innovation, we do not address those issues here.

entire industry may be locked into a standard that cannot be avoided without infringing or obtaining a license for numerous (sometimes thousands) of standard-essential patents.

ARGUMENT

I. AVOIDING PATENT HOLD-UP IS AN IMPORTANT CONSIDERATION IN EVALUATING WHETHER AN INJUNCTION SHOULD BE ENTERED

Firms in the information technology and telecommunications industries frequently resolve interoperability problems through voluntary consensus standard setting conducted by standard-setting organizations (“SSOs”). Interoperability standards can create enormous value for consumers by increasing competition, innovation, product quality, and choice. However, incorporating patented technologies into standards also has the potential to distort competition by enabling SEP owners to negotiate high royalty rates and other favorable terms, after a standard is adopted, that they could not credibly demand beforehand, a form of “patent hold-up.” *See generally* Joseph Farrell et al., *Standard Setting, Patents and Hold-Up*, 74 Antitrust L.J. 603 (2007); *2007 FTC/DOJ IP Report* at 35 n.11, 37-40; *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 310-14 (3d Cir. 2007).

The possibility of patent hold-up derives from changes in the relative costs of once competing technologies as a result of the standard setting process. Prior to adoption of a standard, alternative technologies compete to be included in the

standard. SSO members often agree to license SEPs on RAND terms as a *quid pro quo* for the inclusion of their patents in a standard. Once a standard is adopted, implementers begin to make investments tied to the standard. Because it may not be feasible to deviate from the standard unless all or most other participants in the industry agree to do so in compatible ways, and because all of these participants may face substantial switching costs in abandoning initial designs and substituting a different technology, an entire industry may become locked into a standard, giving a SEP owner ability to demand and obtain royalty payments based not on the value of the invention, but on the costs and delays of switching away from the standardized technology.

Hold-up and the threat of hold-up can deter innovation by increasing costs and uncertainty for other industry participants, including those engaged in inventive activity. It can also distort investment and harm consumers by breaking the connection between the value of an invention and its reward – a connection that is the cornerstone of the patent system. The threat of hold-up may reduce the value of standard setting, leading firms to rely less on the standard setting process and depriving consumers of the substantial procompetitive benefits of standard setting.

RAND commitments mitigate the risk of patent hold-up, and encourage investment in the standard. After a RAND commitment is made, the patentee and the implementer will typically negotiate a royalty or, in the event they are unable to

agree, may seek a judicial determination of a reasonable rate. However, a royalty negotiation that occurs under the threat of an injunction may be heavily weighted in favor of the patentee in a way that is in tension with the RAND commitment. High switching costs combined with the threat of an injunction could allow the patentee to obtain unreasonable licensing terms despite its RAND commitment because implementers are locked into practicing the standard. The resulting imbalance between the value of the patented technology and the rewards to the patentee may be especially acute where the injunction is based on a patent covering a minor component of a complex multicomponent product, as is often the case with standard-essential patents in information technology industries.

Under these circumstances, the threat of an injunction may allow the holder of a RAND-encumbered SEP to realize royalty rates that reflect the investments firms make to implement the standard, rather than the competitive value of the patented technology, which could raise prices to consumers while undermining the standard-setting process. *See Apple, Inc. v. Motorola Mobility, Inc.*, 2012 WL 5416941, *15 (W.D. Wisc. Oct. 29, 2012) (“[F]rom a policy and economic standpoint, it makes sense that in most situations owners of declared-essential patents that have made licensing commitments to standards-setting organizations

should be precluded from obtaining an injunction or exclusionary order that would bar a company from practicing the patents.”).⁵

II. THE DISTRICT COURT PROPERLY APPLIED THE *EBAY* FACTORS IN DENYING MOTOROLA’S REQUEST FOR INJUNCTIVE RELIEF

eBay provides a framework that courts can use to mitigate the risk of patent hold-up. Rejecting any categorical rule favoring injunctions, the Court in *eBay* held that well-established principles of equity applied to permanent injunctions under the Patent Act. 547 U.S. at 391; *see* 35 U.S.C. § 283 (district court “*may* grant injunctions in accordance with the principles of equity”) (emphasis added). The Court listed four equitable factors that a patentee must satisfy to obtain an injunction:

A plaintiff must demonstrate: (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

⁵ An injunction may also facilitate patent hold-up outside the standard-setting context when the patent covers only a minor feature of a multicomponent product. If the patent is easy to design around at the product development stage (and hence its value is relatively low), but costly to do so after the implementer has made irreversible investments in producing and distributing the product with the infringing feature, the patent holder may be able to use the injunction to obtain compensation far greater than the competitive value of the technology. *See generally* Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 1993 (2007); 2011 FTC IP Report at 225-27.

(4) that the public interest would not be disserved by a permanent injunction.

547 U.S. at 391.⁶

The district court held that the first two *eBay* factors militate against injunctive relief against Apple because Motorola could not establish that it would be irreparably harmed or that monetary relief (an ongoing royalty) would be inadequate⁷ where Motorola had committed to the European Telecommunications Standards Institute (ETSI) to license its ‘898 patent at issue “to anyone on fair, reasonable, and nondiscriminatory [FRAND] terms, as required by the standards-setting organization as a condition of the patented technology’s being deemed

⁶ *eBay*’s equitable analysis allows a court “to compare the costs and benefits of an injunction with the costs and benefits of the substitute equitable remedy of a . . . running (ongoing) royalty.” Remedy Op. at 31; see *ActiveVideo Networks, Inc. v. Verizon Commc’ns., Inc.*, 694 F.3d 1312 (Fed. Cir. 2012) (district court abused its discretion in granting permanent injunction where ongoing royalty would be adequate to compensate patentee); see generally Mark A. Lemley, *The Ongoing Confusion Over Ongoing Royalties*, 76 Mo. L. Rev. 695 (2011). In particular, a court may consider the extent to which an ongoing royalty may undercompensate the patentee because it does not capture all the harms from infringement, versus the extent to which an injunction may overcompensate the patentee because of hold-up. See *2011 FTC IP Report* at 141 (“To align the patent system and competition policy, it is important that compensatory damages and injunctions be assessed in a manner that aligns a patentee’s compensation with the invention’s economic value.”).

⁷ This court has noted that “the issues of irreparable harm and adequacy of remedies at law are inextricably intertwined.” *ActiveVideo Networks*, 694 F.3d at 1337. Following *eBay*, there is no presumption of irreparable harm. See *Robert Bosch LLC v. Pylon Mfg. Corp.*, 659 F.3d 1142, 1149 (Fed. Cir. 2011).

essential to compliance with the standard.” Remedy Op. at 15. The court concluded, “A FRAND royalty would provide all the relief to which Motorola would be entitled if it proved infringement of the ‘898 patent, and thus it is not entitled to an injunction.” *Id.* at 21.

The district court was correct.⁸ As the court noted, a FRAND commitment means that the patentee “implicitly acknowledged that a royalty is adequate compensation for a license to use that patent.” Remedy Op. at 18-19; *see* Herbert Hovenkamp, *Competition in Information Technologies: Standards-Essential Patents, Non-Practicing Entities and FRAND Bidding* 14 (Nov. 2012), available at <http://ssrn.com/abstract=2154203> (“The fact that the patent in question has already been FRAND encumbered establishes that the patentee’s reasonable expectation was the right to obtain FRAND royalties, not to exclude.”); Suzanne Michel, *Bargaining for RAND Royalties in the Shadow of Patent Remedies Law*, 77 *Antitrust L. J.* 889, 908 (2011) (“A prior RAND commitment, as an expressed intention to license broadly, provides strong evidence that denial of an injunction

⁸ The district court recognized that an injunction may be warranted under *eBay* if “Apple refuses to pay a royalty that meets the FRAND requirement.” Remedy Op. at 18. More generally, in circumstances where an infringer is unable or unwilling to pay an ongoing royalty, the harm to the patentee presumably cannot be compensated with damages. *See New York City v. Pine*, 185 U.S. 93, 108 (1902) (court may order that injunction will issue if the defendant fails to pay damages). However, the district court apparently determined that Apple is not an unwilling licensee that waived its right to a FRAND license. Remedy Op. at 20.

and ongoing royalties will not irreparably harm the patentee.”). Similarly, Judge Robart recently dismissed Motorola’s claim for injunctive relief on RAND-encumbered patents, finding that the RAND license that the parties will enter into through the litigation “will adequately remedy Motorola as a matter of law,” precluding Motorola from establishing irreparable harm and inadequate remedy at law as required under *eBay*. Order Granting Microsoft’s Motion Dismissing Motorola's Claim for Injunctive Relief at 12-15, *Microsoft Corp. v. Motorola Inc.*, No. C10-1823-JLR (W.D. Wash. Nov. 30, 2012).

This court has held that a practice of widespread licensing, including offers to license to the defendant, strongly militates against a finding of irreparable harm. *See ActiveVideo Networks*, 694 F.3d at 1339 (reversing grant of injunction: “In light of the record evidence including ActiveVideo’s past licensing of this technology and its pursuit of Verizon as a licensee, no fact finder could reasonably conclude that ActiveVideo would be irreparably harmed by the payment of a royalty (a licensing fee.)”); *see also MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 570-71 (E.D. Va. 2007) (patentee’s “willingness to freely license its patents . . . weighs against the need for an equitable remedy as it evidences MercExchange’s willingness to forego its right to exclude in return for money”); *Advanced Cardiovascular Sys., Inc. v. Medtronic Vascular, Inc.*, 579 F. Supp. 2d

554, 560 (D. Del. 2008) (“[m]oney damages are rarely inadequate” when patentee has been willing to grant license to competitors).

A fortiori, a commitment to offer a license to *all* comers on FRAND terms should be sufficient to establish that a reasonable royalty is adequate to compensate the patentee for infringement by any particular implementer willing and able to abide by those terms. *Cf. Hynix Semiconductor Inc. v. Rambus Inc.*, 609 F. Supp. 2d 951, 986 (N.D. Cal. 2009) (injunction denied with respect to standard-essential patents that were not even subject to FRAND commitments where, *inter alia*, patentee’s historical practice of licensing suggests that it “is primarily concerned with monetary compensation for the use of its patented technology”); *Telcordia Techs., Inc. v. Cisco Systems, Inc.*, 592 F. Supp. 2d 727, 748 & n.10 (D. Del. 2009) (same), *aff’d in relevant part*, 612 F.3d 1365 (Fed. Cir. 2010).⁹

The other *eBay* factors (balance of hardships and public interest) also can be expected to militate against injunctive relief in the case of standard-essential patents. “The infringer [of a standard-essential patent] may face significant hardship as a result of an injunction if it is impossible to participate effectively in

⁹ Motorola acknowledges that its “patents in suit enjoy a rich history of being a part of [a] licensing portfolio granted to much of the wireless industry.” Motorola’s Motion for Summary Judgment Regarding Damages for the Apple Asserted Patents at 4 n.1 (Dkt. #982, filed June 1, 2012).

the market without complying with the standard. Design-around, at any cost, may not be an option.” *FTC 2011 IP Report* at 234; *cf. Hynix*, 609 F. Supp. 2d at 984-85 (injunction with respect to SEP would “decimate” infringer’s business). The district court recognized this hardship when it asked, “How could [Motorola] be permitted to enjoin Apple from using an invention that it contends Apple *must* use if it wants to make a cell phone with UMTS telecommunications capability—without which it would not be a cell *phone*.” Remedy Op. at 19; *see* Opinion and Order of May 22, 2012 at 45 (explaining that an injunction would prevent Apple from selling iPhones that work on the AT&T network).

The public interest in promoting innovation and protecting consumers also weighs heavily against an injunction here. To be sure, consumers would be harmed by the immediate impact of being deprived of a popular product.¹⁰ But consumers would also suffer in the longer run because an injunction would reduce the returns to innovation by Apple and other patent holders who have patents that are essential to the same standard or otherwise read on Apple’s excluded products,

¹⁰ In arguing that an injunction should not issue in favor of Apple, Motorola noted that “any injunction against Motorola would be a disservice to competition in the cell phone market.” Motorola’s Motion and Memorandum in Support of its Motion for Summary Judgment of No Injunctive Relief at 2 n.1 (Doc. #974, filed May 30, 2012) (citation and internal quote marks omitted). The same logic would seem to apply to an injunction against Apple.

who may face lower royalties.¹¹ *See* Lemley & Shapiro, *supra*, at 2010-17; Michael W. Carroll, *Patent Injunctions and the Problem of Uniformity of Cost*, 13 Mich. Telecomm. Tech. L. Rev. 421, 437 (2007) (“From the perspective of the patent system, an injunction in favor of the small-component patentee may well be robbing Peter to pay Paul.”). Injunctive relief should not be permitted to allow the owner of standard-essential patent subject to a RAND obligation to appropriate for itself the value created by numerous other innovators that build on or contribute to the standard at issue.¹²

Insofar as Motorola seeks an injunction not for the purpose of excluding Apple’s products from the market, but to bring Apple to the table to negotiate a

¹¹ The ‘898 patent was declared essential to the Universal Mobile Telecommunications Standard (UMTS), a third-generation (3G) standard used by certain cell phone carriers (such as AT&T) that enables communication between cell phones and cell towers. *See* Remedy Op. at 14; *Apple, Inc. v. Motorola Mobility, Inc.*, 2012 WL 3289835, *5-6 (W.D. Wisc. Aug. 10, 2012). Motorola’s patent is one of more than 2000 patents that have been declared essential to the UMTS standard. *See* Knut Blind et al., *Study on the Interplay Between Standards and Intellectual Property Rights (IPRs)* 32, 36 (Apr. 2011), http://ec.europa.eu/enterprise/policies/european-standards/files/standards_policy/ipr-workshop/ipr_study_final_report_en.pdf (count based on eliminating duplicates).

¹² Dozens of companies have patents that are declared essential to the UMTS standard. *See* Eric Stasik, *Royalty Rates and Licensing Strategies for Essential Patents on LTE (4G) Telecommunications Standards*, *les Nouvelles*, Sept. 2010, at 114, 117 (57 companies with UMTS declarations); Blind, *supra*, at 45 (nine companies with more than 50 UMTS SEPs). Moreover, smartphones such as the iPhone incorporate numerous other standards, each with hundreds of additional SEPs. *See* Stasik, *supra*, at 117; Blind, *supra*, at 36.

favorable royalty, its argument does not support an injunction against a willing licensee. On the contrary, the use of such leverage is the essence of hold-up. The district court correctly observed:

[D]amages [are not] an inadequate remedy just because, unless backed by the threat of injunction, it may induce a settlement for less than the damages rightly sought by the plaintiff. You can't obtain an injunction for a simple breach of contract on the ground that you need the injunction to pressure the defendant to settle your damages claim on terms more advantageous to you than if there were no such pressure.

Remedy Op. at 20-21; *see Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (injunction “is not intended as a club to be wielded by a patentee to enhance his negotiating stance”).

As the concurring Justices explained in *eBay*, an injunction should not be used to “as a bargaining tool to charge exorbitant fees” or for “undue leverage in negotiations.” 547 U.S. at 396 (Kennedy, J., concurring); *see also Hoe v. Boston Daily Adver. Corp.*, 14 F. 914, 915 (Cir. Ct. D. Mass. 1883) (denying injunction where it would be of no “advantage to the plaintiffs, except to coerce a settlement”); *Hynix*, 609 F. Supp. 2d at 983 n. 29 (denying injunction where patentee’s “motivation in seeking an injunction is less about preventing irreparable harm and more about extracting punishment or leverage in negotiating with” infringer); *MercExchange*, 500 F. Supp. 2d at 582 (“Utilization of a ruling in equity as a bargaining chip suggests both that such party never deserved a ruling in

equity and that money is all that such party truly seeks, rendering money damages an adequate remedy in the first instance.”); *Ricoh Co. v. Quanta Computer, Inc.*, 2010 WL 1607908, *4 (W.D. Wisc. 2010) (denying injunction where it “would [not] serve any purpose other than to increase [patentee’s] leverage in negotiations for a higher licensing fee.”).

CONCLUSION

Patent hold-up risks harming competition, innovation, and consumers because it allows a patentee to be rewarded not based on the competitive value of its technology, but based on the infringer's costs to switch to a non-infringing alternative when an injunction is issued. *eBay* allows courts to take these important competition and innovation policy issues into account. When a patentee makes a FRAND commitment to an SSO, the irreparable harm analysis, balance of harms, and the public interest will, as here, generally militate against an injunction.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

1. This brief complies with the type-volume limitations of Rule 32(a)(7)(B) of the Federal Rules of Appellate Procedure because it contains 3,814 words, excluding the parts of the brief exempted by Rule 32(a)(7)(B)(iii).

2. This brief complies with the typeface requirements of Rule 32(a)(5) of the Federal Rules of Appellate Procedure and the type style requirements of Rule 32(a)(6) because this brief has been prepared in a proportionally spaced typeface using Microsoft Office Word 2010 with 14-point Times New Roman font.

December 4, 2012

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CERTIFICATE OF SERVICE

I hereby certify that on December 4, 2012, I electronically filed a copy of this Amicus Curiae Brief of the Federal Trade Commission in Support of Neither Party with the Clerk of the Court using CM/ECF, which will automatically send email notification of such filing to the following counsel of record:

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