

**UNITED STATES INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C.**

**Before the Honorable David P. Shaw
Administrative Law Judge**

In the Matter of

**CERTAIN ELECTRONIC DEVICES,
INCLUDING WIRELESS COMMUNICATION
DEVICES, TABLET COMPUTERS, MEDIA
PLAYERS, AND TELEVISIONS, AND
COMPONENTS THEREOF**

Investigation No. 337-TA-862

ERICSSON'S NOTICE OF NEW AUTHORITY

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Complainants Ericsson Inc. and Telefonaktiebolaget LM Ericsson (collectively “Ericsson”) submit this Notice of New Authority to bring to the attention of the Administrative Law Judge and the other parties a decision that may impact the determination of the breach of FRAND defense asserted by Samsung in this Investigation. Specifically, the purpose of this Notice is to bring to the attention of the ALJ the USTR’s recent disapproval of the exclusion order recommended by the Commission in the 794 Investigation between Samsung and Apple,¹ and to set forth Ericsson’s position as to what impact, if any, this decision will have on this Investigation.

The question of whether Ericsson has complied with its FRAND obligations that attach to its standard essential patents has been an issue raised by Samsung since the beginning of this Investigation. Both Ericsson and Samsung have conducted extensive discovery and submitted expert opinions in regard to appropriate licensing terms for Ericsson’s patents essential to the 2G, 3G, LTE, and 802.11 families of telecommunications standards, and the question of FRAND royalty rates will be a key focus at the upcoming evidentiary hearing.

The reason Ericsson is submitting this Notice is in the interest of full transparency regarding trial positions. Following the release of the USTR Letter, there has been significant commentary as to the effect of the disapproval on the criteria for the entry of exclusion orders on standard essential patents in future investigations. Ericsson, Samsung, and the Staff recently conducted a meet and confer telephone call into whether, and how, the USTR Letter will affect the determinations that will be made as a part of this Investigation. In that call, Ericsson stated its view that, pursuant to the USTR Letter, the ALJ is required to determine (1) whether Ericsson’s licensing offers to Samsung comply with its FRAND commitments, and (2) if the

¹ See Letter from Michael B. G. Froman to Irving A. Williamson, August 3, 2013 (hereinafter USTR Letter).

ALJ determines that they did not, then the ALJ should make a determination of what terms would comply with FRAND. These issues have always been part of this Investigation, having been put at issue by Samsung's breach of FRAND defense, but following the USTR Letter these issues now also bear upon the public interest and may require more detailed factual findings to comply with the USTR Letter. During the parties' meet and confer, Samsung declined to take a position on these issues, other than to concede that they should be resolved the same way in this case as in Samsung's pending ITC investigation against Ericsson, Investigation No. 337-TA-866. Ericsson files this Notice to set forth its position, as well as to solicit Samsung (and the Staff it chooses) to respond with their positions on the impact of the USTR Letter.

I. INTRODUCTION

On August 3, 2013, the United States Trade Representative (USTR) disapproved the Commission's determination that an exclusion order and a cease and desist order should issue against Apple in *Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794 (the 794 Investigation). The 794 Investigation involves a Samsung patent that is encumbered by a FRAND commitment. The USTR based his decision on his review and discussion of the policy considerations articulated by the Department of Justice (DOJ) and the United States Patent & Trademark Office (USPTO) in their January 8, 2013 Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments² with respect to their impact on competitive conditions in the U.S. economy and on U.S. consumers.

² U.S. DEP'T JUST. AND U.S. PATENT AND TRADEMARK OFFICE, POLICY STATEMENT ON REMEDIES FOR STANDARD-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY FRAND COMMITMENTS at 6 (Jan. 8, 2013), available at <http://www.justice.gov/atr/public/guidelines/290994.pdf> (hereinafter Policy Statement).

Despite disapproving the exclusion order in the 794 Investigation, the USTR made clear that he was not articulating a blanket rule against exclusion orders based on FRAND-encumbered standard-essential patents. The USTR stated that exclusion orders remain an appropriate remedy where, for example, “a putative licensee refuses to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine FRAND terms 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 FRAND terms in an attempt to evade the putative licensee’s obligation to fairly compensate the patent holder.”³ The USTR further counseled that, in future investigations involving standard essential patents that are subject to voluntary FRAND commitments, the Commission should “have the parties develop a comprehensive factual record related to these issues....”⁴ The USTR emphasized that the Commission is “*well-positioned to consider these issues*” and directed “the Commission [to] make *explicit findings on these issues to the maximum extent possible*.”⁵

In this Investigation, Ericsson asserts six standard essential patents subject to voluntary FRAND commitments against Samsung.⁶ Samsung, in turn, asserts an affirmative defense to infringement based on Ericsson’s alleged failure to honor its FRAND obligations. The public interest considerations discussed in the USTR Letter and Policy Statement are thus squarely at issue. The USTR’s instruction to the ALJ and Commission to make explicit findings with respect to FRAND issues applies to this Investigation as well.

³ USTR Letter at 2 n.3.

⁴ USTR Letter at 3.

⁵ *Id.* (emphasis added).

⁶ See Joint Stipulation Relating to the Parties’ F/RAND Commitments, filed August 8, 2013.

The parties to this Investigation have already developed an extensive evidentiary record with regard to FRAND licensing issues in this Investigation which will allow the ALJ to make the findings requested by the USTR letter. To date, FRAND licensing issues have been the subject of at least 16 depositions, 9 expert reports, more than 250 written discovery requests, and thousands of pages of produced documents. Moreover, experts for both Ericsson and Samsung have already opined in regard to appropriate royalty rates for Ericsson's patents essential to the 2G, 3G, LTE, and 802.11 standards.⁷ Ericsson will address these issues in its Pre-Hearing Brief and anticipates that Samsung will do the same. Given the extensive record already accumulated on these issues, there is no need to delay the evidentiary hearing to accommodate the adjudication of FRAND licensing terms. Any suggestion by Samsung that the hearing date should be extended would be a mere delay tactic and should be rejected at the outset.

In light of the USTR Letter, Ericsson submits that, in making determinations relevant to the overlapping issues raised in Samsung's breach of FRAND affirmative defense, as well as the public interest issues raised in the USTR letter, the ALJ should make detailed determinations on the following points. First, whether the licensing offers extended by Ericsson to Samsung during their negotiations comply with FRAND -- if so, any exclusion order in this Investigation should be conditioned on Samsung's refusal to accept the terms that have been adjudicated as FRAND. Second, in the event the ALJ determines that Ericsson has not made a licensing offer to Samsung that complies with FRAND, then in that case the ALJ should go on to determine what royalty rate (and any other terms) would comply with FRAND -- then condition any exclusion order on Ericsson offering those terms to Samsung and Samsung refusing to accept them.

⁷ See Expert Report of Thomas Vander Veen, filed June 18, 2013 (Samsung's Expert); Rebuttal Expert Report of J. Gregory Sidak, filed July 5, 2013 (Ericsson's Expert); Rebuttal Expert Report of Jonathan Putnam, filed July 8, 2013 (Ericsson's Expert).

Determination of these issues by the ALJ is necessary for the disposition of this Investigation and of whether any remedy should issue. *See Certain Portable Electronic Devices and Related Software*, Inv. No. 337-TA-721 (Notice to Review a Final Initial Determination, Dec. 16, 2011) (“The Commission’s rules of practice and procedure provide that the initial determination of the ALJ *shall* include ‘. . . conclusions and the reasons or bases therefore *necessary for the disposition of all material issues of fact, law, or discretion in the record. . . .*’ 19 C.F.R. (S) 210.42(d). The Commission generally anticipates that the ALJs will adjudicate all issues presented in the record.”) (emphasis added).

II. DISCUSSION

A. History Of Negotiations

Ericsson and Samsung have been negotiating a renewal cross-license of their respective portfolios of patents subject to FRAND commitments for well over two years.⁸ During this time, Ericsson has repeatedly offered to license its portfolios of patents essential to the 2G, 3G, LTE, and 802.11 telecommunications standards to Samsung on FRAND terms. All in all, the parties have participated in more than fifteen in-person meetings and numerous telephone conferences, yet are still at an impasse.

Samsung, for its part, has delayed the conclusion of the parties’ licensing negotiations by unreasonably and steadfastly holding out, refusing to accept Ericsson’s licensing offers while refraining from making any license payments since the expiration of the parties’ prior license in April 2011. Samsung insists that Ericsson offer Samsung royalty rates that are a small fraction of the rates that are currently paid to Ericsson by many other licensees and are far too low to

⁸ A chronology of the parties’ negotiations and licensing offers is set forth in the Rebuttal Expert Report of J. Gregory Sidak, filed July 5, 2013 at 28-43 (attached as Confidential Exhibit 1 hereto).

reflect the actual value of Ericsson's patented standard essential technology.⁹ According to the USTR Letter and the Policy Statement, Samsung's conduct in relation to Ericsson is precisely the type of conduct by a putative licensee that warrants an exclusion order.

B. The USTR Letter And The Policy Statement Permit Exclusion Orders Based On Standard Essential Patents In At Least Five Situations, Two Of Which Are Applicable Here.

The USTR Letter again confirms the well-established rule that an exclusion order is an appropriate remedy for the infringement of valid and infringed standard-essential patents when the standard essential patent owner complies with its FRAND commitment but the putative licensee rejects the offer.¹⁰ Based on its review of the USTR Letter and the Policy Statement, Ericsson has identified at least five situations in which an exclusion order remains an appropriate remedy for infringement of a standard essential patent:

1. The putative licensee refuses to accept a licensing offer from the standard essential patent owner that has been adjudicated to be FRAND by a neutral third-party,¹¹ such as the ALJ or Commission;
2. The putative licensee refuses to negotiate with the standard essential patent owner in regard to a FRAND license;¹²

⁹ See, e.g. Rebuttal Expert Report of J. Gregory Sidak, filed July 5, 2013 at 57-84.

¹⁰ See also Commission Opinion, 337-TA-794 (July 5, 2013) at 45-48 (citing 19 U.S.C. §§ 1337(a)(1)(B), (d)(1)); 19 U.S.C. § 1337(c); *Farrel Corp v. Int'l Trade Comm'n*, 949 F.2d 1147, 1156 (Fed. Cir. 1992); *Certain Mobile Telephone Handsets, Wireless Communication Devices, and Components Thereof*, Inv. No. 337-TA-578, Order 34, Initial Det., 2007 ITC LEXIS 228 (Feb. 20, 2007). See also, e.g., *Certain Wireless Communications Equip., Articles Therein, and Products Containing Same*, Inv. No. 337-TA-577, Order No. 21 (Apr. 13, 2007); *Certain Wireless Communications Equip., Articles Therein, and Products Containing Same*, Inv. No. 337-TA-577, Order No. 33 (Mar. 19, 2007); *Certain 3G Mobile Handsets*, Inv. No. 337-TA-613, Order No. 29 (Apr. 25, 2008).

¹¹ USTR Letter at 2 n.3; Policy Statement at 7.

¹² USTR Letter at 2 n.3. This 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." *Id.* Ericsson submits that another example of a constructive refusal to negotiate would be where the putative

3. The putative licensee fails to comply with the terms and conditions of a license agreement that complies with FRAND, such as by failing to pay royalties due under the agreement;¹³
4. The putative licensee is not subject to the jurisdiction of a court that can award damages sufficient to compensate the complainant on a FRAND basis;¹⁴ and/or
5. The patent owner contends and the Commission finds that the patent owner's declared essential patents are not, in fact, essential.¹⁵

The first and second situations are applicable in this Investigation. The first situation applies because Ericsson has extended a FRAND offer to Samsung and, under the USTR Letter, is entitled to a determination by the ALJ that Ericsson's FRAND offer is, in fact, FRAND. The second situation applies because Samsung has rejected Ericsson's FRAND offer and avoided paying royalties to which Ericsson is entitled, while simultaneously making unreasonable offers of its own to create the illusion that it is willing to keep negotiating.

C. The USTR Letter Requires The ALJ To Make A Determination Of FRAND Terms When Resolving Samsung's FRAND-Related Affirmative Defenses And Delegated Public Interest Issues.

As set forth above, the USTR has urged "the Commission [to] make explicit findings on [FRAND] issues to the maximum extent possible." It therefore follows that the ALJ — when resolving Samsung's FRAND-related affirmative defenses and delegated public interest issues in this Investigation — should make an in-depth evaluation of whether Ericsson has offered FRAND terms to Samsung and if not, what would constitute FRAND terms for Ericsson's standard essential patents. This factual finding is precisely the type of "explicit finding" that will

licensee rejects an offer of FRAND licensing terms in order to delay or avoid its payment of royalties to which the standard essential patent holder is entitled.

¹³ USTR Letter at 2 n.3; Policy Statement at 7.

¹⁴ *Id.*

¹⁵ USTR Letter at 3.

aid the Commission in determining whether one of the situations set forth above is present here. That is, a determination of FRAND terms for Ericsson's standard essential patents will in turn provide the basis to determine at least: (a) whether Samsung is willing to license Ericsson's standard essential patents on terms that are FRAND; (b) whether Samsung rejected FRAND licensing terms in order to delay or avoid paying Ericsson royalties to which Ericsson is entitled; (c) whether Samsung has insisted on terms that are clearly outside the bounds of what can be reasonably considered FRAND; and (d) whether Ericsson engaged in attempted "hold-up."

The record in this Investigation already contains ample guidance of how to determine appropriate FRAND terms for a patent owner's standard essential patents. *See, e.g.* Rebuttal Expert Report of J. Gregory Sidak, filed July 5, 2013; Rebuttal Expert Report of Jonathan Putnam, filed July 8, 2013; Rebuttal Expert Report of Roy Weinstein, filed July 5, 2013; and Rebuttal Expert Report of Bénédicte Fauvarque-Cosson, filed July 5, 2013. In light of and consistent with this guidance, Ericsson submits that an ALJ or the Commission should consider at least the following factors in deciding FRAND licensing terms for standard essential patents:

1. The extent of the patent owner's contribution to the standard and how the patent owner's contribution compares to the contributions of other patent owners;
2. The licensing terms entered into by the patent owner with other licensees;
3. The licensing terms in other comparable licenses for patents essential to the same standard;
4. The nature of and revenues and profits associated with the infringing products sold by the putative licensee;
5. Whether the licensing terms will ensure the patent owner's continued participation in standard-setting activities and fairly reward the patent owner's technological breakthroughs in relation to standardized technologies;
6. The extent to which the patent owner's standardized technology is incorporated into the putative licensee's standard-compliant products and the value of the standardized technology to those products;

7. The value conferred on the end user by the patent owner's patented standard-essential technology;
8. The strength of the patent owner's standard essential patents; and
9. Whether the licensing terms will deny the putative licensee access to the standard and/or contribute to an unsustainable aggregate royalty burden.

In the 794 Investigation involving Samsung and Apple, neither the parties nor the Commission appear to have conducted a meaningful analysis of these factors, yet it is apparent from the USTR Letter that this type of analysis should be conducted in ongoing and future investigations involving patents subject to a FRAND commitment.

In this Investigation, upon a finding that Ericsson's standard essential patents are valid and infringed, Samsung's rejection of licensing terms that have been neutrally adjudicated to be FRAND would warrant an exclusionary remedy. Samsung and its expert witness, Professor Joseph Farrell, do not disagree that this would be the appropriate result.¹⁶ This result would also be consistent with the approach advocated by the Federal Trade Commission in public comments submitted in Investigation No. 337-TA-745.¹⁷

D. The USTR Letter Requires Explicit Findings On FRAND Issues, Including The Determination Of FRAND Licensing Terms, For Ericsson's Standard Essential Patents.

For the reasons set forth above, the ALJ's Final Initial Determination on violation and/or Recommended Determination on remedy should include explicit factual findings on FRAND issues, including but not limited to an express finding as to whether the royalty rates offered to Samsung by Ericsson for a license to Ericsson's worldwide portfolio of patents essential to the

¹⁶ See Expert Report of Joseph Farrell, filed June 18, 2003 at ¶ 14 and n. 1 (attached as Confidential Exhibit 2 hereto); Deposition of Joseph Farrell, July 31, 2013 at 9:9-11:9 (attached as Confidential Exhibit 3 hereto).

¹⁷ *In re Motorola Mobility LLC, et al.*, FTC File No. 121 0120, Docket No. C-4410, Decision and Order (July 24, 2013) at § III.

2G, 3G, LTE, and 802.11 families of telecommunications standards are FRAND.¹⁸ Ericsson further submits that, in the event that the ALJ determines that the royalty rates offered to Samsung by Ericsson are not FRAND, the ALJ should determine what rates Ericsson could offer to be in compliance with its FRAND commitment. The FTC separately recommended this two-step analysis in its recent order in the Motorola/Google Investigation. *See In re Motorola Mobility LLC, et al.*, FTC File No. 121 0120, Docket No. C-4410, Decision and Order (July 24, 2013) at § III.

Once the ALJ and the Commission adjudicate that Ericsson has, in fact, tendered a FRAND licensing offer to Samsung (or adjudicate the royalty rate and any other licensing terms that Ericsson must offer Samsung to comply with its FRAND commitment), any exclusion order should issue conditional upon Samsung's refusal to accept the adjudicated FRAND terms. This conditional approach would be fair to both parties and the public interest, and would be consistent with the approach mandated by the USTR Letter disapproving of the remedy issued in the 794 Investigation involving Samsung and Apple.

III. CONCLUSION

In light of the recent USTR Letter, Ericsson respectfully submits that the ALJ's Final Initial Determination on violation and/or Recommended Determination on remedy should include an express determination of appropriate FRAND licensing terms for Ericsson's patents essential to the 2G, 3G, LTE, and 802.11 families of telecommunications standards.

¹⁸ Ericsson submits that the ALJ should adjudicate whether Ericsson's April 12, 2013 licensing offer to Samsung, attached as Confidential Exhibit 4 to this Notice, is FRAND. Consistent with industry practice and Ericsson's many existing patent license agreements, the terms of Ericsson's FRAND licensing offer to Samsung are on a world-wide portfolio basis.

Dated: August 14, 2013.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on August 14, 2013, copies of the foregoing document were filed and served upon the following parties as indicated:

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