

April 3, 2013

Submitted by Electronic Filing

The Honorable Lisa R. Barton
Secretary
U.S. International Trade Commission
500 E Street S.W.
Washington, DC 20436

Subject: *In re Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Investigation No. 337-TA-794*

Dear Secretary Barton:

Cisco Systems, Inc. (“Cisco”), Hewlett Packard Company (“HP), and Micron Technology, Inc. (“Micron”) (collectively, “Submitting Parties”) submit these comments in response to the *Notice of Commission Determination to Extend the Target Date; Requesting Additional Written Submissions on Remedy and the Public Interest* (“Notice”) issued by the International Trade Commission (“ITC”) in the above-captioned investigation. The Notice raises the question of the appropriate remedy for a violation of Section 337 of the Tariff Act involving a FRAND-encumbered patent and application of the *Georgia-Pacific* factors to the determination of whether a fair, reasonable, and non-discriminatory license offer was made. Submitting Parties provide these comments to address these questions.

I. Background of Submitting Parties

Cisco is a leader in the networking industry, based in San Jose. Cisco invests five billion dollars annually into research and development and employs over 36,000 people in the United States. Cisco’s customers include the Federal and numerous U.S. state governments and U.S. businesses both large and small.¹ Cisco’s customers, who include individuals, governments, and businesses large and small, demand products that exchange information seamlessly with products made by our competitors and other industry participants. Cisco satisfies these customer needs through the implementation of industry standards.

Headquartered in Palo Alto, California, HP is one of the largest and most successful information technology companies in the world. HP provides personal computing devices, imaging and printing products and services, and enterprise-level information technology

¹ Cisco 2012 Annual Report, available at http://www.cisco.com/assets/cdc_content_elements/docs/annualreports/ar2012.pdf (last visited Mar. 29, 2013).

hardware, software, and services. HP's customers comprise individual consumers, small- and medium-sized businesses, and large enterprises both in the private and public sectors, including state and federal governments, municipal law enforcement agencies, and the health and education sectors. For example, HP supports the top 200 banks and more than 130 of the world's major stock exchanges. While HP's customers have a global reach, HP also makes PCs and servers in the United States, including an anticipated 2.9 million PCs this year. HP also is committed to innovation, and, as of November 2012, HP's patent portfolio included over 36,000 patents. In the 2011 Patent Power Scorecard, HP is ranked second in Computer Systems.² In the past several years, HP has invested over three billion dollars annually in research and development, and as of November 2012 employed approximately 87,000 employees in the United States. Similar to Cisco, HP also participates in numerous standards setting organizations and its products must also exchange information seamlessly with products made by both competitors and other industry participants.

Micron is one of the world's leading providers of advanced semiconductor solutions. Through its worldwide operations, Micron manufactures and markets a full range of DRAM, NAND Flash and NOR Flash memory, as well as other innovative memory technologies, packaging solutions and semiconductor systems for use in leading-edge computing, consumer, networking, embedded and mobile products. Micron's patent portfolio contains over 20,000 U.S. and international patents.

II. Generally, ITC relief should not be available for infringement of RAND-encumbered standards-essential patents.

Generally, ITC relief should not be available for infringement of RAND-encumbered standard-essential patents (SEPs).³ There is a growing consensus, reflected in statements from numerous Members of Congress, the Federal Trade Commission, and the Department of Justice,⁴

² A copy of HP's Annual Report for Fiscal 2012 is available at <http://h30261.www3.hp.com/phoenix.zhtml?c=71087&p=irol-irhome> (last visited April 1, 2013).

³ RAND is an acronym for reasonable and non-discriminatory and is sometimes referred to as FRAND (fair, reasonable, and non-discriminatory), depending on the applicable standard. For the purposes of this comment, RAND is used to refer to both.

⁴ See, e.g., *DOJ Antitrust Chief Warns Of Patents' Antitrust Risks*, Law360 (Sept. 21, 2012), <http://www.law360.com/articles/380674/doj-antitrust-chief-warns-of-patents-antitrust-risks>; *Certain Wireless Communication Devices, Portable Music And Data Processing Devices, Computers And Components Thereof*, Inv. No. 337-TA-745, Third Party U.S.F.T.C.'s Statement on the Public Interest (June 6, 2012); *Id.*, Statement on the Public Interest By Certain Members of the U.S. Senate (June 19, 2012).

that exclusionary relief for the infringement of patents that are subject to a RAND licensing commitment should rarely, if ever, be available. Many entities have argued that exclusionary relief for RAND-encumbered SEPs has the potential to impact the public in a significantly detrimental way.⁵ Moreover, although not binding on the ITC, Justice Kennedy's concurrence in *eBay* indicated that it is frequently not in the public interest to grant an injunction to entities that "use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006). Similarly, Judge Richard Posner recently held that a RAND "royalty would provide all the relief to which [a plaintiff] would be entitled if it proved infringement of the [] patent, and thus it is not entitled to an injunction." *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp.2d 901, 915 (N.D. Ill. 2012). And as the Ninth Circuit has stated, a RAND commitment "is, at least arguably, a guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made." *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 884 (9th Cir. 2012) (citing *Apple*, 869 F. Supp.2d at 913-14).

Here, Submitting Parties believe that the public interest should preclude Section 337 relief for infringement of an asserted patent where the patentee has declared the patent essential to practicing the standard at issue and has committed to license the patent on RAND terms. No exclusion remedy should be available in investigations involving such patents⁶ unless (i) a U.S. court with competent jurisdiction or binding arbitrator previously determined (prior to institution of the ITC investigation) in a final, non-appealable judgment that the complainant has made an offer including royalty to the respondent that satisfied its RAND obligations and the respondent rejected the offer; or (ii) the respondent and its affiliates are not subject to the jurisdiction of U.S. courts and the ITC *in rem* authority is the only recourse. Even if one of the above exceptions is met, an exclusion order or cease and desist order should not be automatic and may not be appropriate after weighing the public interest factors.

⁵ See, e.g., *Certain Wireless Communication Devices, Portable Music And Data Processing Devices, Computers And Components Thereof*, Inv. No. 337-TA-745, Nokia's Public Interest Submission (June 6, 2012); *Id.* at AT&T's Public Interest Submission (June 8, 2012); *Id.* at Verizon's Public Interest Submission (June 6, 2012); *Id.* at Hewlett-Packard's Public Interest Submission (June 6, 2012); *Id.* at Business Software Alliance's Public Interest Submission (June 6, 2012); *Id.* at Association for Competitive Technology's Public Interest Submission (June 6, 2012); *Id.* at Retail Industry Leaders Association's Public Interest Submission (June 6, 2012); *Id.* at Nineteen Economists and Law Professors' Public Interest Submission (July 9, 2012).

⁶ Where ownership of a patent has transferred after the patent has become subject to a RAND commitment, the patent remains RAND-encumbered because the RAND commitment travels with the ownership of the patent; thus, the proposed rule precluding relief would still apply in situations where ownership of the patent has changed. Additionally, preclusion before the ITC is not avoided where the entity making the declaration of essentiality is related to the entity owning the patent or is making the declaration on behalf of the entity owning the patent, even if it is not the entity owning the patent.

Submitting Parties believe that the existing legal framework already permits a finding of no relief for infringement of RAND-encumbered SEPs, whether through a license immunity defense, an implied license defense, consideration of the public interest factors, or another defense. *See, e.g.*, 19 U.S.C. § 1337(c) (“All legal and equitable defenses may be presented in all cases.”). For example, in *Certain Dynamic Random Access Memories, Components Thereof, and Products Containing Same* (“*DRAMS*”), the investigation was terminated as to Hitachi based on a mutual obligation to negotiate a license, even though a license had not yet been executed. *DRAMS*, Inv. No. 337-TA-242, Final ID, 1987 ITC LEXIS 95, at *27-*32 (May 21, 1987) (dismissing Hitachi based on a licensing immunity from suit). Thus, an ALJ has previously terminated an investigation on the basis of an obligation to license.⁷

III. The *Georgia-Pacific* factors are an unreliable indicator for assessing a reasonable RAND license and should not be considered.

As explained above, in the overwhelming majority of cases, Submitting Parties believe it would be inappropriate for the ITC to provide relief for infringement of RAND-encumbered SEPs. But, to the extent the ITC was to engage in a reasonable royalty analysis for infringement of RAND-encumbered SEPs, that analysis should not take into account the *Georgia-Pacific* factors.

Rejection of the *Georgia-Pacific* factors is not a novel concept. More than a dozen entities, including Cisco and HP, advocated for rejection of the *Georgia-Pacific* factors in determining a reasonable royalty in a Brief of Amici Curiae filed in the Federal Circuit in *Apple Inc. v. Motorola, Inc.*⁸ (the “Apple/Motorola Amicus Brief”). Consistent with the arguments in the amicus brief, use of the *Georgia-Pacific* factors in arriving at a reasonable royalty has become increasingly divorced from an economically sound framework tied to the value of the patented invention. These factors have limited to no utility in the context of today’s complex products and processes. This is particularly true in the context of RAND-encumbered SEPs.⁹

⁷ The Commission subsequently vacated the portions of the ID pertaining to Hitachi on the basis of a settlement agreement between Hitachi and the complainant. *DRAMS*, Comm’n Op. at 2 n.5 (Sept. 21, 1987).

⁸ *See* Document 93, filed on 12/06/2012, in Case Nos. 2012-1548, pending before the United States Court of Appeals for the Federal Circuit.

⁹ The methodology for determining a reasonable royalty for the purposes of calculating patent infringement damages is not necessarily the same as for determining whether a RAND or FRAND offer has been made, making use of the *Georgia-Pacific* factors in this context perhaps even less appropriate.

More than forty years have passed since the Southern District of New York's identification of fifteen non-exclusive factors that may be relevant in determining a reasonable royalty. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970). But the list of fifteen factors provides little, if any, guidance on how they are to be applied. As Judge Posner noted in the district court decision in *Apple*,

[The *Georgia-Pacific* factors are] a formidable list. The “some” in the second sentence is particularly rich—how many additional factors may be lurking somewhere? And could a judge or a jury really balance 15 or more factors and come up with anything resembling an objective assessment?

Apple, 869 F. Supp.2d at 911. See *ResQNet.com v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010) (describing the list of *Georgia-Pacific* factors as “unprioritized and often overlapping” and that application of the factors “seem[s] often to involve more the talents of a conjurer than those of a judge.”). The Federal Trade Commission has echoed these concerns about the unreliability of the *Georgia-Pacific* factors, noting that the factors “provide a grab bag for use by parties seeking to establish whatever reasonable royalty serves their purposes.”¹⁰ These concerns are particularly acute in the context of modern information technology and consumer electronics products, which can encompass hundreds or even thousands of inventions.

At most, the *Georgia-Pacific* factors represent a non-exhaustive list of potential evidence that may be—but is not necessarily—relevant to a damages analysis in any given case. A proper reasonable royalty analysis need not take into consideration *any* of the fifteen *Georgia-Pacific* factors, and there may be even less basis to take these factors under consideration in determining whether a RAND offer has been made. *Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 31 (Fed. Cir. 2012). Accordingly, Submitting Parties believe that the *Georgia-Pacific* factors should play no role in the ITC's consideration of remedies for infringement under Section 337 of the Tariff Act. In contrast to the unreliable *Georgia-Pacific* factors, there are at least three methodologies that could apply to arrive at a reasonable royalty: (1) determination of the incremental value of the patented invention over the next best alternative; (2) determination of the patented invention's value through apportionment; and (3) consideration of an established royalty for the patented invention to determine its economic value.¹¹ These methodologies are

¹⁰ FEDERAL TRADE COMMISSION, *The Evolving IP Marketplace: Aligning Patent Notice And Remedies With Competition* at 184 (March 2011), available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>.

¹¹ Although these methodologies can be appropriate in the right circumstances to determine a *reasonable royalty*, a reasonable royalty and a RAND royalty are not exactly the same. Given that there is limited precedent concerning how to determine what constitutes a RAND royalty, it would be particularly inappropriate for the ITC to try to reach such a determination here.

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addressed, respectively, in *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1159 (6th Cir. 1978); *Hughes Tool Co. v. G.W. Murphy Indus., Inc.*, 491 F.2d 923, 931 (5th Cir. 1973); *Smithkline Diagnostics, Inc. v. Helena Labs. Corp.*, 12 U.S.P.Q.2d 1375, 1379 (E.D. Tex. 1989), *aff'd*, 926 F.2d 1161 (Fed. Cir. 1991), and in the Apple/Motorola Amicus Brief at 11-20.

Submitting Parties thank the Commission for this opportunity to express our views.

Sincerely,

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