

Realtek V. LSI: Will ITC Defer To District Court?

Law360, New York (August 02, 2013, 1:10 PM ET) -- Entities participating in technology standard-setting organizations are typically required to promise, in some fashion, to license patents essential to any resultant standard on reasonable and nondiscriminatory terms. Years later, once the standard has been promulgated, those essential patents may be asserted in litigation and the patent holder is expected to live up to its RAND promises.

A thorny issue for courts and litigants in the context of standards essential patents is the determination of what royalty terms are “reasonable and nondiscriminatory” for purposes of damages as well as the patent holder’s compliance with its RAND obligations — see, e.g., Judge James L. Robart’s recent decision regarding [Motorola Mobility LLC’s RAND](#) obligations vis-a-vis [Microsoft Corp.](#)[1]

But what if an essential patent holder initiates Section 337 litigation in the United States International Trade Commission, where monetary damages are not available, and the remedy for patent infringement is an exclusion order barring the importation of products into the United States — akin to injunctive relief? Is ITC Section 337 litigation fundamentally incompatible with an essential patent holder’s RAND obligations? Should a patent holder be prevented from seeking an exclusion order at the ITC when SEPs are the subject matter of the investigation?

According to at least one recent California district court, the answer is “yes.” In *Realtek Semiconductor Corp. v. LSI Corp.*, No. C-12-03451 (N.D. Cal. filed June 29, 2012), an SEP holder had initiated a Section 337 investigation (Inv. No. 337-TA-837 or “the -837 Investigation”) at the ITC based on alleged SEPs before offering a license to the respondent prior to filing the complaint. The respondent then brought suit in the Northern District of California for breach of contract, alleging that the SEP holder had breached its RAND obligations by pursuing an ITC remedy.

In a May 20, 2013, order granting summary judgment, Judge Ronald Whyte held that the failure to offer a license prior to initiating the -837 investigation constituted a breach of the patentee’s RAND obligations. Accordingly, he enjoined the patentee from “enforcing any exclusion order or other injunctive relief by the ITC” that might issue in connection with the allegedly essential patents at issue until such time as the court had the opportunity to determine the scope of the patentee’s RAND obligations and the patentee had complied therewith.

But how will Judge Whyte’s ruling impact the ITC’s decision in the co-pending -837 investigation? Judge Whyte’s injunction could be interpreted as extending only to the SEP holder and its ability to enforce any exclusion order that might ultimately issue from the ITC. If so, the commission would be free to chart its own course. Should the ITC decide that an exclusion order is warranted notwithstanding the patentee’s alleged RAND obligations, that exclusion order would be enforced by [U.S. Customs and Border Protection](#) — not the patentee subject to Judge Whyte’s injunction — potentially eclipsing the injunction’s practical impact.

Indeed, Administrative Law Judge David Shaw issued his initial determination on July 18, 2013, and, though the full content of this determination remains confidential, the publicly issued notice indicates that Judge Shaw rejected the respondents' RAND-related defenses (but found noninfringement of the alleged SEPs on other grounds).[2] The ITC will almost certainly be asked to review this determination over the coming weeks and months.

What will the ITC do? The ITC recently addressed similar issues in Investigation No. 337-TA-794 ("the -794 investigation") — one of the many battlefronts in the [Apple Inc.-Samsung Electronics Co. Ltd. war](#). In the -794 Investigation, which had been initiated by Samsung, Apple asserted that alleged Samsung RAND obligations prevented Samsung from obtaining an ITC remedy.

ALJ E. James Gildea declined to adopt such arguments, but found that Apple had not violated Section 337 for other reasons. On review, the commission sought two rounds of extensive briefing of issues such as whether it had the authority to issue exclusion orders where RAND obligations involved; whether RAND obligations were in fact involved in the -794 investigation; the licensing negotiation history between Apple and Samsung; and how the so-called [Georgia-Pacific](#) factors impacted the analysis.[3] After receiving such briefing, the commission determined that it would issue an exclusion order barring the importation of certain Apple iPhone and iPad models notwithstanding the alleged Samsung RAND obligations.

First, the commission rejected any suggestion that it lacks jurisdiction to conduct a Section 337 investigation merely because an asserted patent is allegedly encumbered by RAND obligations, holding that there is no per se rule preventing it from proceeding with an investigation in that context. As a policy matter, the commission indicated that it did not intend to become a "forum of last resort," available only after court proceedings have failed to provide a remedy.

The commission also voiced concerns with so-called "reverse patent hold-up," which it explained could occur when "an implementer utilizes declared-essential technology without compensation to the patent owner under the guise that the patent owner's offers to license were not fair or reasonable." In such instances, the patent owner should not be deprived of an ITC remedy, the commission opined.

Nevertheless, the commission acknowledged that an ITC respondent may raise RAND-related affirmative defenses to alleged infringement and suggested that such defenses may be based on, e.g., contractual theories, estoppel, laches or fraud. Such defenses must be proven by a preponderance of the evidence. And, the commission held, in the -794 investigation Apple failed to satisfy its burden. For example, the commission found that Apple failed to properly base its arguments on any recognized legal or equitable affirmative defenses. The commission also held that Apple failed to prove what Samsung's alleged RAND obligations were as a substantive matter, in part because those obligations should be interpreted under French law, and Apple had provided no evidence in that regard.

The commission further held that, in any event, the essentiality of the patents-at-issue

had not even been established, calling into question whether Samsung in fact did have RAND obligations. Finally, the commission conducted an analysis of the lengthy Apple-Samsung licensing negotiation history and determined that Apple had not established that Samsung's negotiations were unreasonable or in bad faith.

Even before the ink on the commission's -794 final determination had dried, critics were condemning the decision as erecting unfair obstacles to any effective presentation of RAND defenses in the ITC. For their part, Apple and Samsung quickly elevated their RAND dispute to the United States Trade Representative, which has the authority to veto exclusion orders on behalf of the president during the statutorily mandated period of presidential review, debating the global policy ramifications of the commission's decision in hotly contested briefing. The final chapter in -794 may not have been written.

Ultimately, whether the -794 ruling foreshadows an institutional reluctance at the ITC to defer to district courts and/or to withhold its remedies from an SEP holder even in the face of RAND obligations, or whether the ruling will be limited to the specific procedural and factual setting of the -794 Investigation, or whether the USTR will push the commission in a different direction altogether, remains an open question. The ITC's upcoming review of Judge Shaw's initial determination in the -837 investigation — which will be juxtaposed with Judge Whyte's Realtek injunction for all to see — will undoubtedly provide further insights as to the commission's outlook on these hot-button issues. And it will undoubtedly provoke new controversies. ITC practitioners are watching with anticipation.

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[1] Microsoft Corp. v. [Motorola Inc.](#), No. C10-1823JLR (W.D. Wash. April 25, 2013). Sidley Austin LLP represents Microsoft Corporation in connection with this litigation matter.

[2] The public version of the ID should issue in or around mid-August, 2013, and will disclose Judge Shaw's reasoning.

[3] See 77 Fed. Reg. 70464 (Nov. 26, 2012); 78 Fed. Reg. 16865 (Mar. 19, 2013).
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