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## Federal Circuit Precedent Should Govern Enforcement of RAND Commitments

### Patent Injunctions

Owners and prospective licensees of purported standard-essential patents need clear, controlling law to guide their business decisions, writes Elizabeth H. Rader, counsel at Alston & Bird. She outlines at least four ways that clarity could be achieved.



BY ELIZABETH H. RADER

Industry standards facilitate the adoption and advancement of new technologies by enabling industry players to develop products that interoperate. But technical standards create risks of patent holdup, and patent holdout. To address these risks, standard-setting organizations (SSOs) have adopted rules, policies, and procedures requiring participants to disclose whether they hold relevant intellectual property. If so, they are asked to commit to license their portfolios on reasonable (or fair and reasonable) and nondiscriminatory terms (RAND or FRAND). The vagueness of the phrase “reasonable and nondiscriminatory terms” has spawned many hotly litigated disputes about what are reasonable royalty rates and other terms.

Various courts around the nation (and world) have worked hard to decide, case by case, how to determine

reasonable royalty rates and terms for specific standard-essential patent (SEP) portfolios. These have been well-reported and analyzed. Equally important, however, is what, if any, effect RAND commitments have on what remedies a patentee can seek in litigation. Specifically, under what circumstances can they sue implementers, in any jurisdiction, seeking injunctive relief? Can the proposed licensee obtain an anti-suit injunction in a U.S. court against the patentee suing it in a foreign court? To the consternation of both prospective licensors and licensees, courts that have considered these questions have reached inconsistent conclusions, even when interpreting the same, or nearly the same, commitment declaration language. The U.S. Court of Appeals for the Federal Circuit has largely avoided resolving them by directing the district courts to decide appropriate relief on a case-by-case basis.

One court to rule on the injunctive relief issue was the Western District of Washington in *Microsoft Corp. v. Motorola Inc.*, 871 F. Supp.2d 1089 (W.D. Wash. 2012). Microsoft sued Motorola for breach of its RAND obligations when the two companies failed to agree on RAND license terms. Whether Motorola could properly sue for an injunction was an issue already before that court when Motorola did so, suing Microsoft in Germany asserting two different SEPs relating to the same

*Elizabeth H. Rader began her legal career clerking at the Federal Circuit and the Eastern District of Virginia. She is counsel at Alston & Bird LLP, where she specializes in intellectual property litigation in the U.S. district court and courts of appeals.*

standard. The district court entered an injunction against Motorola enforcing any injunctive relief it obtained in the German court until the district court had ruled on the effect of Motorola's commitments. Motorola immediately appealed that decision to the U.S. Court of Appeals for the Ninth Circuit. Affirming the district court's issuance of the preliminary injunction, the circuit court described the patentee's declarations as "a sweeping promise." It found implicit in that promise, "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."

Another district judge independently reached a similar conclusion in *Apple Inc. v. Motorola Inc.*, 869 F. Supp. 2d 901, 913-14 (N.D. Ill. 2012): "By committing to license its patents on FRAND terms, Motorola committed to license the '898 to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent."

A 2013 decision from the Northern District of California arguably went even further than *Microsoft* to protect third-party beneficiaries of commitments to an SSO in *Realtek Semiconductor Corp. v. LSI Corp.*, No. 5:12-cv-03451. Realtek's claim alleged that LSI bringing any infringement claims violated the patentee's commitments. Realtek alleged that "companies that rely on those commitments are entitled to avoid becoming embroiled in patent controversies and to receive the benefit of an offer of a reasonable and non-discriminatory license." (emphasis added). The district court agreed, granting Realtek's motion for partial summary judgment.

But others have reached the opposite conclusion. A Western District of Wisconsin court found in *Apple Inc. v. Motorola Mobility Inc.*, No. 3:11-cv-00178, that none of the Institute of Electrical and Electronics Engineers or European Telecommunications Standards Institute patent policies precluded Motorola (or any other patent owner) from pursuing an injunction or other relief as a remedy for infringement. The court reasoned:

[I]n light of the fact that patent owners generally have the right to seek injunctive relief both in district courts, 35 U.S.C. § 283, and in the International Trade Commission, 19 U.S.C. § 1337(d), I conclude that any contract purportedly depriving a patent owner of that right should clearly do so. The contracts at issue are not clear. Therefore, I conclude that Motorola did not breach its contracts simply by requesting an injunction and exclusionary order in its patent infringement actions.

The Federal Circuit has almost exclusive jurisdiction over appeals concerning patent rights. It thus has a special obligation to avoid or remove inconsistencies between different jurisdictions' interpretations of the Patent Act. But to date, the Federal Circuit has not been terribly helpful to district courts in discussing the availability of injunctive relief for use of RAND-encumbered technology. Reviewing the Northern District of Illinois's *Apple* decision, the court held that there is no *per se* rule that injunctions are unavailable for owners of SEPs. The court declined to create a separate rule or analytical framework for addressing injunctions for FRAND-committed patents. Instead, it directed district courts to analyze each case by applying the traditional

permanent injunction factors laid out in *eBay Inc. v. MercExchange LLC*, 547 U.S. 388 (2006). But as long as courts disagree about how to construe the language of patent holders' declarations and commitments, they will still come to inconsistent decisions about whether an injunction is ever proper in this context.

Randall Rader, then the chief judge of the Federal Circuit, dissented from the affirmance of the district court's denial of an injunction. He agreed that a *per se* rule was inappropriate. But he concluded that the district court could not properly apply the *eBay* test without deciding "was Motorola's offer actually FRAND?" and whether Apple was actually a willing licensee or a holdout.

The regional circuit courts are also effectively split on whether the implementer can obtain an anti-suit injunction against the patentee seeking injunctive relief in a different forum, be it another district court, a court in a foreign nation, or before the International Trade Commission. This is because they are split on how to properly analyze motions for anti-suit injunctions generally. An anti-suit injunction against foreign proceedings is rare in the Third Circuit, for example. Courts will only enjoin foreign parallel litigation to protect their jurisdiction or to vindicate an "important public policy." (*General Electric Co. v. Deutz AG*, 270 F.3d 144, 161 (3d Cir. 2001)).

In contrast, under the Ninth Circuit's liberal standard, a court must determine whether the continuation of the foreign litigation would frustrate a policy of the forum issuing the injunction. Court policies against avoiding inconsistent judgments, against forum shopping, and against engaging in duplicative and vexatious litigation satisfy this test. As a result, district courts in liberal-standard circuits are far more likely to enjoin litigation in other courts. For its part, the Federal Circuit — the court expected to apply the Patent Act uniformly to appeals from all district courts — has not yet expressly considered the propriety of an anti-suit injunction to enforce a patentee's RAND commitments, as raised in *Motorola* and *Realtek*.

This is unfortunate because owners and prospective licensees of purported SEPs need clear, controlling law to guide their business decisions. There are at least four ways that clarity could be achieved:

- The SSOs could make their policies more explicit, and thus easier for district courts to interpret and enforce — promoting, but not ensuring, more consistent rulings. But SSOs have shown no interest in doing so.

- Congress could amend the Patent Act to clarify whether the remedies for unlicensed use of SEPs include injunctive relief, but in the current political environment, that also seems unlikely.

- The Supreme Court could agree to hear a case that presents the issue. But the high court might view the issue as premature for decision until it has percolated through more district and appeals courts to ventilate the arguments for each interpretation.

- Because the Federal Circuit has a special obligation to improve uniformity in interpretations of the Patent Act, it seems to be the most likely actor to decide whether and in what circumstances a court can issue an injunction against a patentee asserting RAND-encumbered patents, even in the context of the *eBay* framework.

There are at least two ways the issue might come before the Federal Circuit. The first is a traditional appeal

from a final judgment such as a summary judgment or judgment after a trial. But that path is far from ideal. First, in the meantime, district courts will follow regional circuit precedents, leaving both patentees and potential licensees feeling that their rights depend on where a given case is being decided. Second, settlement at any stage is more difficult if the parties have vastly different expectations about the potential damages. But parties may settle anyway for business reasons, obviating the need to appeal to the Federal Circuit and thus letting important issues evade review.

A more efficient scenario is that a district judge confronted with RAND litigation stages the proceedings so as to decide the RAND obligation issues, specifically entitlement (or not) to seek injunctive relief, early. After that ruling, the losing party would have the right to immediately appeal that decision to the Federal Circuit. The Federal Circuit has jurisdiction to promptly review a district court's decision granting, denying, or modifying an injunction if it will have jurisdiction to review the final judgment. That could even happen this year: In mid-April, a court in the Northern District of California granted Samsung Electronics Co. Ltd.'s motion to enjoin Huawei Technologies from enforcing orders of a Chinese court until the U.S. court had the ability to determine Huawei's breach-of-contract claim.

The Federal Circuit reviews decisions involving issues of civil procedure applying the precedents of the regional circuit in which the district court is located. But it applies its own law to substantive and procedural issues that are intimately involved in the substance of enforcement of patent rights. Therefore, to resolve the circuit split over anti-suit injunctions, the court would have to first conclude that the procedural anti-suit issue in a case involving RAND-obligated patents concerns substantive patent rights, not merely interpretation and enforcement of contracts.

There is reason to believe that the Federal Circuit would treat both the availability of an injunction of infringement and the proper standard for an anti-suit injunction in the SEP context as issues "intimately involved in the substance of enforcement of the patent

right." Specifically, the court has considered how district courts should formulate jury instructions concerning FRAND commitments for purposes of deciding reasonable royalty damages. In *Ericsson Inc. v. D-Link Systems Inc.*, 773 F.3d 1201 (Fed. Cir. 2013), the appellant argued that the district court erred by giving a standard jury instruction on determining a reasonable royalty that recites the *Georgia Pacific* factors and by refusing to instruct the jury on the additional FRAND-specific issues of patent holdup and royalty stacking. The judge observed that the issue of proper jury instruction was one of first impression because only three district courts had considered how to calculate appropriate RAND damages. The circuit court agreed that the district court erred by giving a standard jury instruction on determining a reasonable royalty. Instead, "[t]rial courts should also consider the patentee's actual RAND commitment in crafting the jury instruction." Thus, the Federal Circuit, at least based on *Ericsson*, seems to treat RAND obligations as an issue intimately involved in the substance of patent rights rather than merely one of contract law. If so, it will apply its own law, not regional circuit law, even though the issue is technically procedural.

Of course, there would be limits to the precedential effect of a Federal Circuit ruling. The Federal Circuit prefers to decide cases narrowly when possible. The court might well construe only the specific language of the RAND commitment drafted by the specific SSO concerned, leaving interpretation of different SSOs' RAND provisions for a later appeal and opinion. But even if the court only construed, for example, the obligations created by a disclosure of SEPs to the International Telecommunication Union (ITU), that precedent that would guide participants in industries where ITU standards are critical. And some SEP cases implicate multiple patent policies. For now, however, owners of SEPs and standard implementers will have to wait for an appeal presenting the right facts to tee up the issues for the Federal Circuit and perhaps, eventually, the Supreme Court.