

IN THE
**United States Court of Appeals
for the Ninth Circuit**

REALTEK SEMICONDUCTOR CORPORATION,
A TAIWANESE CORPORATION,

Plaintiff-Appellee,

v.

LSI CORPORATION, A DELAWARE CORPORATION;
AND AGERE SYSTEMS LLC,

Defendants-Appellants.

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA AT SAN JOSE

**BRIEF OF PUBLIC KNOWLEDGE
AS *AMICUS CURIAE* IN SUPPORT OF APPELLEE**

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Federal Rule of Appellate Procedure 26.1, *amicus curiae* Public Knowledge states that it has no parent corporation or publicly held corporation that holds 10% or more of its stock.

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INTEREST OF *AMICUS CURIAE*

Amicus curiae Public Knowledge is a non-profit organization that is dedicated to preserving the openness of the Internet and the public's access to knowledge, promoting creativity through balanced intellectual property rights, and upholding and protecting the rights of consumers to use innovative technology lawfully. As part of this mission, Public Knowledge advocates on behalf of the public interest for a balanced patent system, particularly with respect to new and emerging technologies.

Public Knowledge has previously served as *amicus* in key patent cases. *E.g.*, *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014); *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014); *Ultramercial, Inc. v. Hulu, LLC*, 772 F. 3d 709 (Fed. Cir. 2014).

Pursuant to Rule 29(c)(5), no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of the brief. No person or entity, other than *amicus*, its members, or its counsel, made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

The controversy in this case is over a unique type of contract, an agreement between a technology-inventing company that proposed a technology standard and the standard-setting organization that adopted the standard. The contractual subject matter is not performance of services or shipment of goods, but rather a promise by the company to license its patents *to others* on fair, reasonable, and non-discriminatory terms. The beneficiaries are third parties external to the agreement, including the party enforcing that contract today.

Such a contract, called FRAND after the promised licensing terms, strongly implicates the public interest. The promise is made to the public, the beneficiary is the public, and the public is charged with enforcing the terms. It is fully appropriate to interpret that contract in view of the public interest.

Read in view of the public interest, the FRAND agreement should be construed to broadly proscribe activities that create “patent holdup,” namely a situation in which a patentee’s market power resulting from the patent’s being incorporated into a standard allows that patentee to demand unreasonably high royalties beyond the actual value of the patent. Patent holdup is widely recognized by scholars, federal authorities, and courts to be a real problem with direct impact on the consumer interest, and as this Court has recognized, the FRAND agreement is intended specifically to deal with that problem.

The filing of an action before the U.S. International Trade Commission creates exactly this type of holdup situation. The ITC's exclusionary remedies effectively block products from being sold in the United States, thus amounting to a form of injunctive relief. Such a threat to a product manufacturer or vendor, that its products will be held off of the market until it negotiates a license with the patentee, creates undue negotiating leverage that may enable the patentee to extract unduly high royalties—thus precisely satisfying the conditions for patent holdup.

Accordingly, by creating a patent holdup situation, the filing of an ITC action can contravene the public interest and thus constitute a breach of the FRAND agreement. The judgment of the district court should thus be affirmed.

ARGUMENT

This Court should consider the public interest when interpreting FRAND contracts such as the ones at issue. As explained below, public interest considerations apply to FRAND contracts such as the one at issue, and the district court's analysis properly applied those public interest considerations.¹

I. THE FRAND AGREEMENT IS NO ORDINARY CONTRACT, BUT RATHER A PUBLIC PROMISE TO BE CONSTRUED FOR THE PUBLIC INTEREST

A technology standard is an agreement among companies to structure a certain aspect of technology in a common way. The H.264 standard, for example, specifies a way of encoding video into a data file, while the 802.11 standard describes a way for computers to exchange data by radio signals over a wireless network. *See, e.g., Microsoft Corp. v. Motorola, Inc.*, No. 2:10-cv-1823, slip op. ¶ 16 (W.D. Wash. Apr. 25, 2013). The standard is adopted through a multistakeholder process driven by technology companies and shepherded by so-called standard-setting organizations.

The standard-setting process has important implications for the development of new technologies. Accordingly, it substantially implicates the public interest, for at least the reasons explained below.

¹Much of this brief is drawn from Brief of *Amicus Curiae* Public Knowledge in Support of Appellee, *Microsoft Corp. v. Motorola, Inc.*, No. 14-35393 (9th Cir. Nov. 21, 2014). *Amicus curiae* takes no position on issues on appeal not discussed herein.

A. TECHNOLOGY STANDARDS PROMOTE INNOVATION, BUT ONLY WHEN THEY PROMOTE COMPETITION

Technology standards are a double-edged sword. On the one hand, standards promote interoperability, that is, the ability of technological devices to communicate and interact with other devices in a consistent manner; interoperability due to standards has been the hallmark of all modern computer innovation. On the other hand, standards can be abused to produce antitrust problems and monopolistic quagmires. Thus, without proper governance by standard-setting organizations, technology standards will not necessarily benefit the public.

Interoperability is central to the rapid growth of computer technology. Computer components permit interoperability through “interfaces,” that is, rules and syntax for communicating with those components, which other computer elements may use to achieve predictable results. Microsoft Windows famously maintained a consistent interface for many years, allowing for the creation of numerous Windows software programs. See Ian Murdock, *On the Importance of Backward Compatibility*, Ian Murdock’s Weblog (Jan. 14, 2007), URL *supra* p. (vii). Furthermore, the success of the Internet has been credited to its “use of a common protocol,” a single language with which all contemporary computers can communicate. Paul E. Ceruzzi, *A History of Modern Computing* 295–96 (2d ed. 2003). Every web page owes its existence to the HyperText Transport Protocol by which computers obtain web pages. See T. Berners-Lee et al., *Hypertext*

Transfer Protocol—HTTP/1.0 (1996), available at URL *supra* p. (vi). Each of these interfaces—Windows, the Internet, HTTP—served as a springboard for enormous advancement of technology, because each allowed for interoperability.²

“[S]tandards that ensure the interoperability of products,” as one court has said, benefit the public by “enhancing the utility of all products and enlarging the overall consumer market.” *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 308 (3d Cir. 2007); accord *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 876 (9th Cir. 2012). Similarly, the Supreme Court has noted that “private standards can have significant procompetitive advantages,” and the Federal Trade Commission in one proceeding found its record “replete with discussion of the procompetitive role of standard-setting organizations.” *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 501 (1988); *In re Dell Computer Corp.*, 121 F.T.C. 616, 626 (1996).

However, standards can also negatively impact the public interest by creating anticompetitive situations, as recognized by all of the authorities cited above. The standard-setting process “can be rife with opportunities for anticompetitive activity.” *Allied Tube*, 486 U.S. at 571. *Broadcom* found specifically that the holder of a patent on standardized technology is in a “unique position of bargaining power” in which it “may be able to extract supracompetitive royalties from the

²This paragraph was drawn from Brief of *Amicus Curiae* Public Knowledge in Support of the Petition at 8–9, *Google, Inc. v. Oracle Am., Inc.*, No. 14-410 (Nov. 7, 2014).

industry participants.” 501 F.3d at 310; *see also Microsoft Corp.*, 696 F.3d at 876 (“[S]tandards threaten to endow holders of standard-essential patents with disproportionate market power.”); *Dell Computer Corp.*, 121 F.T.C. at 624 n.2 (“[T]he standard effectively conferred market power upon Dell as the patent holder.”).

Accordingly, the challenge for standard-setting organizations, as well as for the courts interpreting the actions of those bodies, is to craft a standard-setting system that achieves the procompetitive interoperability benefits, while avoiding the anticompetitive market power problems arising from patents on the standard.

B. FRAND AGREEMENTS ENSURE THAT STANDARDS DO NOT INTERFERE WITH THE PUBLIC INTEREST IN COMPETITIVE INNOVATION

To ensure that technology standards succeed without creating the anticompetitive concerns described above, standard-setting organizations require companies participating in the standardization process to disclose patents relevant to a standard. *See, e.g.,* Int’l Electrotechnical Comm’n et al., *Guidelines for Implementation of the Common Patent Policy for ITU-T/ITU-R/ISO/IEC 2* (2012), available at URL *supra* p. (vii) (“[A]ny party participating in the work of the Organizations should, from the outset, draw their attention to any known Patent . . .”). Such patents are known as “standard-essential patents” or “SEPs.”

The organization will then generally require the patent owner, in exchange for adopting the standard, to agree to license its patent to others on Fair, Reasonable,

And Non-Discriminatory terms. *See id.* at 3; Anne Layne-Farrar et al., *Pricing Patents for Licensing in Standard-Setting Organizations: Making Sense of FRAND Commitments*, 74 Antitrust L.J. 671 (2007). This so-called FRAND³ agreement ensures that product manufacturers and other people wishing to use the standard will not be unduly impeded by the patent owner from doing so.

The purpose of the FRAND agreement is to ensure the public interest in allowing access to the standard and avoiding concerns for monopolistic behavior by holders of standard-essential patents. *See, e.g.*, Layne-Farrar et al., *supra*, at 672. Courts have specifically recognized that FRAND commitments “guard against anticompetitive patent hold-up” and that attempting to skirt such commitments can constitute an antitrust violation of § 2 of the Sherman Act, among other things. *E.g., Broadcom*, 501 F.3d at 313, 315. *See generally* note 6 *infra* p. 12 (citing cases). Similarly, two technology standards are at issue in this case, and *both* of the organizations promulgating those standards adopted FRAND agreements to forestall monopolistic behavior and ensure public access.⁴

³Sometimes the “Fair” component is dropped, to refer to a RAND agreement; FRAND and RAND are understood to mean the same thing.

⁴Int’l Telecomm. Union, *Understanding Patents, Competition and Standardization in an Interconnected World* 83 (2014), available at URL *supra* p. (vii) (“The overriding objective of the ITU patent policy is ‘that a patent embodied fully or partly in a Recommendation/deliverable must be accessible to everybody without undue constraints.’”); Brief of *Amicus Curiae* the Institute of Electrical and Electronics Engineers, Incorporated in Support of No Party at 22, *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201 (Fed. Cir. Dec. 20, 2013) (Nos. 13-1625, -1631, -1632 &

This public interest concern in access to the standard dominates over the private interest of compensation to patent holders. By mere adoption of patented technology into the standard, patent holders already receive an enormous economic benefit: every implementer of the standard must purchase licenses, effectively guaranteeing revenue to the patent holders. The purpose of the FRAND agreement is to cabin that revenue to a level that avoids antitrust concerns and promotes competitive implementation of the standard.

C. THE FRAND AGREEMENT MUST BE CONSTRUED IN THE PUBLIC INTEREST BECAUSE IT IS CRAFTED FOR THE PUBLIC INTEREST

Since FRAND agreements are designed to prevent anticompetitive behavior and promote the public interest in access to standards, it is appropriate to construe such agreements in view of the public interest. It is well understood that, when the public is an intended beneficiary of a contract, the contract must be interpreted in favor of the public interest. Williston writes that “contracts or agreements affecting the public interest . . . are to be liberally construed in favor of the public.”¹¹ Richard A. Lord, *Williston on Contracts* § 32:18 (4th ed. 2012). Similarly, the Restatement of Contracts states that “a meaning that serves the public interest is generally preferred” when choosing among possible meanings of a contract. Restatement (Second) of Contracts § 207 (1979); *see also Herrera v.*

-1633) (stating IEEE’s commitment to “ensuring that a standard will be genuinely ‘open’ to implementation by all interested parties”).

Katz Commc'ns, Inc., 532 F. Supp. 2d 644, 647 (S.D.N.Y. 2008) (“[A] meaning which serves the public interest . . . is preferred over a meaning which does not.”); Melvin Aron Eisenberg, *Third-Party Beneficiaries*, 92 Colum. L. Rev. 1358, 1387 (1992) (“[C]ontract law properly may give effect to policy and moral concerns that are independent of the contracting parties’ performance objectives.”).

These principles do not flow from ordinary principles of private contract construction. Instead, “[t]he rule favoring the public springs from a different rationale from that underlying the ordinary rules of interpretation. There is no reason to suppose that the parties in fact intended to favor the public, and when a court so assumes, it does so because it is in the public interest to do so.” 11 *Williston on Contracts, supra*, § 32:18; *accord* Restatement (Second) of Contracts § 207, cmt. a. Thus, this Court should clearly state that FRAND agreements are to be interpreted in light of these public interest considerations, to ensure consistency and accuracy of decisions among other courts.

II. ITC ENFORCEMENT OF A PATENT SUBJECT TO A FRAND AGREEMENT CONFLICTS WITH THE PUBLIC INTEREST IN ACCESS TO STANDARDS TECHNOLOGIES

Interpreting the FRAND agreement at issue in this case in view of the public interest principles set forth above, this Court should find that such an agreement would prohibit the contracting party from initiating an investigation before the International Trade Commission in many circumstances such as the facts pre-

sented in this case. This is because the FRAND agreement, read in view of the public interest, strongly disfavors activities that give rise to patent holdup, and launching an ITC action goes directly against that principle.⁵

A. PATENT HOLDUP IS THE EXACT PUBLIC INTEREST CONCERN THAT THE FRAND OBLIGATION AIMS TO ALLEVIATE

The FRAND agreement here, interpreted in view of the public interest, should broadly prohibit practices that lead to patent holdup, because such practices injure consumers at large by creating an anticompetitive environment. As explained previously, serious anticompetitive concerns arise where a party holds patents covering a technology standard. *See Allied Tube*, 486 U.S. at 571; *Broadcom*, 501 F.3d at 310. This Court has defined patent holdup as follows:

As a result, standards threaten to endow holders of standard-essential patents with disproportionate market power. In theory, once a standard has gained such widespread acceptance that compliance is effectively required to compete in a particular market, anyone holding a standard-essential patent could extract unreasonably high royalties from suppliers of standard-compliant products and services. This problem is a form of “patent holdup.”

Microsoft Corp. (citing Mark A. Lemley, *Ten Things to Do About Patent Holdup of Standards (And One Not To)*, 48 B.C. L. Rev. 149 (2007)).

⁵That a FRAND agreement proscribes patent holdup activities such as an ITC action can be justified without resort to public interest principles, as Realtek has already argued in this case; the public interest simply provides a strong additional reason for this interpretation of the agreement.

Indeed, *every single court* to have considered patent holdup in the context of a FRAND patent has concluded it is a real and problematic concern of anticompetitive market power, except for one trial court that was subsequently reversed in part on appeal.⁶ The Federal Trade Commission, an expert in the field of anti-

⁶See *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014) (“SEPs pose two potential problems that could inhibit widespread adoption of the standard: patent hold-up and royalty stacking.”); *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014) (“In addition, the public has an interest in encouraging participation in standard-setting organizations but also in ensuring that SEPs are not overvalued.”); *Lotes Co. v. Hon Hai Precision Indus. Co.*, 753 F.3d 395, 400 (2d Cir. 2014) (“Technical standardization also creates ‘lock-in’ effects and raises the specter of ‘patent hold-ups.’”); *Broadcom*, 501 F.3d at 310 (“Inefficiency may be injected into the standard-setting process by what is known as ‘patent hold-up.’”); *Jaffé v. Samsung Elecs. Co.*, 737 F.3d 14, 30–31 (4th Cir. 2013) (justifying refusal to excuse bankruptcy party from terminating patent licenses because of threat of holdup); *Rambus Inc. v. Fed. Trade Comm’n*, 522 F.3d 456, 459 (D.C. Cir. 2008) (“[T]he technologies adopted in those standards—including those over which Rambus claims patent rights—enjoy a similar level of dominance over their alternatives”); *Interdigital Commc’ns, Inc. v. ZTE Corp.*, No. 1:13-cv-9, 2014 U.S. Dist. LEXIS 72389, at *2 (D. Del. May 28, 2014) (describing practices “to prevent patent holdup”); *Golden Bridge Tech. v. Apple Inc.*, No. 5:12-cv-4882, 2014 U.S. Dist. LEXIS 68564, at *12 (N.D. Cal. May 18, 2014) (describing both holdup and royalty stacking); *GPNE Corp. v. Apple, Inc.*, No. 12-cv-2885, 2014 U.S. Dist. LEXIS 53234, at *31 (N.D. Cal. Apr. 16, 2014) (patentee had “superior bargaining position by virtue of its patents being essential to the standard”); *In re Innovatio IP Ventures, LLC Patent Litig.*, 956 F. Supp. 2d 925, 932 (N.D. Ill. 2013) (standard-essential patent “allows the company to charge inflated prices”); *SK Hynix Inc. v. Rambus Inc.*, No. C-00-20905, 2013 U.S. Dist. LEXIS 66554, at *68–69 (N.D. Cal. May 8, 2013) (“Requiring that the patent be licensed to all on FRAND terms prevents this type of patent ‘hold-up.’”); *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913 (N.D. Ill. 2012) (“The purpose of the FRAND requirements . . . is to confine the patentee’s royalty demand to the value conferred by the patent itself as distinct from the additional value—the hold-up value—conferred by the patent’s being designated as

standard-essential.”), *rev'd in part sub nom. Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286 (Fed. Cir. 2014); *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1067 (W.D. Wis. 2012) (FRAND policies “help to insure that standards do not allow the owners of essential patents to abuse their market power”); *Honeywell Int'l Inc. v. United States*, 107 Fed. Cl. 659, 696 (2012) (standard-setting “carries the risk of creating a degree of market power”); *Multimedia Patent Trust v. Apple Inc.*, No. 10-CV-2618-H, 2012 U.S. Dist. LEXIS 167479, at *79 (S.D. Cal. Nov. 9, 2012) (describing “policy-based desire to prevent a patentee from using the patent to obtain market benefit beyond that which inheres in the statutory patent right”); *Realtek Semiconductor Corp. v. LSI Corp.*, 104 U.S.P.Q.2d (BNA) 1468, 1470 (N.D. Cal. 2012) (“At the same time, technical standardization creates a ‘lock-in’ effect and the risk of ‘patent hold-up.’”); *Apple Inc. v. Samsung Elecs. Co.*, 101 U.S.P.Q.2d (BNA) 1125, 1128 (N.D. Cal. 2011) (“Establishing industry technical standards can create a ‘lock-in’ effect and the risk of ‘patent hold-up.’”); *In re Quimonda AG*, 462 B.R. 165, 182 (E.D. Va. 2011) (“RAND requirements do provide at least some comfort against the hold-up risk that would otherwise exist in an ‘ex post’ licensing negotiation.”), *aff'd sub nom. Jaffé v. Samsung Elecs. Co.*, 737 F.3d 14 (4th Cir. 2013); *Broadcom Corp. v. Qualcomm Inc.*, No. 08-cv-1607, 2009 U.S. Dist. LEXIS 21012, at *6 (S.D. Cal. Mar. 11, 2009) (“If not constrained, the adoption of a patent holder’s technology into a standard can then enable the patent holder to extract monopoly rents”); *Zoran Corp. v. DTS, Inc.*, No. C 08-4655, 2009 U.S. Dist. LEXIS 6675, at *14 (N.D. Cal. Jan. 20, 2009) (noting that false promise to license standard-essential patent on FRAND terms “is actionable anti-competitive conduct under the Sherman Act”); *Research in Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 791 (N.D. Tex. Dec. 11, 2008) (“Thus, the owners of essential patents gain market power.”); *Broadcom Corp. v. Qualcomm Inc.*, No. 05-3350, 2006 U.S. Dist. LEXIS 62090, at *3 (D.N.J. Aug. 31, 2006) (describing FRAND obligation as “designed to prevent a patent-holder from acquiring an unfair advantage when a patent is incorporated into the standard”), *rev'd in part on other grounds*, 501 F.3d 297 (3d Cir. 2007). *But see Ericsson Inc. v. D-Link Sys., Inc.*, No. 6:10-cv-473, 2013 U.S. Dist. LEXIS 110585 (E.D. Tex. Aug. 6, 2013), *rev'd in part sub nom. Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201 (Fed. Cir. 2014). *Ericsson* held that instructions to the jury to specifically consider patent holdup and royalty stacking were not mandatory, but that holding was reached subsequent to the court’s decision that the jury needed to consider the overall effect of the FRAND agreement in awarding royalties. *See* 773 F.3d at 1233–34.

competitive practices, has also highlighted the potential for patent holdup, and has taken action against holders of standard-essential patents in response.⁷ The Department of Justice and U.S. Patent and Trademark Office similarly say that “[c]onsumers of products implementing the standard could also be harmed to the extent that the hold-up generates unwarranted higher royalties,”⁸ and the U.S. Trade Representative has expressed concern that standard-essential patent holders could be “gaining undue leverage and engaging in ‘patent hold-up.’”⁹ Thus, there is widespread agreement that patent holdup is a competition problem that harms consumers, contrary to the FRAND agreement’s intent.

⁷See, e.g., *Dell Computer Corp.*, 121 F.T.C. at 624 n.2 (“[O]nce [the] standard had become widely accepted, the standard effectively conferred market power upon Dell as the patent holder. This market power was not inevitable”); *In re Rambus, Inc.*, No. 9302, at 4 (Fed. Trade Comm’n Aug. 2, 2006) (“Once lock-in occurs, the owner of the standardized technology may be able to ‘hold up’ the industry and charge supracompetitive rates.”), *vacated on other grounds sub nom. Rambus Inc. v. Fed. Trade Comm’n*, 522 F.3d 456 (D.C. Cir. 2008); Third Party United States Federal Trade Commission’s Statement on the Public Interest at 3, *In re Certain Wireless Commc’n Devices, Portable Music & Data Processing Devices, Computers & Components Thereof*, Inv. No. 337-TA-745 (Int’l Trade Comm’n June 6, 2012), URL *supra* p. (viii) (“Hold-up and the threat of hold-up can deter innovation by increasing costs and uncertainty for other industry participants”).

⁸Dep’t of Justice & U.S. Patent & Trademark Office, *Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments* 4 (Jan. 8, 2013), URL *supra* p. (vi).

⁹Letter from Michael B.G. Froman, U.S. Trade Representative, to Irving A. Williamson, U.S. International Trade Commission, *Disapproval of the U.S. International Trade Commission’s Determination in the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Table Computers, Investigation No. 337-TA-794*, at 2 (Aug. 3, 2013), available at URL *supra* p. (vii).

This anticompetitive behavior affects consumers on several levels. First, it raises prices on products subject to holdup royalties, just as any monopolistic practice tends to improperly raise prices for consumers. Second, some product manufacturers will be unable or unwilling to manufacture products when the demanded patent royalties are too high, so consumers will be denied access to some products that would otherwise have been offered to them. *See, e.g.,* Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 *Cornell L. Rev.* 1, 6 (2012) (“Eliminating a big product from the market because of a small patent harms consumers . . .”). These two points show how excessively high patent royalties caused by patent holdup can indirectly harm consumers.

But patent holdup *directly* affects consumers too. As explained above, technology standards are central to interoperability of computing devices. *See* Section I.A *supra* p. 5. This means that, whereas consumers would ordinarily have options as to which technology to purchase, standards mean that consumers are locked into a single technology in order to interoperate with other services. One could not, for example, purchase a laptop for business travel that used some alternate wireless communication protocol besides 802.11 Wi-Fi, because the hotels that the traveler visits will likely only provide 802.11 Wi-Fi for access to the hotel networks. Thus, standards can lock consumers directly into technologies in the same way they lock manufacturers in, and so patent holdup using standard-essential

patents harm consumers in the same way they harm manufacturers.

Given these harms of patent holdup to consumer welfare, it is necessary and appropriate to interpret the FRAND agreement in the public interest to avoid such harms. Accordingly, the FRAND agreement should be read to broadly prohibit practices tending toward patent holdup, in order to ensure that the general public does not suffer the consequences of such holdup.

B. THE ITC’S EXCLUSIONARY REMEDIES CREATE AN UNAVOIDABLE RISK OF PATENT HOLDUP THAT HARMS CONSUMERS

Given that the public interest weighs in favor of reading the FRAND agreement to prohibit practices that would lead to patent holdup, it follows almost immediately as a corollary that the FRAND agreement should be read to prohibit pre-negotiation filing of an International Trade Commission investigation, as happened in this case. Such filing of an ITC investigation is premised on the expectation that the ITC will exclude the accused products from importation into the United States, thereby creating a holdup situation.¹⁰

A threat of injunctive relief, to prevent an accused infringer from manufacturing or selling a product entirely, is the classic situation that creates patent holdup. When a patent owner obtains an injunction against a product manufacturer, the

¹⁰Situations where filing an ITC investigation *might* be proper in view of a FRAND agreement would likely involve countervailing circumstances such as misconduct by the accused infringer. LSI raises no such circumstances, and the Court need not decide here what circumstances could justify an ITC action.

patent owner is in a position to negotiate for the entire value of the product thus enjoined, even if the patented technology constitutes only a minuscule portion of that product's value. *See, e.g.,* Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28 Berkeley Tech. L.J. 1135, 1143 (2013). Thus, the patentee is able to extract unreasonably high royalties by negotiating for a license in with the backdrop of an injunction. A threat of an injunction casts a similar shadow over licensing negotiations, as the manufacturer may be pressured into paying a higher-than-reasonable license fee to settle the case and avoid an injunction down the road.

The ITC's sole remedies, exclusion orders and cease and desist orders, are effectively forms of injunctive relief. An exclusion order directs United States Customs to block shipments of products at the border, literally holding them up as they enter the country. *See* Tariff Act of 1930 § 337(d), 19 U.S.C. § 1337 (2012). Similarly, an ITC cease and desist order requires a party to stop manufacturing or selling a product. *See* § 337(f). Both of these remedies halt a manufacturer's operations and thus lead to the unbalanced negotiating power that creates patent holdup as described above.

It has thus been recognized by commentators and agencies of the United States that the filing of an action at the ITC gives rise to patent holdup. Scholars have said: "The FRAND commitment is also not consistent with seeking

an exclusion order at the International Trade Commission, which is an injunction by another name.” Lemley & Shapiro, *supra*, at 1143 (abbreviation omitted) (citing Chien & Lemley, *supra*, at 2–5). Federal agencies similarly “urge the USITC to consider” whether a FRAND agreement implies “that money damages, rather than injunctive or exclusionary relief, is the appropriate remedy for infringement.” Dep’t of Justice & U.S. Patent & Trademark Office, *Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments* 9 (Jan. 8, 2013), URL *supra* p. (vi); accord Third Party United States Federal Trade Commission’s Statement on the Public Interest, *In re Certain Gaming & Entm’t Consoles, Related Software, & Components Thereof*, Inv. No. 337-TA-752 (U.S. Int’l Trade Comm’n June 6, 2012), available at URL *supra* p. (vii).

Indeed, the U.S. Trade Representative’s disapproval of an ITC exclusion order in August 2013 was based in part on concerns of patent holdup resulting from exclusion based on a standard-essential patent. See Froman, *supra*, at 2. And even the IEEE, whose 802.11 standard is at the center of this case, has recently clarified its FRAND requirements to prohibit “seeking, or seeking to enforce, a Prohibitive Order” such as an ITC exclusion order. Inst. of Elec. & Elecs. Eng’rs Standards Ass’n, *Approved Clause 6 of the SASB Bylaws* 3 (Feb. 8, 2015), URL *supra* p. (vi). The risk of patent holdup, and the attendant detriment to the public interest, resulting from filing an ITC investigation is well known by all interested parties.

Accordingly, when LSI sought relief from the ITC in this case based on its standard-essential patents, it created a situation of patent holdup, improperly forcing up the royalty negotiations and ultimately the consumer cost of those products accused of infringement. Such an action conflicts with the public interest in access to standard-essential technologies, and accordingly conflicts with the FRAND agreement to which LSI subscribed. The district court correctly found that LSI's acts were a breach of that agreement, and this Court should agree.

CONCLUSION

For the foregoing reasons, this Court should affirm the district court on the points of law as described above.

Respectfully submitted,

Dated: April 10, 2015

s/Charles Duan

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Dated: April 10, 2015

s/Charles Duan

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I hereby certify that I electronically filed the foregoing **Brief of Public Knowledge as *Amicus Curiae* in Support of Appellee** with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system on **April 10, 2015**.

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