CLIENT ALERT

FTC Continues Campaign Against Injunctions for Standard Essential Patents: Uses Section 5 to Push Section 2 Boundaries

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After a summer in which the FTC repeatedly voiced in speeches and white papers its policy concern over patent hold-up arising from injunctions issued by the ITC or district courts on standard essential patents ("SEPs"),[1] over the past couple of weeks the Commission has exercised its enforcement muscle to back-up its advocacy.[2] Most recently, the agency:

- as part of a proposed settlement in a merger case, ordered the companies not to seek injunctions against companies allegedly infringing their SEPs which they had committed to license on fair, reasonable and non-discriminatory ("(F)RAND") terms;[3] and
- in an amicus brief filed in the Court of Appeals for the Federal Circuit, advocated against judicial injunctions when the patent holder had previously committed to license SEPs on (F)RAND terms.

Bosch/SPX Merger Challenge. The FTC used the proposed acquisition of SPX by Robert Bosch GmbH ("Bosch") to resolve not only the merger-related issues, but also what it viewed as unfair methods of competition by SPX in violation of Section 5 of the FTC Act. The Commission concluded that SPX reneged on its commitment to license key SEPs on (F)RAND terms by seeking injunctions to prevent infringement of its SEPs. During standard setting by SAE International ("SAE"), SPX had declared that it held essential patents relating to two SAE standards for products' compliant with U.S. Environmental Protection Agency regulations, raising the risk that companies making standard-compliant devices would be accused of infringing SPX's SEPs unless they had licensed those patents from SPX.

In the proposed consent agreement released on November 26, the FTC showed its willingness to use Section 5 to stop conduct it considers harmful to competition where it does not undertake to prove a violation of Section 2 of the Sherman Act, or in this case even to allege that SPX engaged in improper or exclusionary conduct to induce SAE to include in the standard the technology on which SPX claimed essential patents.[4] This action echoes the FTC's approach in *Unocal* where the Commission used the leverage of the Chevron/Unocal merger to extract a commitment that Chevron dedicate the relevant patents to the public.[5] In both cases the Commission used its review of a merger to reach conduct by the target company that the FTC viewed as violating Section 5.

To fully address the Commission's concerns about SPX's conduct relating to its existing portfolio of SEPs, the proposed order also requires Bosch not to pursue any actions for injunctive relief on these patents and to make them available on a royalty free basis to implementers of the relevant SAE standards. The FTC noted that "while a royalty-free license may not be an appropriate remedy in every case involving evasion of a FRAND commitment," because Bosch elected to license these patents to the buyer of the divested assets on a royalty-free basis, "a license to other market place participants on the same terms is necessary to ensure that the merger remedy is not inequitable in application."[6]

And to prevent similar conduct from arising in the future, the FTC ordered Bosch to deliver to SAE a letter of assurance that going forward Bosch will license on (F)RAND terms any additional SEPs it may acquire or develop for the two relevant industry standards to any third party who wants to use the technologies covered by the patents to make standard-compliant devices in the United States. Bosch also has agreed not to seek injunctions against such third parties, unless the third party refuses in writing to license the patent consistent with the letter of assurance, or the third party refuses to abide by (F)RAND terms as determined by a court or other process agreed to by the parties.

FTC Amicus Brief in Apple v. Motorola. Further demonstrating its commitment to change the law related to SEPs, on December 4, the FTC filed an *amicus* brief in the case of Apple Inc. v. Motorola, Inc , Nos. 2012-1548, 2012-1549 (Fed. Cir.) (Dec. 4, 2012),[7] arguing that it is inappropriate for a court to issue an injunction when the patent holder has previously committed to license the patent on (F)RAND terms. The *amicus* brief supports the Northern District of Illinois's application of *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), agreeing that the factors outlined in *eBay* are the correct factors a court should consider when reviewing a request by a patent holder for an injunction on products made with SEPs.

The FTC argued that two of the *eBay* factors, showing that the patent holder would be irreparably harmed without an injunction and that monetary relief would be inadequate, are generally inconsistent with a (F)RAND commitment where the patent holder has agreed to license its technology on the premise that it can be adequately compensated by a royalty (monetary relief). The combination of the FTC's policy statements in speeches and white papers, its *amicus* brief in the Federal Circuit, and its *Bosch/SPX* settlement, make it clear that the FTC is willing to push its policy positions forward with legal actions against the use of injunctions to bar the sale of standards-compliant products that necessarily infringe on SEPs, when the patent holder has previously committed to license the SEPs on (F)RAND terms.

The Commission's views on the limits of a patent holder's right to enforce an SEP subject to a (F)RAND commitment are in line with those of the Antitrust Division and the recent decisions of courts that have opined on the issue, as well as those of the European Commission, and might now be considered mainstream. But the FTC's advocacy still leaves unanswered two critical questions: (1) how is FRAND actually determined in a specific case – a question that was not directly answered by Judge Posner, who was sitting by designation as a trial court judge, when he dismissed Apple Inc., Inc. v. Motorola, Inc., No. 1:11-CV-08540, U.S. Dist. LEXIS 89960 (N.D. Ill. June 22, 2012)[8] with prejudice because neither company was able to prove damages, and (2) who bears the burden of proving that specific terms are FRAND – the licensor offering the terms, or the licensee refusing to take them? It remains to be seen whether, and how, the Commission's expanding use of Section 5 will be applied to these two very thorny questions.

The facts concerning the FTC's Section 7 claim are straightforward. The agency charged that the original acquisition would have given Bosch a virtual monopoly in the market for ACRRR devices.[9] Prior to its acquisition of SPX, Bosch accounted for about 10% of the U.S. ACRRR market; it sells ACRRR equipment under the Bosch and RTI (a company it acquired in 2010) brands. SPX accounts for over 80% of the U.S. market. Four other companies comprise the rest of the U.S. market.

Nestled amongst standard Section 7 remedies in the proposed settlement, such as divestiture of Bosch's U.S. ACRRR business, to Mahle Clevite, the FTC's Consent Agreement requires Bosch to agree to discontinue SPX's restrictive "exclusive dealing" arrangements with wholesale distributors and independent service technicians, and bars Bosch from entering into such agreements for 10 years.

The Commission's vote approving the complaint and proposed settlement order in the Bosch-SPX acquisition, and to issue the Commission Statement, was 3-2. Commissioners Ohlhausen and Rosch voted "no" although both supported the Commission's challenge to Bosch's acquisition of SPX and certain provisions of the divestiture package.

In a separate statement, Commissioner Ohlhausen expressed concern about both the Section 5 and the Section 7 decisions. On the Section 7 issues, Commissioner Ohlhausen addressed the "fencing-in" relief relating to the alleged exclusive dealing arrangements:[10]

> Fencing-in relief that modifies contracts entered into by participants across an industry raises concerns for me about whether such relief goes beyond that which is necessary to protect the viability of the divestiture buyer and thus effectuate the legitimately pursued remedy in this matter.

Commissioner Ohlhausen also questioned whether the FTC should intervene in SPX's alleged misconduct in regard to its SEP licensing. The Commissioner noted that petitioning either the courts or the ITC is likely protected under *Noerr-Pennington*. Commissioner Ohlhausen also pointed out that the government should strive for transparency and predictability, and that both this case and *N-Data* do not provide any meaningful limiting principles. She believes that if the Commission continues along this path it will find itself policing garden variety breach-of-contract and other business disputes between private parties.

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[1] *See* Secretary Donald Clark's comments to the ITC, http://www.ftc.gov/os/2012/06/1206ftcwirelesscom.pdf; *and* Commissioner Ramirez's remarks before the Senate Judiciary Committee, http://www.ftc.gov/opa/2012/07/septestimony.shtm.

[2] A standard-essential patent is a patent which is necessarily and unavoidably infringed in practicing a standard.

[3] The proposed settlement will remedy claims under both Section 5 of the FTC Act (unfair methods of competition) and Section 7 of the Clayton Act (potentially anticompetitive mergers) relating to the January 23, 2012 agreement by Robert Bosch GmbH ("Bosch") to acquire SPX. http://www.ftc.gov/opa/2012/11/bosch.shtm.

[4] This is similar to the position the FTC took in *In re Negotiated Data Solutions LLC*, FTC File No. 051-0094, Decision and Order (Jan. 23, 2008) (http://www.ftc.gov/os/caselist/0510094/080923ndsdo.pdf) (N-Data), and contrasts with the Commission's position in *Rambus*, *Unocal*, and *Dell*, where it alleged that the companies had so misled the standard-setting entity that their conduct undermined the standard-setting activity. *In re Rambus, Inc.*, Dkt. No. 9302 (FTC Aug. 2, 2006) (Commission opinion) (finding deception undermined the standard-setting process), *rev'd*, Rambus Inc. v. FTC, 522 F.3d 456 (D.C. Cir. 2008); *In re Union Oil Co. of Cal.*, 138 F.T.C. 1 (2003) (Commission opinion) (finding deception that undermined the standard-setting process); *In re Dell Computer Corp.*, 121 F.T.C. 616 (1996) (consent order) (also finding that deception undermined the standard-setting process).

[5] *In re Union Oil Co. of Cal*., 138 F.T.C. 1 (2003) (Commission opinion).

[6] *In the Matter of Robert Bosch GmbH*, FTC File No. 121-0081, Analysis of Agreement Containing Consent Orders to Aid Public Comment, at 5 (Nov. 26, 2012) (http://www.ftc.gov/os/caselist/1210081/121126boschanalysis.pdf).

[7] Apple Inc. and NeXT Software, Inc. v. Motorola, Inc and Motorola Mobility, Inc., Nos. 2012-1548, 2012-1549 (Fed. Cir.) (Dec. 4, 2012). (http://www.ftc.gov/os/2012/12/121205apple-motorolaamicusbrief.pdf).

[8] Judge Posner believed an injunction was unwarranted unless either company could prove damages. Apple Inc., Inc. v. Motorola, Inc ., No. 1:11-CV-08540, U.S. Dist. LEXIS 89960 (N.D. Ill. June 22, 2012).

[9] The market at issue is the market for air conditioning recycling, recovery, and recharge (ACRRR) devices. ACRRR devices are stand-alone pieces of equipment used by automotive technicians to repair motor vehicle air conditioning systems ("MVACs"). ACRRRs are used to repair malfunctioning MVACs by recovering and recycling the refrigerant and then recharging the MVACs.

[10] *See* http://www.ftc.gov/os/caselist/1210081/121126boschohlhausenstatement.pdf.

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