UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

In the Matter of **CERTAIN MOBILE TELEPHONES, TABLET COMPUTERS WITH CELLULAR CONNECTIVITY, AND SMART WATCHES WITH CELLULAR CONNECTIVITY, COMPONENTS THEREOF, AND PRODUCTS CONTAINING SAME**	**Inv. No. 337-TA-1299**

ORDER NO. 11: GRANTING-IN-PART COMPLAINANTS' MOTION TO STRIKE RESPONDENT'S AFFIRMATIVE DEFENSES

(August 22, 2022)

On June 7, 2022, Complainants Ericsson Inc. and Telefonaktiebolaget LM Ericsson (collectively, "Ericsson") filed a motion (Mot. 1299-006) to strike Respondent Apple Inc.'s ("Apple") Ninth, Twelfth, Thirteenth and Sixteenth Affirmative Defenses, and a memorandum in support thereof.

On June 21, 2022, Apple filed a conditional cross-motion (Mot. 1299-009) opposing the pending motion, and seeking leave to amend its response to the complaint in the event the administrative law judge finds that its pleading was insufficient, and a memorandum in support thereof.

On June 21, 2022, the Commission Investigative Attorney ("Staff") filed a response supporting the motion as to Apple's Twelfth, Thirteenth and Sixteenth Affirmative Defenses, but opposing the motion as to Apple's Ninth Affirmative Defense.

On July 1, 2022, Ericsson filed a response opposing Apple's cross-motion.

Commission Rules state that "[a]ffirmative defenses shall be pleaded with as much specificity as possible in the response." 19 C.F.R. § 210.13(b). Striking an affirmative defense is generally disfavored. *See Certain Replacement Automotive Service and Collision Parts and Components Thereof*, Inv. No. 337-TA-1160, Order No. 10 at 1-2 (Aug. 26, 2019). Commission practice generally gives respondents an opportunity to supplement insufficiently pled affirmative defenses prior to striking the defenses. *Id.* However, a motion to strike may be granted where a defense is clearly legally insufficient. *See, e.g.*, Wright and Miller, Federal Practice & Procedure § 1381 (2019); Fed. R. Civ. P. 12(f).

A. Apple's Ninth Affirmative Defense

Apple's Ninth Affirmative Defense recites:

> 13. On information and belief, Ericsson's claims as they relate to the Asserted Patents are barred in whole or in part by reason of equitable doctrine of unclean hands. Ericsson comes to the Investigation with unclean hands because it has engaged in a continuing anticompetitive scheme, evidenced by Ericsson improperly seeking to invoke the Commission's authority to exclude the allegedly infringing Apple products from the United States.

Apple's Response to the Complaint ("Apple Response"), Affirmative Defenses, ¶ 13.

Ericsson contends that Apple's unclean hands defense should be stricken as legally groundless and lacking in specifically pled facts. *See* Mem. at 7-9. It is argued that Apple's defense fails because it relies on a theory that Ericsson's complaint to the Commission is itself the basis for Apple's unclean hands defense. *See id.*

Staff opposes striking Apple's defense because it lays out sufficient facts relating to its unclean hands defense, and is not legally groundless. *See* Staff Resp. at 3-6.

A complainant who seeks justice must come into court with clean hands or "the doors of the court will be shut." *Aptix Corp. v. Quickturn Design Sys., Inc.*, 269 F.3d 1369, 1375 (Fed. Cir. 2001) (quoting *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 245 (1933)). To

invoke the unclean hands defense, respondents must point to some unconscionable act by the patentee that "has immediate and necessary relation to the equity" of the relief that the patentee seeks. *Keystone Driller* at 245 ("They do not close their doors because of plaintiff's misconduct, whatever its character, that has no relation to anything involved in the suit, but only for such violations of conscience as in some measure affect the equitable relations between the parties in respect of something brought before the court for adjudication.").

The Federal Circuit requires a showing of "materiality" between the improper conduct and the legal issues in the case to establish the defense of unclean hands. *Regents of the Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559, 1571 (Fed. Cir. 1997). A party asserting unclean hands "bears the burden of proving by clear and convincing evidence that [the opposing party] acted with unclean hands." *In re Omeprazole Patent Litig.*, 483 F.3d 1364, 1374 (Fed. Cir. 2007).

While the above-recited paragraph does not list in detail the specific facts underlying Apple's unclean hands defense, Apple's Response to the Complaint includes a preliminary statement that does lay out the requisite factual underpinnings. *See id.*, Preliminary Statement, at 3-6. In its preliminary statement, Apple more fully described the Ericsson acts alleged to comprise a "continuing anticompetitive scheme." *See id.* Moreover, Apple's unclean hands allegation is not legally groundless. Ericsson alleges that Apple's defense is premised solely on the idea that seeking relief from the Commission is improper, but Apple's unclean hands defense instead relies on the argument that Ericsson "has engaged in a continuing anticompetitive scheme." *Id.*, ¶ 13.

As to Apple's Ninth Affirmative Defense, Ericsson's motion to strike is DENIED.

B. Apple's Twelfth Affirmative Defense

Apple's Twelfth Affirmative Defense recites:

> 124. Upon information and belief, and subject to the discovery of additional evidence, Ericsson's claims are barred by the doctrines of equitable

estoppel and waiver.

> 125. Ericsson made irrevocable commitments to license each patent-in-suit on FRAND terms. Standard-setting organizations, their members, and even non-member suppliers of products that support standards, rely on such commitments—including Apple, which is both a member of standard-setting organizations like ETSI and a supplier of products that support standards promulgated by ETSI and other organizations. For example, Apple develops and supplies products with the expectation and understanding that those entities making FRAND commitments will not seek to disrupt Apple's development and support efforts by using FRAND-committed patents to seek exclusionary remedies. By making FRAND commitments, patent holders waive such remedies, except in the exceptional circumstances where FRAND royalties are not available— including in district court.
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> 126. Ericsson has broken its FRAND commitments and the rules of standard-setting because it is using the threat of an exclusion order to try to coerce Apple to accept non-FRAND licensing rates. Ericsson is doing this despite multiple paths offered by Apple to arrive at a FRAND rate, including multiple options involving binding rulings by third parties. Due to this conduct, Ericsson is equitably estopped from asserting its patents to obtain exclusionary remedies, and Ericsson has also waived its right to assert them in this fashion. Ericsson's conduct renders the patents-in-suit unenforceable.

Apple Response, Affirmative Defenses, ¶¶ 124-26.

Ericsson contends that Apple's twelfth affirmative defense (unenforceability, estoppel, and waiver based on standard-setting conduct) fails to plead the elements of an unenforceability defense based on equitable estoppel or waiver. *See* Mem. at 9-11. It is argued that that Ericsson's pursuit of an exclusion order is not foreclosed by its FRAND commitments, and that Apple does not plead anything more. *See id.*

Staff agrees that Apple's defense should be stricken because it fails to describe any conduct that has been recognized by any court or by the Commission as conduct that would constitute the equitable defenses of equitable estoppel and waiver. *See* Staff Resp. at 6-8.

To establish the affirmative defense of estoppel, an alleged infringer must demonstrate: "(1) misleading conduct, which may include not only statements and action but silence and inaction, leading another to reasonably infer that rights will not be asserted against it; (2) reliance upon this

conduct; and (3) due to this reliance, material prejudice if the delayed assertion of such rights is permitted." *Certain Bearings and Packaging Thereof ("Bearings")*, Inv. No. 337-TA-469, Initial Determination at 28 (Apr. 10, 2003) (citations omitted). "Reliance is not the same as prejudice or harm, although frequently confused . . . [t]o show reliance, the infringer must have had a relationship or communication with the plaintiff which lulls the infringer into a sense of security." *Id.* (quoting *A.C. Aukerman Co. v. R.L. Chaides Const. Co.*, 960 F.2d 1020, 1043 (Fed. Cir. 1992) (en banc)). Material prejudice may be established by a showing of "change of economic position or loss of evidence." *Aukerman*, 960 F.2d at 1043. Additionally, egregious conduct on the part of the alleged infringer must also be considered. *Bearings*, Initial Determination at 28 (citation omitted). All relief, including prospective relief, may be barred by equitable estoppel, but application of the doctrine is given to the sound discretion of the trial judge. *Aukerman*, 960 F.2d at 1041.

"To support a finding of implied waiver in the standard setting organization context, the accused must show by clear and convincing evidence that '[the patentee's] conduct was so inconsistent with an intent to enforce its rights as to induce a reasonable belief that such right has been relinquished.'" *Hynix Semiconductor Inc. v. Rambus, Inc.*, 645 F.3d 1336, 1348 (Fed. Cir. 2011) (citing *Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004, 1020 (Fed. Cir. 2008)).

An implied license may arise "where the circumstances plainly indicate that the grant of a license should be inferred." *See Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 925 (Fed. Cir. 1984). An implied license "signifies a patentee's waiver of the statutory right to exclude others from making, using, or selling the patented invention," and may be established "by acquiescence, by conduct, by equitable estoppel . . . , or by legal estoppel." *Wang Labs., Inc. v. Mitsubishi Elecs. Am., Inc.*, 103 F.3d 1571, 1580, 1581 (Fed. Cir. 1997).

Ericsson notes that Apple's Twelfth Affirmative Defense is strikingly similar to its Sixth Affirmative Defense in *Certain Wireless Standard Compliant Electronic Devices* ("*Electronic Devices*"), Inv. No. 337-TA-953. In that investigation, the administrative law judge found that Apple's Sixth Affirmative Defense "fails to plead the elements of an unenforceability defense based on equitable estoppel or waiver." *Electronic Devices*, Order No. 20 at 7 (Aug. 7, 2015).

In *Electronic Devices*, Administrative Law Judge Lord first noted that the opinions and cases that Apple cited for support as to implied waiver or equitable estoppel were all based on failures to disclose standard-essential patents during the standard-setting process. *See id.* Such is the case here. *See Core Wireless Licensing S.A.R.L. v. Apple Inc.*, 899 F.3d 1356, 1365-69 (Fed. Cir. 2018) ("Apple's theory of unenforceability is based on actions taken by Nokia, the original assignee of the '151 patent, during its participation with ETSI, the standards-setting organization referenced in the '151 patent."); *Hynix Semiconductor Inc. v. Rambus Inc.*, 645 F.3d 1336, 1347-48 (Fed. Cir. 2011) (Conduct rising to the level of implied waiver "can be shown where (1) the patentee had a duty of disclosure to the standard setting organization, and (2) the patentee breached that duty."); *Qualcomm Inc. v. Broadcom Corp.,* 548 F.3d 1004, 1019-24 (Fed. Cir. 2008) ("implied waiver" and "equitable estoppe1" defenses were based on failures to disclose standard-essential patents during the standard-setting process). Apple's Response to the Complaint contains no allegation that Ericsson failed to disclose any of the asserted patents to a standard-setting organization.

Apple did not cite a case in which a section 337 remedy was foreclosed due to the existence of FRAND obligations, nor did Apple cite a case where an infringement claim was defeated by an affirmative defense that merely alleged a failure to offer a FRAND rate. I agree that consideration of FRAND-related argument should be limited to the public interest phase of the investigation,

and that these arguments are not cognizable equitable defenses to allegations of patent infringement. *See Electronic Devices*, Order No. 20 at 9.

Because Apple has not alleged facts that, if true, demand an equitable remedy, Ericsson's motion to strike Apple's Twelfth Affirmative Defense is hereby GRANTED.

C. Apple's Thirteenth Affirmative Defense

Apple's Thirteenth Affirmative Defense recites:

> Ericsson is seeking to use the threat of an exclusion order based on the Asserted Patents—and all of the harmful effects on competition that result from this threat and would result from an exclusion order—as a mechanism to coerce Apple to take a license from Ericsson on unfair and unreasonable terms. This overextension of patent rights constitutes patent misuse, and further renders Ericsson's asserted patents unenforceable.

Apple Response, Affirmative Defenses, ¶ 127.

Ericsson contends that Apple's patent misuse defense fails to plead the elements of patent misuse. *See* Mem. at 11-12. It is argued that Apple has made no allegation that Ericsson possesses market power, and that whether or not Erissson's offer is non-FRAND is not an appropriate basis for a claim of patent misuse. *See id.*

Staff agrees that Apple's defense should be stricken because the alleged impermissible conduct is expressly deemed by statute not to be patent misuse. *See* Staff Resp. at 9-10.

"Patent misuse is an equitable defense to patent infringement." *U.S. Philips Corp. v. Int'l Trade Comm'n*, 424 F.3d 1179, 1184 (Fed. Cir. 2005). A finding of misuse renders a patent temporarily unenforceable until the misuse has been purged. *Qualcomm*, 548 F.3d at 1025 (citation omitted). "The doctrine of patent misuse is . . . grounded in the policy-based desire to 'prevent a patentee from using the patent to obtain market benefit beyond that which inheres in the statutory patent right.'" *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1328 (Fed. Cir. 2010) (en banc) (quoting *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 704 (Fed. Cir. 1992)). "[T]he key

inquiry under the patent misuse doctrine is whether, by imposing the condition in question, the patentee has impermissibly broadened the physical or temporal scope of the patent grant and has done so with anticompetitive effects." *Id.* (citing *B. Braun Med., Inc. v. Abbot Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997)).

Having considered the arguments of the parties, I have determined that Apple's Thirteenth Affirmative Defense should not be stricken at this time. In particular, Apple has alleged that Ericsson declared the asserted patents as essential to certain cellular standards (*see* Apple Response, Preliminary Statement, at 3-6), and that Ericsson has engaged in patent misuse by seeking non-FRAND royalties for those same patents (*see id.*, Affirmative Defenses, ¶¶ 125-26). Inasmuch as a patentee's violation of its FRAND obligations may in certain circumstances constitute patent misuse, *see Multimedia Patent Trust v. Apple Inc.*, 2012 WL 6863471 at *23 (S.D. Cal. Nov. 9, 2012), *Certain Network Devices, Related Software and Components Thereof*, Inv. No. 337-TA-944, Order No. 25, at 3, Ericsson's motion to strike Apple's Thirteenth Affirmative Defense is DENIED.

D. Apple's Sixteenth Affirmative Defense

Apple's Sixteenth Affirmative Defense recites:

> 130. Upon information and belief, and subject to the discovery of additional evidence, Ericsson's claims with respect to the '355 and '805 patents are barred for failure to obtain the consent and/or participation of co-owners of those patents. In the context of joint inventorship, each co-inventor presumptively owns a pro rata undivided interest in the entire patent, no matter what their respective contributions. As a matter of substantive patent law, all co-owners of a patent must consent to join as plaintiffs in an infringement suit. Consequently, one co-owner has the right to impede the other co-owner's ability to sue infringers by refusing to voluntarily join in such a suit.
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> 131. Upon information and belief, as described supra, ¶¶ 14-122, Ericsson and the named inventors of the '355 and '805 patents failed to disclose co-inventors of those patents who worked for Qualcomm, Samsung, Phillips, and/or potentially other companies. Those unnamed inventors (or, on information and belief, and subject to further discovery, their then-employers, subject to an

> agreement of assignment) have a pro rata undivided interest in the '355 patent and the '805 patent as co-inventors. On information and belief, Ericsson initiated this investigation without the consent and participation of those co-owners. Ericsson's claims as to the '355 and '805 patents are barred for at least this failure to obtain consent.

Apple Response, Affirmative Defenses, ¶¶ 130-31.

Ericsson contends that Apple's Sixteenth Affirmative Defense (Nonjoinder of Co-Owners of the '355 and '805 Patents) should be struck because it is not a legally cognizable defense before the Commission. *See* Mem. at 12-13. It is argued that Apple's defense cannot succeed because the Commission lacks the authority under 35 U.S.C. § 256 to correct the inventorship of a patent, and without such a correction, Apple's defense of nonjoinder of unnamed inventors necessarily fails. *See id.* (citing *Certain Variable Speed Wind Turbines and Components Thereof* ("*Wind Turbines*"), Inv. No. 337-TA-641, Comm'n Op. at 35-37 (Mar. 2, 2010)).

Staff agrees that Apple cannot prevail on this affirmative defense because the inventorship must be corrected before a suit can be dismissed for lack of standing, and the Commission lacks this authority under the patent statute. *See* Staff Resp. at 13-16.

Apple concedes that the Commission lacks authority to correct inventorship under *Wind Turbines*, and that this renders the defense legally deficient as pled. *See* Apple Resp. at 19. Apple requests that it be allowed to preserve its defense for purposes of appeal. *See id.* at 19-20.

In *Wind Turbines*, the Commission addressed an unnamed inventor's impact on the complainant's standing to assert the patent at issue. *See* Comm'n Op. at 35-36. The Commission distinguished inventorship from ownership, and, while acknowledging that an inventor has an equitable interest in the ownership of the patent, the Commission found that it lacked the authority under 35 U.S.C. § 256 to correct such inventorship. *See id.*

> [I]t is undisputed that Wilkins is not named on the face of the patent, and we find that Wilkins therefore lacks such legal title as to make him an owner of the '985 patent. As an inventor, Wilkins does have an equitable interest that can be perfected

> to legal title upon application to the USPTO, or through correction by a district court under 35 U.S.C. § 256. The Commission, however, lacks the authority to correct inventorship under Section 256 or any other statutory provision, and the Commission's authority in this regard must be conferred by statute. Moreover, [the respondent] cannot properly assert an equitable interest on behalf of Wilkins.

Id. at 36 (citations omitted).

Apple alleges that certain "unnamed inventors" have an interest in the '355 and '805 patents, but the Commission has ruled that, even were Apple to prove this, Apple's Sixteenth Affirmative Defense fails because these "unnamed inventors" lack ownership in the patent. *See id.* at 35-36. I find that, under *Wind Turbines*, Apple's Sixteenth Affirmative Defense should be stricken as having no chance of success. Ericsson's motion to strike Apple's Sixteenth Affirmative Defense is hereby GRANTED.

E. Apple's Cross-Motion to Amend Its Response

Pursuant to Commission Rule 210.14(b)(2), Apple alternatively seeks leave to amend its Response if one of the affirmative defenses discussed above is found to be insufficiently pled. *See* Apple Resp. at 20. However, Apple does not seek leave to amend its Sixteenth Affirmative Defense because Ericsson challenges only the legal sufficiency rather than the factual pleading of that defense. *See id.* at 20 n.6. Thus, Apple's cross-motion to amend is limited to the proposed amendments regarding its Twelfth Affirmative Defense.

Under Rule 210.14(b)(2) of the Commission's Rules of Practice and Procedure, amendments to pleadings shall be permitted "[if] disposition of the issues on the merits will be facilitated, or for other good cause shown." 19 C.F.R. § 210.14(b)(2). Such amendments may be made, according to the Rule, "upon such conditions as are necessary to avoid prejudicing the public interest and the rights of the parties to the investigation." *Id.*

As discussed above, Apple's Twelfth Affirmative Defense fails because Apple has not shown that an infringement claim may be defeated by an affirmative defense that merely alleges a

failure to offer a FRAND rate, and each case Apple cited for support as to implied waiver or equitable estoppel was based on a failure to disclose standard-essential patents during the standard-setting process. *See supra* Sec. B.

Having reviewed Apple's Proposed Amended Response, Apple Resp., Ex. B, the undersigned does not find that Commission Rule 210.14(b)(2) is satisfied. In particular, Apple's Proposed Response would not facilitate the disposition of the issues on the merits because Apple's proposed amendments do not resolve the factual deficiencies in Apple's Twelfth Affirmative Defense. Accordingly, Apple's cross-motion is DENIED.

Bryan F. Moore
Administrative Law Judge