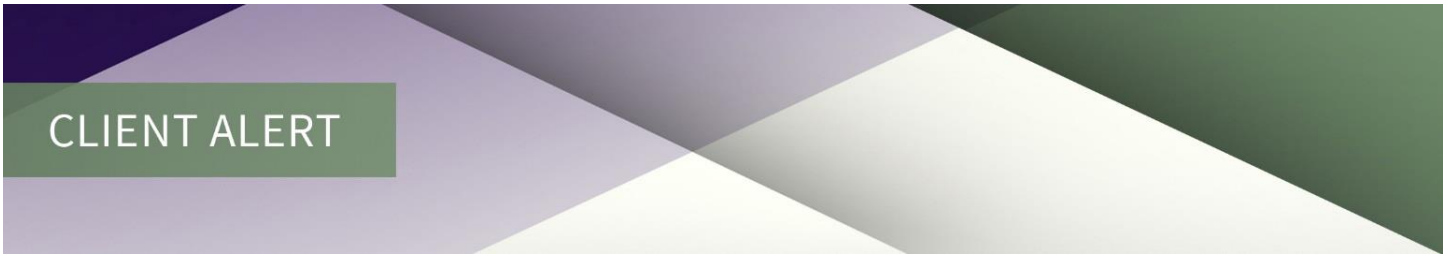

FTC v. Qualcomm: Groundbreaking Antitrust Ruling Bars Qualcomm's Key Licensing Practices, Requiring It to "Radically Restructur[e] Its Business Relationships"

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On May 21, 2019, Judge Koh of the Northern District of California issued a decision in a case brought by the FTC against Qualcomm seeking an injunction against an array of Qualcomm's licensing practices. The case involved the use of standard-essential patents ("SEPs") by a dominant firm in wireless communications technology. The court found Qualcomm liable on essentially all FTC claims, imposed extensive restrictions on Qualcomm, and compelled Qualcomm to license its patents to competitors.

Some commentators have viewed the rulings and remedies in the decision as significant extensions of the law. The decision has been criticized publicly by one FTC commissioner (despite the FTC's having brought the case) and may threaten some common practices for licensing SEPs. Others believe that the *Qualcomm* decision reflects the skepticism and suspicion with which large and competitively aggressive tech companies are now viewed in legal, regulatory, and political venues.

Qualcomm itself has claimed that the order will require Qualcomm to "radically restructur[e] its business relationships."[1] Qualcomm further argues that, "by condemning the practice of licensing only complete cellular devices (which all major cellular SEP-holders have employed for decades), the [court's order] threatens to upend the entire wireless communications industry (including the licensing practices of other major SEP holders . . .) and undermine incentives to contribute the foundational technology underlying cellular standards and systems."[2]

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The technology involved in *Qualcomm* is related to broadband processors known as "modem chips" that Qualcomm sold to OEMs and competitors. The court held that Qualcomm's business practices, including Qualcomm's refusals to deal, exclusive dealing arrangements, and repeated threats to terminate its customers' chip supplies, violated Sections 1 and 2 of the Sherman Act and Section 5 of the FTC Act.[3]

The court ordered that Qualcomm:

- cannot condition the supply of its modem chips on whether a customer has a patent license with Qualcomm for the use of those chips and must renegotiate terms of its licenses with OEMs in good faith;
- must make "exhaustive" SEP licenses available to competing modem chip suppliers on FRAND terms (*i.e.*, licenses that exhaust **Qualcomm's** patent rights regarding any resale by a competing chip supplier to its customers) and submit as necessary to arbitration or judicial dispute to determine FRAND terms;
- may not have *de facto* or express exclusive dealing agreements for the supply of its modem chips;
- may not interfere with customers' ability to communicate with a government agency about potential law enforcement or **regulatory** matters; and
- must submit to compliance **and** monitoring procedures for seven years, reporting to the FTC annually.[4]

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1 Def. Qualcomm Inc.'s Motion for Stay Pending Appeal at 3, *FTC v. Qualcomm Inc.*, ECF No. 1495, No. 5:17-CV-00220-LHK (N.D. Cal. May 28, 2019) (hereinafter "Motion").

2 Motion at 2.

3 *FTC v. Qualcomm Inc.*, Findings of Fact and Conclusions of Law, ECF No. 1490, No. 5:17-CV-00220-LHK (N.D. Cal. May 21, 2019) (hereinafter "*Qualcomm*").

4 *Id.*, slip op. at 227-33.

The court's decision that *Aspen Skiing Co.*[5] supported a finding that Qualcomm must license its chips to competitors was among the court's more notable rulings. On a motion for summary judgment earlier in the case, Judge Koh ruled that Qualcomm's FRAND commitments required Qualcomm to license its SEPs to competitors.[6] Here, however, the ruling was grounded in Section 2 of the Sherman Act, not simply a breach of contractual FRAND commitments. The court found that Qualcomm had licensed competitors several years ago,[7] earned profits from doing so,[8] and discontinued those licenses because licensing only to OEMs was a more profitable practice.[9] The court found that Qualcomm's refusal to license competitors was an exclusionary practice under Section 2, as interpreted in *Aspen Skiing Co.*, and ordered Qualcomm to resume licensing its chips to competitors on FRAND terms.[10]

The court held that Qualcomm also violated Section 1 and Section 2 of the Sherman Act in its transactional practices with OEMs, including by:

- threatening to cut off OEMs' chip supply, withdraw technical support, and require the return of software (or doing any of the above);[11]
- engaging in *de facto* or express exclusive dealing arrangements with OEMs by providing chip incentive funds and/or reduced royalty rates that prevented the OEMs from buying chips from rival chip suppliers (*e.g.*, exclusive agreements with Apple prevented Apple from dealing with Intel);[12]
- requiring licensees to cross-license their own patents back to Qualcomm for free;[13]
- refusing to acknowledge through declining royalty rates the declining value of its licensed patent portfolios as patents within the portfolio expired;[14] and

5 *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985).

6 *Qualcomm*, slip op. at 124.

7 *Id.*, slip op. at 127.

8 *Id.*, slip op. at 137.

9 *Id.*, slip op. at 127.

10 *Id.*, slip op. at 229.

11 *Id.*, slip op. at 44-45.

12 *Id.*

13 *Id.*, slip op. at 105, 108-09, 113.

14 *Id.*, slip op. at 173.

- inflating royalties by charging royalties on the higher price of the full handset even though Qualcomm's patented technology was limited to the chip within the handset.[15]

More generally, Judge Koh discounted the credibility of Qualcomm's witnesses, whom she found to have contradicted documents written at the time the conduct was undertaken.[16] The court extensively discussed Qualcomm's dominance in the relevant chip technology, firmly establishing Qualcomm's monopoly power.[17] Judge Koh then reviewed in vivid detail Qualcomm's rough licensing conduct with respect to OEMs and competitors and found that conduct to have been an abuse of monopoly power and violative of the Sherman Act.

The court ordered Qualcomm to cease and desist from such abuses and to repair the damage that it has done to competition by renegotiating licenses with OEMs and offering new licenses to competitors without engaging in the practices that were found to be illegal.[18] In short, even according to Qualcomm, the court's order forces "Qualcomm to fundamentally change the way it does business."[19]

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The *Qualcomm* case has drawn attention to the complex interplay of antitrust and patent law. Although the case was brought by the FTC, it was authorized by a controversial two-to-one vote of only three commissioners (rather than a full complement of five commissioners) in the closing days of the Obama administration. Some have speculated that the FTC under the Trump administration would not have authorized the case but chose not to withdraw the case due to an institutional respect for pending cases.

Interestingly, current FTC Commissioner Christine Wilson, who was appointed by President Trump in September 2018, **sharply criticized** the decision in a column published in the *Wall Street Journal* because *Qualcomm* (1) requires companies to help competitors, (2) has no territorial limits, and (3) will stifle innovators who fear being forced to share their "secret sauce" with competitors.[20]

Adding to the conflicting views, the head of the Department of Justice's Antitrust Division, Makan Delrahim (appointed by President Trump), has advocated that standard-setting organizations must respect the rights of **patent holders**, including

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15 *Id.*, slip op. at 172.

16 *Id.*, slip op. at 17.

17 *Id.*, slip op. at 24-41.

18 *Id.*, slip op. at 227.

19 Motion at 8.

20 Christine Wilson, *A Court's Dangerous Antitrust Overreach*, Wall Street Journal Opinion (May 28, 2019), *available at* https://www.wsj.com/articles/a-courts-dangerous-antitrust-overreach-11559085055.

their right to exclude others from practicing the patent.[21] Delrahim has expressed concern that "the misuse of the antitrust laws in [the licensing context] tilts the negotiating field away from the free-market competitive outcome and threatens to undermine innovation."[22]

Delrahim has formulated his support for patent rights and innovation into a position that he has called the "*New Madison Approach*" for Founding Father, James Madison.[23] Delrahim argues that Madison is "the true father of U.S. patent law" and that Madison supported patent monopolies "as encouragement to literary works and ingenious discoveries."[24]

Further to that position, Delrahim suggests that a contractual remedy, rather than Sherman Act remedies, would be appropriate when a SEP holder violates its FRAND licensing obligations.[25] Under the *New Madison Approach*, alleged violations of FRAND commitments do not constitute unlawful exclusionary behavior under the Sherman Act—there simply is no antitrust duty to license under FRAND terms even after making a commitment to do so.[26] Importantly, the DOJ filed a statement of interest asking the court to allow additional briefing and a hearing on any remedy if the court found Qualcomm liable for an antitrust violation under the FTC's theories.[27] The FTC filed a short response, disagreeing with the DOJ's statement, and the court then issued its decision without further hearing or briefing.[28]

Judge Koh's decision is all the more remarkable amidst such differing views on the latitude to be afforded patent holders. Indeed, Judge Koh's decision relied heavily on Qualcomm's high royalty rates—the hallmark of a patent monopoly—in finding its behavior anticompetitive.[29] The legal significance of that reliance was not clear: Although the reasonableness

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21 Makan Delrahim, Assistant Att'y Gen., U.S. Dept. of Justice, *Good Times, Bad Times, Trust Will Take Us Far: Competition Enforcement and the Relationship Between Washington and Brussels* (Feb. 21, 2018), *available at* https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-remarks-college-europe-brussels.

22 Makan Delrahim, Assistant Att'y Gen., U.S. Dept. of Justice, *"Don't Stop Thinking About Tomorrow": Promoting Innovation by Ensuring Market-Based Application of Antitrust to Intellectual Property* (June 6, 2019), *available at* https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-remarks-organisation-economic-co.

23 Makan Delrahim, Assistant Att'y Gen., U.S. Dept. of Justice, *The "New Madison" Approach to Antitrust and Intellectual Property Law*, Address Before the University of Pennsylvania School of Law (Mar. 16, 2018), *available at* https://www.justice.gov/opa/speech/file/1044316/download.

24 *Id.* at 1, 3.

25 *Id.* at 8-9.

26 Makan Delrahim, Assistant Att'y Gen. U.S. Dept. of Justice, *Antitrust Law and Patent Licensing in the New Wild West*, Remarks as Prepared for IAM's Patent Licensing Conference, at 5, 7 (Sept. 18, 2018), *available at* https://www.justice.gov/opa/speech/file/1095011/download.

27 Statement of Interest of the United States of America at 2, *FTC v. Qualcomm Inc.*, ECF No. 1487, Case No. 5:17-CV-00220-LHK (N.D. Cal. May 2, 2019).

28 Plaintiff FTC's Response to Statement of Interest filed by U.S. DOJ Antitrust Division at 2, *FTC v. Qualcomm Inc.*, ECF No. 1489, Case No. 5:17-CV-00220-LHK (N.D. Cal. May 9, 2019).

29 *Qualcomm*, slip op. at 157.

of a monopolist's price is not a basis for antitrust liability under the Sherman Act,[30] Judge Koh may have seen the high royalty rates as evidence of Qualcomm's monopoly power or as a violation of Qualcomm's FRAND obligations.

The court also criticized Qualcomm's "no license, no chips" policy and barred that policy in the first element of its relief noted above. Although the authorized sale of a patented good exhausts patent protections with respect to the buyer, Qualcomm sought to avoid the exhaustion of its rights in modem chip firmware by insisting on a license that accompanied the sale.[31] The court called the "no license, no chip" policy "coerc[ive]"[32] and "anticompetitive conduct under the Sherman Act."[33]

Qualcomm plans to appeal the decision and is seeking a stay of the court's injunctive relief.[34] The case will remain in the headlines of the popular and legal press, especially as dominant tech firms are called to account by regulators and politicians **and** as Silicon Valley remains a paradigm of American innovation.

30 *See, e.g., Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP,* 540 U.S. 398, 407 (2004) ("The mere possession of monopoly power, and the concomitant charging of monopoly prices, is not only not unlawful; it is an important element of the free-market system.").

31 *Qualcomm,* slip op. at 139.

32 *Id.*, slip op. at 44.

33 *Id.*, slip op. at 228.

34 Motion at 7-10.

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