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Smartphone Patent War Outcome at International Trade Commission: Impact and Implications

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Guest Commentary

Robert T. Cruzen and **John D. Vandenberg**, Klarquist Sparkman, LLP

On July 15, 2011, an administrative law judge at the International Trade Commission (ITC) issued a preliminary ruling finding that eight

claims of two Apple patents were valid and infringed by HTC smartphones utilizing the Android operating system. One of the allegedly infringed patents, U.S. Patent No. 5,946,647, includes broad claims directed at recognizing pre-defined data patterns, such as email addresses or phone numbers, and linking those structures to actions that enable users to activate them. Thus, Apple contends that HTC infringes that patent when, for example, the smartphone software provides a link to a phone number, on which a user can click in order to complete a telephone call. The other patent, U.S. Patent No. 6,343,263, is directed to real-time application programming interfaces. The consensus is that the asserted claims of both patents are quite broad: an HTC design-around seems unlikely.

The administrative law judge's opinion is preliminary. HTC has indicated that it will appeal the ruling to the six ITC commissioners for review. The commissioners will issue a final decision by December 6, 2011. Interestingly, the ITC's preliminary staff recommendation was that none of the claims in the ten patents originally asserted by Apple against HTC was both valid and infringed. If the commissioners agree with the administrative law judge, they will issue an order banning the importation of the accused HTC smartphones. HTC would then appeal the ruling to the Federal Circuit Court of Appeals and seek a stay of the importation ban pending appeal.

Use of ITC Proceedings in the Smartphone Industry

The growing trend in the industry is to seek import bans through the ITC, and Apple's preliminary victory seems likely to encourage that practice. Nokia previously brought an ITC complaint against a slew of Apple products, including the iPhone. Microsoft has pursued claims against Motorola's Android-based smartphones. Apple has pursued claims against both Motorola and Nokia products. Last month, Samsung filed a complaint against Apple.

A number of factors motivate smartphone makers to pursue ITC claims. First, the Supreme Court's ruling in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), provides that a plaintiff is not automatically entitled to an injunction following a finding of patent infringement in federal court. But the *eBay* factors governing when an injunction should issue, which permit a defendant to argue against product bans for equitable reasons, do not apply to the ITC.

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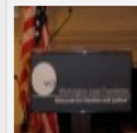
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

Second, the Federal Circuit's recent opinions have limited the damages recoverable in a successful infringement action. Most notably, the court's opinion in *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011), rejected the 25% "rule of thumb" theory employed by many plaintiffs at trial, which assumed as a baseline royalty that the patent owner would be entitled to 25% of the profits attributable to the claimed feature. The court also held that royalties should be derived only from revenues narrowly attributable to the accused feature without reference to the defendant's revenues on a product or service as a whole (i.e. its "entire market value"). The curtailing of injunctions and damages both make an ITC order banning the importation of a competitor's product a more attractive option.

Finally, while ITC proceedings are expensive, that is largely because they move quickly. Target dates for preliminary rulings are typically set 12 to 15 months after the ITC publishes the notice that it has commenced an investigation. Obtaining a comparably quick ruling from a district court is highly unlikely.


Implications for the Industry

If the preliminary infringement finding is affirmed by the commissioners, Apple's actions against other smartphones that employ Google's Android operating system will be bolstered. Apple is likely to argue that *any* Android smartphone infringes the same claims asserted against HTC. The manufacturers of those phones would have limited options if Apple proceeded against them: attempt to license the Apple patents, negotiate a cross-license (provided that the manufacturer has its own patents that present a threat to Apple) or litigate the claims before the ITC.

No doubt in an attempt to bolster the cross-licensing strategy, HTC earlier this month acquired S3 Graphics. On July 1, S3 Graphics persuaded a judge at the ITC that Apple infringed two of its patents; that decision is subject to appeal as well. It remains to be seen whether HTC will immediately attempt to leverage the acquisition in negotiations with Apple or take its chances before the ITC.

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