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UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

In the Matter of

CERTAIN VIDEO DISPLAYS AND
PRODUCTS USING AND CONTAINING
SAME

Inv. No. 337-TA-828

**ORDER NO. 9: INITIAL DETERMINATION GRANTING-IN-PART
RESPONDENTS' MOTION FOR SUMMARY DETERMINATION
OF NO VIOLATION OR IN THE ALTERNATIVE TO STAY THE
INVESTIGATION AND TERMINATING THE INVESTIGATION**

(August 1, 2012)

On April 25, 2012, Respondents Chimei Innolux Corporation and Innolux Corporation (collectively, "CMI") filed a motion for summary determination that there is no violation of Section 337 because CMI is authorized to import and sell the accused products pursuant to a district court order, or in the alternative, CMI sought to stay the investigation. (Motion Docket No. 828-004.) On May 7, 2012, complainant Mondis Technology, Ltd. ("Mondis") filed its opposition. On the same day, the Commission Investigative Staff ("Staff") filed a brief in support of the motion for summary determination. On May 11, 2012, CMI filed an unopposed motion for leave to file a reply. (Motion Docket No. 828-007.) Motion No. 828-007 is GRANTED. As of the date of this initial determination, no other responses were received.

I. The Undisputed Facts

On December 31, 2007, Mondis filed a patent infringement action styled *Mondis Technology, Ltd. v. LG Electronics, Inc. et al.*, Case No. 2:07-cv-565 (E.D. Texas) (the "565 Action") in the U.S. District Court for the Eastern District of Texas against CMI. (Complainants' Separate Statement of Additional Facts in Support of its Opposition to

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Respondents Motion for Summary Determination dated May 7, 2012 (“ASUF”) ¶ 1.) In the 565 Action, Mondis accused CMI of infringing U.S. Patent Nos. 6,247,090 (“the ’090 Patent”) and 7,089,342 (“the ’342 Patent”) as well as several other patents. (*Id.*) Mondis asserts the ’090 Patent and the ’342 Patent (and only those two patents) in this investigation as well. (*Id.*)

In June 2011, the parties tried the 565 Action to a jury in Marshall, Texas. (*Id.* at ¶ 2.) The jury found the asserted claims of the ’090 and ’342 Patents valid, infringed by CMI, and that the infringement by CMI was willful. (*Id.*; Mondis Opp. Br. Ex. 1: Jury Verdict Sheet 565 Action dated June 27, 2011.)

On August 31, 2011, the district court entered a final judgment in the 565 Action. (ASUF ¶ 4; Mondis Opp. Exhibit 2: Amended Final Judgment 565 Action dated August 31, 2011.) Following the jury verdict but before final judgment in the 565 Action, Mondis moved for equitable relief in the form of ongoing royalties and for supplemental damages for the period from January 1, 2011 until June 27, 2011 (because the jury had only considered damages up to January 1, 2011). (ASUF ¶ 3.) Mondis did not request a permanent injunction. (*Id.*) In the final judgment, the district court *sua sponte* severed Mondis’s motion for ongoing royalties and supplemental damages into a new case, *Mondis Technology Ltd. v. Chimei Innolux Corp. et al.*, Case No. 2:11-cv-378 (E.D. Texas) (“the 378 Action”). (Amended Final Judgment 565 Action at 4.)

Mondis’s request for an ongoing royalty specifically asked that CMI “pay an appropriate, enhanced ongoing royalty per computer monitor and television for its continuing and future post-verdict willful infringement of the patents-in-suit...” (CMI Br. Exhibit E: Plaintiff Mondis Technology Ltd.’s Motion for Ongoing Royalties, Damages for Innolux’s Uncounted 2011

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Infringing Sales, and Prejudgment Interest dated August 4, 2011 (“Mondis Ongoing Royalty Br.”) at 1.) Mondis asked for a royalty rate of 1.75% on computer monitors and 0.75% on televisions. (Mondis Ongoing Royalty Br. at 9-10.)

On September 30, 2011, the district court issued an order in the 378 Action concerning the ongoing royalty. After noting that the parties had attempted to negotiate a royalty rate for the ongoing royalty but had failed, the district court proceeded to set the terms of the ongoing royalty. (CMI Br. Exhibit F: Memorandum and Order dated September 29, 2011 (“September 2011 Order”) at 6 n.3.) The district court ordered CMI to pay Mondis an ongoing royalty of 1.50% of sales of computer monitors and 0.75% of sales of televisions. (ASUF ¶ 5.) The district court determined the reasonable royalty rate by performing a post-verdict *Georgia-Pacific* analysis. (September 2011 Order at 10-14.) The district court found that the appropriate royalty rate was 0.75% for monitors. (September 2011 Order at 14.) The district court found the parties presented insufficient evidence for it to calculate an ongoing royalty rate for televisions and so the district court set the ongoing royalty for televisions at the same rate that the jury found, 0.75%. (September 2011 Order at 21 n.20.) The district court also noted that the jury had found CMI’s pre-judgment infringement willful that warranted further enhancement. (*Id.* at 17.) Therefore, the district court enhanced the royalty rate for monitors by a factor of 2 and set the ongoing royalty rate for monitors at 1.50%.

On October 28, 2011, CMI moved for reconsideration of the September 2011 Order. (Mondis Br. Exhibit 4: CMI Motion for Reconsideration dated October 28, 2011.) The district court denied this request on February 27, 2012. (Mondis Br. Exhibit 7: Memorandum & Order dated February 27, 2012.)

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On December 19, 2011, CMI filed an additional motion that asked (1) for a stay execution of the September 2011 Order; (2) for an order allowing CMI to deposit the supplemental damages award and ongoing royalties into the court's registry while it appealed the order; and (3) for an order restraining Mondis from interfering with CMI's business. (CMI Br. Exhibit I: CMI Br. for Stay of Execution dated December 19, 2011 ("CMI Execution Stay Br.") at 6.) [

] Hon Hai Precision Ltd. ("Hon Hai"). (Mondis Br. Exhibit 6: CMI Reply Br. in Support of Motion for Stay of Execution of September 2011 Order dated January 17, 2012 ("CMI Execution Stay Reply Br.") at 1.) The parties later submitted additional briefing at the district court's request regarding the remaining disputes between the parties. (Mondis Opp. Br. Exhibit 8: Transcript of February 27, 2012 Hearing at 57-58.)

On April 30, 2012, the district court ruled on the remaining issues regarding the ongoing royalty. (Mondis Br. Exhibit 12: Memorandum & Order dated April 30, 2012 ("April 2012 Order").) These issues included: (a) the definition of the royalty base for ongoing royalties; (b) the timing and frequency of reports and payments; (c) whether a portion of the payments must be withheld for Taiwanese taxes; (d) whether the ongoing royalties extend to CMI's successors and assigns; (e) whether Mondis is entitled to additional discovery related to a potential transfer of assets from CMI to Hon Hai; and (f) whether the supplemental damages and the ongoing royalty award should be stayed pending appeal. (April 2012 Order at 3.) The district court also considered whether it should grant a stay pending the outcome of this investigation. (*Id.*)

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In the April 2012 Order, the district court rejected both parties' suggested definition of the royalty base. CMI proposed that the royalty base only include the specific models that had been found to infringe by the jury. (*Id.* at 4.) Mondis proposed a broader definition that would include "all computer monitors and televisions that comply with or implement any VESA, DDC2B, EDID, Plug-and-Play, or DDC/DI standard." (*Id.*) Instead, the district court defined the royalty base as the monitors that were accused of infringement at trial and any other monitors that were not colorably different from the accused monitors. (*Id.*) As for the royalty reports, the district court ordered CMI to file quarterly, not monthly sales reports as Mondis requested, for determining the ongoing royalty and that CMI pay the ongoing royalty within 30 days of the report. (*Id.* at 5-6.) As for the issues regarding Taiwanese taxes, the district court ordered that CMI make any payments in the United States in full and not reduce the payment or withhold taxes. (*Id.* at 9.)

The district court also agreed with Mondis and held that the supplemental royalties should apply to CMI's successors and assigns. The district court found that the basis for the ongoing royalty was derived from the district court's injunction power under Federal Ruler of Civil Procedure 65. (*Id.* at 11.) Under this equitable power, the district court extended the remedy to CMI's successor and assigns. (*Id.* at 12.) The district court found that the alternative of adopting a blanket rule that ongoing royalty payments terminated when an infringer changes legal status or sells a portion of its business would eviscerate the purpose of ongoing royalties as a remedy in lieu of a prohibitory injunction. (*Id.*) The district court noted that "[o]therwise any adjudicated infringer could simply spin-off or sell its infringing line of business to a competitor and completely avoid that infringing line of business' obligation to pay ongoing royalties." (*Id.*)

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The district court denied Mondis's efforts to obtain discovery under Federal Rule of Civil Procedure 69 related to "the additional products that it would like to include in the on-going royalty base ([CMI's] panels), the business relationship between [CMI] and Hon Hai, and the wind-down of [CMI's] assembly business." (*Id.* at 13.) The district court denied this discovery because it was not related to assets from which the judgment may be satisfied, but rather relate to entirely new claims. (*Id.*) The district court also stayed execution of the judgment pending appeal on the condition that CMI post a supersedeas bond and pledge the judgment would be paid in full. (*Id.* at 14.)

On the same day, the district court entered a final judgment in the 378 Action. (Mondis Br. Exhibit 13: Final Judgment 378 Action dated April 30, 2012.) The final judgment awarded ongoing royalties to Mondis under the Court's equitable powers under § 283. (Final Judgment ¶ 3.) The key provisions are as follows:

- Ongoing royalties are to be calculated as a percentage of total product revenue at a rate of 1.50% for computer monitors and 0.75% for televisions sold after June 30, 2011.
- The ongoing royalty applies to infringing products shipped into the United States by CMI, or on behalf of CMI by any third party, or for which CMI would otherwise be liable as a direct or indirect infringer. This includes products shipped FOB China (or other non-United States ports) for customers who have identified the United States as being a destination for the products. The infringing products include those computer monitors and televisions accused at trial.
- The ongoing royalties are to be paid quarterly and accompanied by an accounting for the sales of the infringing products. Payments are due 30 days after the end of the quarter.
- The ongoing royalty obligation runs for the remaining life of the adjudicated infringed claims of the following patents: U.S. Patent Nos. 6,247,090 (claim 15); 7,089,342 (claim 15); 7,475,180 (claims 14 and 23); 6,057,812 (claims 1 and 11); and 6,639,588 (claim 1).

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- The ongoing royalty obligation is binding on CMI and any persons or companies who are in active concert or participation with CMI. The ongoing royalty obligation binds the successors-and-assigns of CMI's computer monitor and/or television business.
- CMI must notify Mondis within 14 days of any agreement to dispose of all or part of the assets associated with its computer monitor business.
- Mondis has the right to obtain periodic audits related to the ongoing royalty obligations, including the right to request invoices and other sales/shipping documents.

(Final Judgment at ¶¶ 3-11.)

On May 21, 2012, the parties filed a document entitled “Stipulation Re Deposit In Lieu of Supersedeas Bond” in the 378 Action.¹ The Stipulation states that the parties met and conferred and agreed that the “Final Judgment and any execution thereon will be stayed pending appeal on the condition that [CMI] deposits with the Clerk of the Court pursuant to Federal Rule of Civil Procedure 67 the amount of \$7,981,775.” (Stipulation Re Deposit in Lieu of Supersedeas Bond dated May 21, 2012 (Dkt. Sheet 378 Action, Dkt. No. 50) (“Stipulation”).) The Stipulation explains that “[t]his amount represents [*inter alia*] . . . the amount represented by [CMI] to constitute ongoing royalties for third quarter 2011 through first quarter 2012 . . . [and] ... the estimated amount for ongoing royalties for second quarter 2012” (Stipulation at 1 n.1.) CMI agreed to deposit the bond within two weeks of the Stipulation. (Stipulation ¶ 1.) CMI further agreed that “[w]ithin 45 days of the close of second quarter 2012, [CMI] shall deposit

¹ The ALJ takes judicial notice of the docket in the 378 Action and documents publicly available on it. *See Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*, Inv. No. 337-TA-650, Remand Initial Determination, at 82 (May 27, 2010) (unreviewed) (taking judicial notice of docket and docket entries in related district court proceedings); *see also St. Louis Baptist Temple, Inc. v. Fed. Deposit Ins. Corp.*, 605 F.2d 1169, 1172 (10th Cir. 1979) (“[I]t has been held that federal courts, in appropriate circumstances, may take notice of proceedings in other courts, both within and without the federal judicial system, if those proceedings have a direct relation to matters at issue.” (collecting cases)). Such information is properly considered on a motion for summary determination. *See St. Louis Baptist Temple*, 605 F.2d at 1171-72; *see also Federal Election Comm’n v. Hall-Tyner Election Campaign Comm.*, 524 F. Supp. 955, 959 n.7 (S.D.N.Y. 1981) (“any facts subject to judicial notice may be properly considered in a motion for summary judgment”), *aff’d*, 678 F.2d 416 (2d Cir. 1982), *cert. denied*, 459 U.S. 1145 (1983).

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with the Clerk of the Court [120%] of the amount, if any by which the actual second quarter 2012 ongoing royalties exceeds the estimated amount of [\$200,000].” (Stipulation ¶ 5.) Finally, the parties agreed that “[w]ithin 45 days of the close of third quarter 2012, and each subsequent quarter during the pendency of the appeal, [CMI] shall deposit . . . [120%] of the ongoing royalties for that quarter in compliance with the Court’s Final Judgment.” (Stipulation ¶ 7.) The parties disputed whether CMI would have to make deposits for any royalties attributable to sales made by Hon Hai during the pendency of the appeal. (Stipulation ¶ 6 n.2.)

CMI appealed the Final Judgment. That appeal is pending before the U.S. Court of Appeals for the Federal Circuit. (*See* Docket No. 12-1304 (Fed. Cir.))

On June 21, 2012, Mondis moved before the district court for an order to show cause why CMI and Hon Hai should not be held in contempt of the district court’s final judgment. (Dkt. Sheet 378 Action, Dkt. No. 53.) Mondis’s motion is not yet fully briefed and remains pending before the district court.

Mondis filed the present investigation on January 13, 2012. Mondis admits that its “infringement allegations in the [this investigation] are co-extensive with the judgment of the district court in the 565 Action (Dkt. No. 666) and the ongoing royalties order of the district court in the 378 Action (Dkt. No. 11).”² (CMI’s Statement of Undisputed Facts dated April 25, 2012 ¶ 16; Mondis’s Response to CMI’s Statement of Material Facts ¶ 16.)

² Mondis confirms this in its motion for summary determination where it states that “the products at issue in the ITC, and those that are subject to preclusion, are the display products adjudged to infringe in the Texas case and any other display products that are either not materially different from or are essentially the same as those products with respect to the infringing functionality.” (Mondis Summary Determination Br. on Claim Preclusion at 13.)

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II. The Parties' Arguments

CMI argues that by paying ongoing royalties to Mondis it is not violating either the patent laws or Section 337. (CMI Br. at 6.) CMI asserts that Mondis has relinquished its right to exclude acts found to infringe by requesting and obtaining an ongoing royalty. (*Id.*) CMI contends that Mondis's allegations in this investigation coincide with the products that are subject to the ongoing royalty order from the district court. (*Id.* at 3-4.) CMI asserts that there is no violation of Section 337 because CMI is authorized to practice the asserted patents. In its reply, CMI further argues that Mondis cannot opt out of the ongoing royalty scheme. (CMI Reply Br. at 2.)

Mondis argues that material facts in dispute make summary determination inappropriate. Specifically, Mondis argues that the following facts are in dispute (1) “whether or not the district court authorized CMI to infringe”; and (2) “whether or not CMI has complied with the district court’s order to date.” (Mondis Br. at 7.) Mondis argues that “CMI’s assertion that, by requiring ongoing royalties the district court has authorized ongoing infringement has no legal support and flies in the face of precedent because it would strip Mondis of [the] opportunity to conduct parallel proceedings [in both the district court and the ITC].” (Mondis Br. at 7.) Mondis asserts that it did not waive its right to seek relief here at the ITC. (*Id.* at 8.) Mondis claims that there is no conflict between the district court’s orders and the relief sought here at the ITC. If the Commission grants an exclusion order, Mondis asserts it would “simply mean that no further royalties would be owed because the unauthorized importation would cease.” (*Id.* at 9.) Mondis further reasons that “[i]f, following the issuance of an exclusion order, CMI defies the Commission and imports infringing products, the full force of the district court’s judgment

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would remain, and CMI will be required to pay Mondis royalties in addition to penalties assessed by the Commission.” (*Id.* at 9.)

Mondis also argues that Order No. 6 in *Certain Hybrid Vehicles*, Inv. No. 337-TA-688, precludes the relief requested by CMI here. (*Id.* at 10.) Mondis asserts that *Certain Hybrid Vehicles* stands for the proposition that “paying a royalty does not amount to per se authorization or license...” (*Id.*) Finally, Mondis contends that none of the other cases cited by CMI supports the contention that CMI is authorized to practice the asserted patents. (*Id.* at 11.)

Staff supports the motion for summary determination. Staff argues that Mondis “sought and obtained an order from the district court that established an ongoing royalty rate to be paid by CMI on each television set and computer monitor that it imports and/or sells in the United States...” and that the “Order permits importation and sale of infringing products in exchange for a royalty payment.” (Staff Br. at 3-4.) Staff notes that there is no evidence that Mondis sought an injunction in addition to monetary damages for past infringement. (*Id.* at 4.) The Staff argues that because CMI’s importation is “authorized” by the district court’s order, such importation cannot provide the requisite basis for a violation of Section 337 – an unauthorized sale or importation. (*Id.*)

III. Legal Standard for Summary Determination

Pursuant to Commission Rule 210.18, summary determination “. . . shall be rendered if pleadings and any depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a summary determination as a matter of law.” 19 C.F.R. § 210.18(b);

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see also DeMarini Sports, Inc. v. Worth, Inc., 239 F.3d 1314, 1322 (Fed. Cir. 2001); *Wenger Mfg., Inc. v. Coating Machinery Sys., Inc.*, 239 F.3d 1225, 1231 (Fed. Cir. 2001). The evidence “must be viewed in the light most favorable to the party opposing the motion . . . with doubt resolved in favor of the nonmovant.” *Crown Operations Int’l, Ltd. v. Solutia, Inc.*, 289 F.3d 1367, 1375 (Fed. Cir. 2002); *see also Xerox Corp. v. 3Com Corp.*, 267 F.3d 1361, 1364 (Fed. Cir. 2001) (“When ruling on a motion for summary judgment, all of the nonmovant’s evidence is to be credited, and all justifiable inferences are to be drawn in the nonmovant’s favor.”). “Issues of fact are genuine only if the evidence is such that a reasonable [fact finder] could return a verdict for the nonmoving party.” *Id.* at 1375 (quoting *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986)). The trier of fact should “assure itself that there is no reasonable version of the facts, on the summary judgment record, whereby the nonmovant could prevail, recognizing that the purpose of summary judgment is not to deprive a litigant of a fair hearing, but to avoid an unnecessary trial.” *EMI Group N. Am., Inc. v. Intel Corp.*, 157 F.3d 887, 891 (Fed. Cir. 1998). “Where an issue as to a material fact cannot be resolved without observation of the demeanor of witnesses in order to evaluate their credibility, summary judgment is not appropriate.” *Sandt Technology, Ltd. v. Resco Metal & Plastics Corp.*, 264 F.3d 1344, 1357 (Fed. Cir. 2001) (Dyk, J., concurring). “In other words, ‘[s]ummary judgment is authorized when it is quite clear what the truth is,’ [citations omitted], and the law requires judgment in favor of the movant based upon facts not in genuine dispute.” *Paragon Podiatry Laboratory, Inc. v. KLM Laboratories, Inc.*, 984 F.2d 1182, 1185 (Fed. Cir. 1993).

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IV. Discussion

A. Section 337 and License Defenses

Section 337(a)(1) declares unlawful:

(B) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that—

(i) *infringe a valid and enforceable United States patent*

19 U.S.C. § 1337(a) (emphasis added).

Under the Patent Act, “whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.” 35 U.S.C. § 271(a). And it is well-settled that “an authorized sale of a patented product places that product beyond the reach of the patent.” *McCoy v. Mitsuboshi Cutlery, Inc.*, 67 F.3d 917, 921 (Fed. Cir. 1995) (quoting *Intel Corp. v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993)). “[A]ll or part of the right to exclude may be waived by granting a license, which may be express or implied.” *Carborundum Co. v. Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 878 (Fed. Cir. 1995). Such a waiver constitutes a defense to patent infringement. *See id.*

B. Ongoing Royalties as a License

1. The Question of Whether an Ongoing Royalty is a License Presents a Legal Question Suitable for Summary Determination

There is no dispute that all of the products at issue in this investigation are subject to the ongoing royalties. In addition, there is no dispute about what the district court decided and ordered. Thus, contrary to Mondis’s contentions, this motion presents a purely legal question of whether the ongoing royalties awarded by the district court are a license authorizing CMI to

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practice the claimed inventions or not that can be resolved on summary determination. *See Wang Labs., Inc., v. Mitsubishi Elecs. Am., Inc.*, 103 F.3d 1571, 1580 (Fed. Cir. 1997) (implied license is a purely legal question); *Weinstein Co. v. Smokewood Entertainment Group, LLC*, 664 F. Supp. 2d 332, 342 n.6 (S.D.N.Y. 2009) (“Here, the parties are not arguing over ‘the meaning or scope’ of a license; the parties’ dispute concerns whether a license exists at all. This is a legal question that can be resolved upon a motion to dismiss.”).

2. The Ongoing Royalty in This Case Grants CMI a License Covering the Accused Products

Mondis argues that the ongoing royalty in no way authorizes CMI to practice the invention and instead CMI’s acts remain infringement. However, the ALJ disagrees. Instead, the ALJ finds the statutory basis, legal theory, and characteristics of the ongoing royalty as well as the specific facts of this case compel the conclusion that the ongoing royalty is a license that allows CMI to continue to import the accused products.

Mondis’s arguments are premised on a theory that, even though the court has ordered ongoing royalties, the violation of its patent rights continues. (Mondis Br. at 2-4, 10-13.) Mondis relies on various passages from the district court’s opinion in this case and CMI’s briefs in the ongoing royalty proceeding to argue that the ongoing royalty is not a license but in effect a damages award. (*Id.*) Specifically, Mondis points to references where the district court in the 378 Action and CMI describes CMI’s conduct as “infringement” or “infringing” and the ongoing royalties are equated to “future damages.” (*Id.* at 3-4, 10-13.) The ALJ does not believe these passages support a conclusion (or amount to a concession by CMI) that the ongoing royalty is a not license. Instead, these quotations recognize the hybrid nature of the rate-setting portion of

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the ongoing royalty proceedings. An ongoing royalty is awarded after an infringement finding and uses methodologies similar to those used to measure patent damages, which inevitably leads to the use of similar terms in both the trial and the rate-setting process. Moreover, the question of whether the ongoing royalty acts as a license was not even at issue in the orders and briefs that Mondis cites, and as such these out-of-context quotations are not particularly persuasive. *Cf. Webster v. Fall*, 266 U.S. 507, 511 (1925) (“Questions which merely lurk in the record, neither brought to the attention of the court nor ruled upon, are not to be considered as having been so decided as to constitute precedents.”). In any event, when one looks at the actual statutory basis for ongoing royalties and the theory under which courts have awarded them, it becomes apparent that Mondis’s theory is incorrect and that it is improper to characterize the adjudged infringer’s use under the ongoing royalty as an ongoing violation. Instead, an ongoing royalty should be viewed as license for the adjudged infringer to use the patented inventions such that there is no longer any violation of the patentee’s patent rights.

The statutory language makes this clear. Courts award ongoing royalties under the authority provided in 35 U.S.C. § 283, which permits courts to “grant injunctions in accordance with the principles of equity to *prevent the violation* of any right secured by patent. . . .”³ *See Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314 (Fed. Cir. 2007) (quotation marks omitted and emphasis added). In *Paice*, the Federal Circuit recognized this important statutory limitation on ongoing royalties and held that in some circumstances, such as when the district court does not enter a permanent injunction and the parties cannot reach their own license

³ Mondis seems to suggest that the authority for an ongoing royalty comes from 35 U.S.C. § 284. However, the Federal Circuit in *Paice* and district court in the 378 Action clearly rely on § 283. *See Paice*, 504 F.3d at 1314; Final Judgment ¶ 3.

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agreement, that “an order *permitting* use of a patented invention in exchange for a royalty is properly characterized as *preventing* the violation of the rights secured by the patent.” *See id.* at 1314-15 (emphasis in the original). Thus, the court recognized that to fall within the statutory power embodied in § 283, the order must *prevent* a violation and that, in order to do that, the order *permits* the use. Mondis’s theory that the ongoing royalty does nothing to prevent the violation is inconsistent with this statutory language.

Not only is Mondis’s theory of ongoing royalties inconsistent with the statutory basis, it is also inconsistent with the specific theory courts have used in awarding ongoing royalties. As courts have explained, the purpose of the ongoing royalty is to “adequately compensate a patentee for giving up his right under the law to exclude others from making, using selling, offering for sale or importing his invention.” *Paice LLC v. Toyota Motor Corp.*, 609 F. Supp. 2d 620, 630 (E.D. Tex. 2009). In other words, ongoing royalties are not continuous damages payments for continuing violations, but instead they are compensation for giving up the right to exclude. Giving up the right to exclude is the essence of a license. *See Wang Labs.*, 103 F.3d at 1580 (noting a license “merely signifies a patentee’s waiver of the statutory right to exclude others from making, using, or selling the patented invention[.]”); *Carborundum Co.*, 72 F.3d at 878 (“[A]ll of part of the right to exclude may be waived by granting a license....”). Thus, the underlying theory of ongoing royalties is not the damages theory Mondis proposes. Rather, it is a license theory. The court fashions a license between the two parties under its equitable power that prevents the violation of the rights under the patent by compensating the patentee for giving up the right to exclude.

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The characteristics of the ongoing royalty further confirm that the ongoing royalty is a license. First, as with a license, the ongoing royalty is prospective in nature and intended to compensate the patentee for future use of the invention not past harm from the infringement. *See Paice*, 609 F. Supp. 2d at 630 (noting ongoing royalties “. . . must adequately compensate the patent holder for using the patent holder’s property[.]”); *see also Waterloo Furniture Components Ltd. v. Haworth, Inc.*, 467 F.3d 641, 647-48 (7th Cir. 2006) (“Courts have recognized the prospective quality of a patent license, which allows another party to use the patentee’s property without fear of suit.”). Second, the parties to the ongoing royalty are first given a chance to negotiate their own license before one is imposed on them by the court. *See, e.g., Paice*, 504 F.3d at 1315; *Fractus, S.A. v. Samsung Elec. Co.*, 6:09-cv-203-LED, 2012 WL 2505741, at *45 (E.D. Tex. June 28, 2012). Third, in calculating the ongoing royalty rates, courts have treated the ongoing royalty as a license noting that an ongoing royalty “effectively precludes an exclusive licensing arrangement,” and that “[t]he *licensing terms* [in the ongoing royalty order] must be fair to both parties.” *See Paice*, 609 F. Supp. 2d at 630 (emphasis added). Moreover, courts have recognized that not only must the royalty rate compensate the patentee but it should “allow an ongoing willful infringer to make a reasonable profit[.]” *Paice*, 609 F. Supp. 2d at 624. In sum, each of these aspects demonstrates that an ongoing royalty is intended to function as a license of the patented inventions.

This finding that an ongoing royalty is a license is not inconsistent with the use of the term “ongoing royalty” instead of the term “license.” While the Federal Circuit has declined to call an “ongoing royalty” a “compulsory license,” *Paice*, 504 F.3d at 1313 n.13 (“We use the term ongoing royalty to distinguish this equitable remedy from a compulsory license.”), the

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moniker chosen for the ongoing royalty does not make it any less of a license between these two parties. Judge Rader noted this in his concurring opinion in *Paice*, *see id.* at 1316 (Rader, J., concurring) (“Nonetheless, calling a compulsory license an ‘ongoing royalty’ does not make it any less a compulsory license.”) and many district courts have acknowledged this as well, *see, e.g., Apple, Inc. v. Motorola, Inc.*, --- F. Supp. 2d ----, No.1:11-cv-8540, 2012 WL 2376664, at *16 (N.D. Ill. June 22, 2012) (Posner, J., sitting by designation) (“Such an order [imposing a royalty for continued use of the inventions in lieu of an injunction] would impose a compulsory license . . . in exchange for . . . receiving a perpetual royalty. (The Federal Circuit prefers the term ‘ongoing royalty’ . . .)” (citation omitted)); *Hynix Semiconductor, Inc. v. Rambus, Inc.*, 609 F. Supp. 2d 951, 986-87 (N.D. Cal. 2009) (“Because ‘ongoing royalty’ is merely a nice way of saying ‘compulsory license,’ . . . the parties are much better situated than the court to set such terms.” (citation omitted)). Moreover, the distinction the Federal Circuit attempted to draw between compulsory licenses and ongoing royalties was not that an ongoing royalty was not a license, but rather that the license created by the ongoing royalty was only between the parties to the litigation and was not available to any person who wished to have it. *Paice*, 504 F.3d at 1313 n.13 (“The term ‘compulsory license’ implies that *anyone* who meets certain criteria has congressional authority to use that which is licensed . . . By contrast, the ongoing royalty order at issue here is limited to one particular set of defendants; there is no implied authority in the court’s order for any other [potential infringer] to follow in [the defendant’s] footsteps and use the patented invention with the court’s imprimatur.”) (emphasis added).⁴

⁴ Scholars have also noted that the term “compulsory licensing” has a very specific meaning within patent law and that the improper use of term could unintentionally implicate various intellectual property treaties. *See Andrea C. Mace, Note, Trips, eBay, and Denials of Injunctive Relief: Is Article 31 Compliance Everything?*, 10 Colum. Sci. &

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Finally, the specific undisputed facts of this case further demonstrate that the ongoing royalty award is a license. First, Mondis did not seek an injunction in this case and asked immediately following the verdict for the award of ongoing royalties. Thus, this is not a situation where Mondis was forced into the ongoing royalty arrangement, but instead consented to it. Indeed, the royalty rate adopted by the district court is very similar to the royalty rate suggested by Mondis in its request for the ongoing royalty. Second, the district court's final judgment in the 378 Action contains a number of license-like provisions. (*See* Mondis Br. Ex. 13: Final Judgment ¶¶ 3-11.) For example, the final judgment in the 378 Action prescribes a royalty rate and identifies the products that it covers. (*Id.* at ¶¶ 3-4.) The final judgment provides the term for the ongoing royalty, when the payments are to be made, and the information that must be provided in connection with the payment. (*Id.* at ¶¶ 5-6.) The final judgment in the 378 Action also requires that CMI provide Mondis advance notice in the event of certain occurrences, such as transfer of its business. (*Id.* at ¶ 8.) These circumstances support the conclusion that the ongoing royalty, especially in this instance, is a license.

Mondis's few remaining arguments are meritless. Mondis relies on Order No. 6 from *Certain Hybrid Vehicles and Components Thereof*, Inv. No. 337-TA-688 ("*Certain Hybrid Vehicles*") for the proposition that an ongoing royalty is not necessarily a license. But *Certain Hybrid Vehicles* implies nothing close to that proposition. A review of that investigation's facts illustrates how different that case was from the present. In *Certain Hybrid Vehicles*, complainant Paice previously sued respondent Toyota. The jury in the earlier action found certain Toyota products infringed Paice's patent. Paice moved for a permanent injunction on all Toyota hybrid

Tech. L. Rev. 232 (2009); Charlene A. Stern-Dombal, *Tripping Over TRIPS: Is Compulsory Licensing Under eBay at Odds with U.S. Statutory Requirements and TRIPS?*, 41 Suffolk U.L. Rev. 249 (2007).

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vehicles that used similar technology. The district court denied that request and instead awarded an ongoing royalty on the particular Toyota products that the jury found infringed Paice's patent.

In the subsequent investigation before the Commission, Paice only sought to exclude hybrid vehicles that were not covered under the ongoing royalty order. However, as Order No. 6 explains, "Toyota argue[d] that the District Court's denial of injunctive relief for all Toyota hybrids coupled with its decision to impose ongoing royalties on all Toyota hybrids is tantamount to 'authorizing the importation and sale of the [products accused of infringing in the ITC investigation].'" (*Certain Hybrid Vehicles*, Order No. 6, at 15-16.) The ALJ rejected this effort to "blend[] the District Court's decisions on injunctive relief and ongoing royalty payments into a 'single' decision." (*Id.* at 16.) Instead, the ALJ found that the payment of ongoing royalties on the limited number of products covered in the initial district court action was not authorization for the products on which Toyota was not paying ongoing royalties. (*Id.*) This is completely different than the situation here where all of the products Mondis contends are at issue in this investigation are subject to the ongoing royalty.

Finally, Mondis makes several similar arguments related to the fact that Section 337 provides a separate, parallel remedy to the relief provided by the district court. Mondis argues Section 337 fills an important gap because as a non-practicing entity it cannot obtain an injunction under *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). In addition, Mondis asserts that the order of the remedies it sought should not matter because it would "nullify the option of parallel proceedings established by law and lead to an absurd result." However, Section 337 provides a remedy for infringement. As explained above, there is no longer any infringement as a matter of law because the products are licensed. Thus, Mondis's policy

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arguments are irrelevant. Moreover, Mondis chose to pursue its case in the order that it did. It could have pursued its Section 337 investigation first and possibly obtained an exclusion order or it could have chosen to forgo the ongoing royalty and obtain an exclusion order instead. But Mondis did not. And in this case, the order does matter.

In addition, the ALJ notes that Mondis's policy arguments regarding *eBay* and the gap filling nature of the Section 337 remedy are nothing more than speculation because Mondis did not even attempt to obtain an injunction. Mondis sought only ongoing royalties. Indeed, the ALJ cannot say an injunction would not have issued because other courts have granted injunctions even where the company was willing to license its patents. *See, e.g., ePlus, Inc. v. Lawson Software, Inc.*, No. 3:09cv620, 2011 WL 2119410, at *14-*15 (E.D. Va. May 23, 2011) (finding ongoing royalties inadequate because compulsory license would not include restrictions and conditions in other licenses granted by plaintiff); *Trading Tech. Int'l, Inc. v. eSpeed, Inc.*, No. 04 C 5212, 2008 WL 4531371, at *4 (N.D. Ill. May 22, 2008) (finding ongoing royalty inadequate despite prior licenses where compulsory license would not include important terms); *Commonwealth Sci. & Indus. Research Organization v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 605 (E.D. Tex. 2007) (same).

The parties to this investigation continue to dispute a number of points, but none of them are material to determining whether CMI is authorized to sell and import the accused products under the ongoing royalty. [

] are license questions to be resolved (and are in the process of being resolved) before the district court. *See Certain Dynamic Random Access*

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Memories, Components Thereof, and Products Containing Same, Inv. No. 337-TA-242, Initial Determination, 1987 ITC LEXIS 95, at *31 (May 21, 1987).

In sum, the ALJ finds that the ongoing royalty order constitutes a license authorizing CMI to use the asserted patents' claimed inventions for the products covered by that the ongoing royalty order. Specifically, the ALJ finds that the statutory language, the underlying theory of ongoing royalties, and characteristics of the ongoing royalty demonstrate that ongoing royalty is a license between the parties to the litigation that is crafted by the court in lieu of an injunction. Moreover, the specific undisputed facts of this case further show that the ongoing royalty order in this case is a license.⁵ Because all of the accused products fall under the ongoing royalty order and the ongoing royalty order is a license, the ALJ finds that all of CMI's accused products at issue in this investigation are authorized to practice the inventions of the asserted patents. Thus, there can be no patent infringement and no violation of Section 337.

Accordingly, the ALJ GRANTS-IN-PART and DENIES-IN-PART Motion Docket No. 828-004. The ALJ GRANTS CMI's motion for summary determination of no violation and DENIES CMI's Motion to Stay the investigation as MOOT. The investigation is hereby terminated.

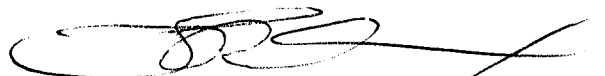
⁵ The ALJ further notes that by paying the ongoing royalty CMI has likely gained an implied license to sell and import the accused products by providing full compensation to Mondis. See *Union Tool Co. v. Wilson*, 259 U.S. 107, 113 (1922); *Glenayre Elec., Inc. v. Jackson*, 443 F.3d 851, 862-73 (Fed. Cir. 2006); *Carborundum Co.*, 72 F.3d at 881; *King Instrument Corp. v. Otari Corp.*, 814 F.2d 1560, 1564 (Fed. Cir. 1987); *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1563 (Fed. Cir. 1983). This is likely even if Mondis has not yet received the payments because the ongoing royalty order provides a definite framework for payment of the royalties within a specific period of time. See *Tessera Inc. v. Int'l Trade Comm'n*, 646 F.3d 1357, 1370 (Fed. Cir. 2011). Also, the fact Mondis has not yet executed on the judgment is not significant because Mondis and CMI have stipulated that CMI will deposit 120% of the quarterly royalties into the registry account controlled by the Clerk of the U.S. District Court for the Eastern District of Texas.

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Pursuant to 19 C.F.R. § 210.42(h), this initial determination shall become the determination of the Commission unless a party files a petition for review of the initial determination pursuant to 19 C.F.R. § 210.43(a), or the Commission, pursuant to 19 C.F.R. § 210.44, orders on its own motion a review of the initial determination or certain issues contained herein.

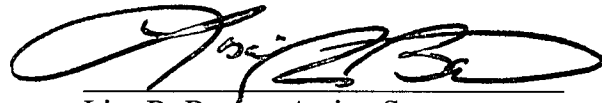
Within seven days of the date of this document, each party shall submit to the Office of the Administrative Law Judges a statement as to whether or not it seeks to have any portion of this document deleted from the public version. Any party seeking to have any portion of this document deleted from the public version thereof shall also submit to this office a copy of this document with red brackets indicating any portion asserted to contain confidential business information. The parties' submissions may be made by facsimile and/or hard copy by the aforementioned date. The parties' submissions concerning the public version of this document need not be filed with the Commission Secretary.

SO ORDERED.


Theodore R. Essex
Administrative Law Judge

PUBLIC CERTIFICATE OF SERVICE

I, Lisa R. Barton, hereby certify that the attached **NOTICE** has been served by hand upon, the Commission Investigative Attorney, Juan S. Cockburn, Esq., and the following parties as indicated on **August 27, 2012**.



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