WINSTON & STRAWN LLP

CLIENT ALERT

The Antitrust Implications of Judge Koh's Recent Decision in *FTC v. Qualcomm, Inc.*

AUGUST 28, 2019

On May 21, 2019, Judge Lucy Koh of the United States District Court for the Northern District of California issued a lengthy and highly anticipated decision in the FTC's action against modem chipmaker Qualcomm for its "no license, no chips" policies. Judge Koh held that Qualcomm violated the antitrust laws by injuring modem chip rivals and extracting supracompetitive royalty rates from downstream modem chip customers.

Judge Koh concluded that Qualcomm used contracts with critical customers to exclude rivals from the modem chip market. Qualcomm offered customers rebates, reduced royalties, and incentives conditioned on the use of Qualcomm products, insulating its market share. For other customers, Qualcomm assessed a royalty against the end product regardless of whether customers used Qualcomm's modem chip, effectively placing a surcharge on the selection of rivals' chips. Notably, Judge Koh held that Qualcomm had an antitrust and FRAND duty to license rivals for the manufacture and sale of modem chips in part because it previously had done so, before abandoning the practice to earn more by eliminating competitors.

In terms of its downstream licensing activities, Judge Koh found that Qualcomm improperly coerced its modem chip customers to take licenses to its patents with excessive royalty rates. To this end, Qualcomm conditioned its supply of chips—and related technical support—on customers signing a patent licensing agreement. Judge Koh observed that Qualcomm's royalty rates remained constant even as it demanded patent cross-licenses from customers (that varied in value) and as its proportion of standard essential patents (SEPs) declined with successive standards. Judge Koh found that Qualcomm's royalties were excessive after considering that: rates were driven by Qualcomm's chip market power rather than the value of the patents; Qualcomm did not provide patent lists or claim charts facilitating negotiation; rates were not commensurate with Qualcomm's contribution to standards; Qualcomm's chips did not drive the value of the end product against which the royalty was assessed; the rates had not been tested by litigation; and Qualcomm only implemented the challenged policies in markets where it had monopoly power. The sum of these practices, according to Judge Koh, was that Qualcomm was able to exclude rivals and charge excessive royalties for its patent portfolio.

Judge Koh considered a wide variety of types of conduct, which together were held to violate the antitrust laws and should be carefully assessed going forward. Specifically, Judge Koh found the following conduct raised antitrust concerns in this case:

- Violating FRAND obligations;
- Refusing to license SEPs subject to FRAND commitments to rivals;
- Conditioning sales or sharing samples on the acceptance of unnecessary or anticompetitive patent license agreements;
- Threatening supply cutoffs or delays;
- Threatening to withdraw or withhold technical or engineering support;
- Threatening to require the return of software;
- Charging higher patent royalty rates when using rivals' products;
- Providing incentive funds and rebates conditioned on volume commitments or use of a monopolist's products;
- Engaging in exclusive deals with major purchasers;
- Requiring customers to grant royalty-free cross licenses to customers' patents for access to necessary inputs;
- Demanding unjustifiably high royalty rates;
- Refusing to provide patent claim charts or technical and legal information about the patents when demanding a license; and
- Threatening customers that rivals could not sell them competitive products unless they took a license from the monopolist.

While Judge Koh identified the above conduct and policies as anticompetitive in this case, in other situations, courts have found certain of the above practices not to be anticompetitive and thus such conduct must be assessed within the context of each market. Numerous practitioners and scholars have been quick to praise or condemn the decision. FTC Commissioner Christine Wilson, for example, publicly noted her personal (non-official) disagreement with Judge Koh's decision.[1] Specifically, Wilson criticized the court's analysis of the duty to deal with and aid competitors under *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 595 (1985). Wilson also criticized the broad nature of the remedy Judge Koh crafted, suggesting that it was not appropriately tailored to the identified competitive harm.

The Ninth Circuit granted Qualcomm's motion to expedite an appeal. Accordingly, on August 23, 2019, Qualcomm filed its opening brief appealing Judge Koh's decision to the Ninth Circuit, including the FTC's novel "tax" or "surcharge" theory of antitrust liability and Qualcomm's duty to deal in the standard-setting context. Despite Judge Koh's denial of Qualcomm's motion for a stay of her decision pending appeal, on August 23, the Ninth Circuit granted Qualcomm's motion for a partial stay, maintaining the status quo during the expedited appeal.[2] While not deciding the issue of "[w]hether the district court's order and injunction represent a trailblazing application of the antitrust laws, or instead an improper excursion beyond the outer limits of the Sherman Act," the Ninth Circuit concluded Qualcomm had demonstrated that a stay was warranted.[3] In its order, the Ninth Circuit noted that the Antitrust Division of the Department of Justice ("DOJ") "filed a statement of interest expressing its stark disagreement [with the FTC] that Qualcomm has any antitrust duty to deal with rival chip suppliers."[4] The Ninth Circuit further held that Qualcomm "made the requisite showing that its practice of charging OEMs royalties for its patents on a per-handset basis does not violate the antitrust laws."[5] The Ninth Circuit noted that the balance of equities favored the stay as "the government itself is divided about the propriety of the judgment and its impact on the public interest [because] the Department of Defense and Department of Energy aver that the injunction threatens national security, and the DOJ posits that the injunction has the effect of *harming* rather than *benefitting* consumers."[6] The appeal is currently calendared for January 2020.

While the debate surrounding this decision will continue throughout the appeal process, companies with significant market shares engaged in the licensing of IP for important inputs should be cautious and assess any similar types of conduct as that at issue in the Qualcomm case. Please contact us for additional information or if you have any questions or concerns about how this decision applies to your business.

---

[1] Christine Wilson, "A Court's Dangerous Antitrust Overreach," May 28, 2019, *available at* https://www.wsj.com/articles/a-courts-dangerous-antitrust-overreach-11559085055

[2] *Fed. Trade Comm'n v. Qualcomm Inc.*, Case No. 19-16122, ECF No. 74, at 7 (9th Cir. Aug. 23, 2019).

[3] *Id.* at 6.

[4] *Id.* at 4.

[5] *Id.* at 4-5.

[6] *Id.* at 6 (emphasis in original).

4 Min Read

Related Locations

Charlotte | Chicago | Dallas | Houston | Los Angeles | New York | San Francisco | Silicon Valley | Washington, DC

Related Topics

Federal Trade Commission (FTC) | Antitrust and Competition

Related Capabilities

Antitrust/Competition | Intellectual Property | Technology Antitrust | Technology, Media & Telecommunications

Related Regions

North America

Related Professionals

Susannah Torpey

Jeffrey Kessler

Aldo A. Badini