

In the Matter of
**Certain CD-ROM Controllers,
and Products Containing Same-II**

Investigation No. 337-TA-409
(Decision to Review and Vacate an Initial Determination)

00012

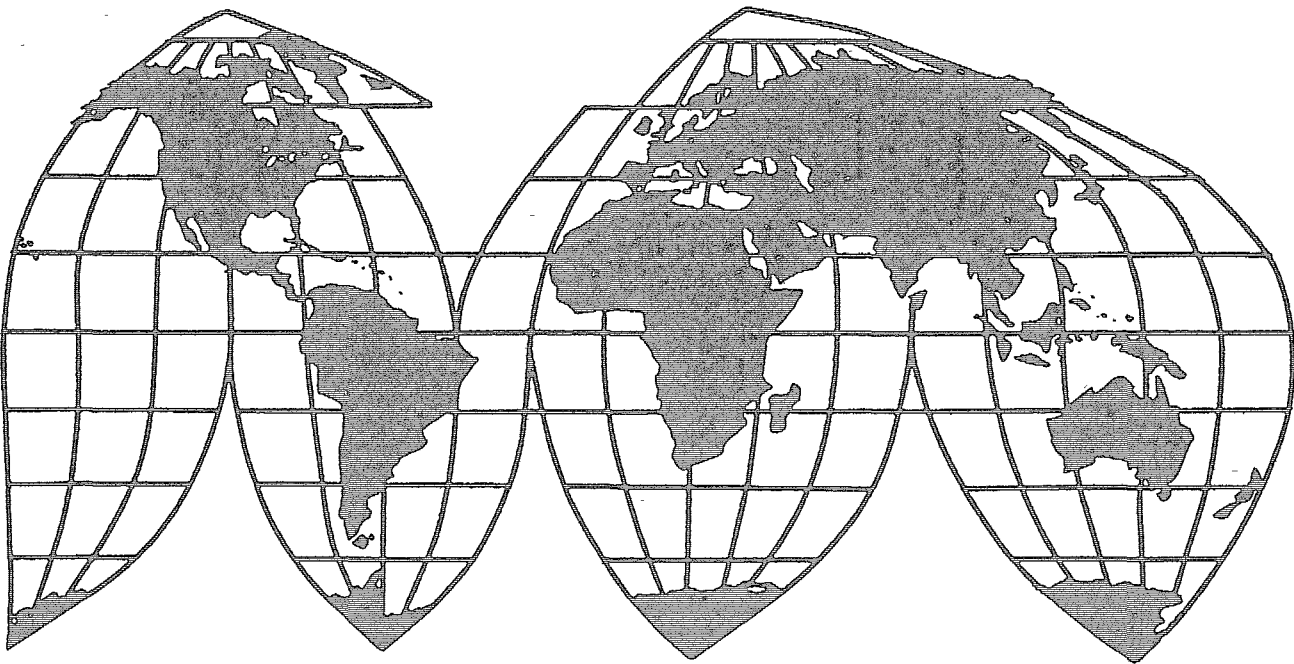
99 APR 28 AM 10:51

RECEIVED
OFFICE OF THE SECRETARY
U.S. INTERNATIONAL TRADE COMMISSION

April 1999

Publication 3186

U.S. International Trade Commission



U.S. International Trade Commission

COMMISSIONERS

Lynn M. Bragg, Chairman
Marcia E. Miller, Vice Chairman
Carol T. Crawford
Jennifer A. Hillman
Stephen Koplan
Thelma J. Askey

Address all communications to
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

U.S. International Trade Commission

Washington, DC 20436

In the Matter of
**Certain CD-ROM Controllers,
and Products Containing Same-II**



Publication 3186

April 1999

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

In the Matter of

CERTAIN CD-ROM CONTROLLERS,
AND PRODUCTS CONTAINING
SAME-II

Inv. No. 337-TA-409

DOCKET

99 FEB -3 P3:53

RECEIVED
OFFICE OF THE SECRETARY
U.S. INTERNATIONAL TRADE COMMISSION

NOTICE OF COMMISSION DECISION TO REVIEW AND
VACATE AN INITIAL DETERMINATION

AGENCY: U.S. International Trade Commission

ACTION: Notice

SUMMARY: Notice is hereby given that the U.S. International Trade Commission has determined to review and vacate an initial determination (ID) (Order No. 9) issued by the presiding administrative law judge (ALJ) on December 23, 1998, granting summary determination in the above-captioned investigation.

FOR FURTHER INFORMATION CONTACT: John A. Wasleff, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone 202-205-3094.

SUPPLEMENTAL INFORMATION:

This investigation was instituted on May 7, 1998, based on a complaint filed by Oak Technology Inc (Oak). 63 Fed. Reg. 26625. Among the respondents is United Microelectronics Corp. (UMC). The complaint alleges, *inter alia*, that UMC engaged in unlawful activities in violation of section 337 through the unlicensed importation and sale for importation of goods infringing claims 1-5 and 8-10 of U.S. Letters Patent 5,581,715, which deals with CD-ROM controllers. Oak seeks the imposition of a cease and desist order and an exclusion order.

Complainant Oak filed a previous complaint before the Commission based on the same products and the same patent, naming UMC as a proposed respondent. Prior to institution of an investigation, Oak entered into a settlement/licensing agreement with UMC, and withdrew its complaint as to UMC. Oak alleges that the sales and importation activities complained of in the present investigation are outside the provisions of the settlement agreement.

00025

On August 28, 1998, the ALJ issued an ID (Order No. 7) terminating the investigation as to UMC for failure to state a section 337 claim. Complainant Oak and the Commission investigative attorney (IA) filed petitions for review of the ID and UMC responded to those petitions. On October 7, 1998, the Commission reviewed and reversed Order No. 7.

In its opinion, the Commission noted that a motion for summary determination was pending, and stated that if the disposition of that motion came before the Commission, the Commission would address the matter as necessary and appropriate. On December 23, 1998, the ALJ issued an ID (Order No. 9) granting UMC's motion for summary determination. On December 31, 1998, complainant Oak filed a timely petition for review of the ID. The IA and UMC filed responses to the petition.

Having examined the record in this investigation, including the ID, the review petition, and the responses thereto, the Commission determined to review the ID and vacate the order granting UMC's motion for summary determination.

This action is taken under the authority of section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) and sections 210.42 -45 of the Commission's Rules of Practice and Procedure (19 C.F.R. §§ 210.42 -45).

Copies of the public version of the ID, the Commission's order, the Commission's opinion in support thereof, and all other nonconfidential documents filed in connection with this investigation are or will be available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street S.W., Washington, D.C. 20436, telephone 202-205-2000. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-205-1810. General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>).

By order of the Commission.



Donna R. Koehnke
Secretary

Issued: February 4, 1999

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

In the Matter of

**CERTAIN CD-ROM CONTROLLERS,
and PRODUCTS CONTAINING
SAME-II**

Inv. No. 337-TA-409

99 FEB -3 P 3:53

RECEIVED
OFC OF THE SECRETARY
US INTL TRADE COMMISSION

ORDER

This investigation was instituted on May 7, 1998, based on a complaint filed by Oak Technology Inc (Oak). 63 Fed. Reg. 26625. Among the respondents is United Microelectronics Corp. (UMC). The complaint alleges, *inter alia*, that UMC engaged in unlawful activities in violation of section 337 through the unlicensed importation and sale for importation of goods infringing claims 1-5 and 8-10 of U.S. Letters Patent 5,581,715, which deals with CD-ROM controllers. Oak seeks the imposition of a cease and desist order and an exclusion order.

Complainant Oak filed a previous complaint before the Commission based on the same products and the same patent, naming UMC as a proposed respondent. Prior to institution of an investigation, Oak entered into a settlement/licensing agreement with UMC, and withdrew its complaint as to UMC. Oak alleges that the sales and importation activities complained of in the present investigation are outside the provisions of the settlement agreement.

On August 28, 1998, the ALJ issued an initial determination

00026

(ID) (Order No. 7) terminating the investigation as to UMC for failure to state a section 337 claim. Complainant Oak and OUII filed petitions for review of the ID and UMC responded to those petitions. On October 7, 1998, the Commission reviewed and reversed Order No. 7.

In its opinion, the Commission noted that a motion for summary determination was pending, and stated that if the disposition of that motion came before the Commission, the Commission would address the matter as necessary and appropriate. On December 23, 1998, the ALJ issued an ID (Order No. 9) granting UMC's motion for summary determination. On December 31, 1998, complainant Oak filed a timely petition for review of the ID. The Commission investigative attorney and UMC filed responses to the petition.¹

Having examined the record in this investigation, including the ID, the review petitions, and the responses thereto, it is hereby ORDERED THAT:

1. Order No. 9 is reviewed.
2. Order No. 9 is vacated.
3. Oak's motion to strike as untimely UMC's response to its petition for review is denied.
4. The Secretary shall serve copies of this Order, and the forthcoming Commission Opinion in support thereof, on the parties of record.

¹ On January 13, 1999, Oak filed a motion to strike UMC's response as untimely.

By order of the Commission.

Donna R. Koehnke

Donna R. Koehnke
Secretary

Issued: **February 4, 1999**

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

In the Matter of

CERTAIN CD-ROM CONTROLLERS,
AND PRODUCTS CONTAINING
SAME-II

Inv. No. 337-TA-409

COMMISSION OPINION

I. BACKGROUND

A. Procedural History

This investigation was instituted on May 7, 1998, based on a complaint filed by Oak Technology Inc ("Oak"). 63 Fed. Reg. 26625. Among the respondents is United Microelectronics Corp. ("UMC"). The complaint alleges, *inter alia*, that UMC engaged in unlawful activities in violation of section 337 through the unlicensed importation and sale for importation of goods infringing claims 1-5 and 8-10 of U.S. Letters Patent 5,581,715, which deals with CD-ROM controllers.¹ Oak seeks the imposition of a cease and desist order and an exclusion order.

Complainant Oak filed a previous complaint before the Commission based on the same products and the same patent, naming UMC as a proposed respondent. Prior to institution of an investigation, Oak entered into a settlement/licensing agreement with UMC, and withdrew its

¹ Briefly, a CD-ROM is a Read Only Memory that offers high information density on a Compact Disk. To interface with such compact disks, computer systems employ CD-ROM drives, consisting of a mechanical load mechanism, a drive spindle (for turning the disk), drive electronics, and a controller. The controller is an integrated circuit chip that manages the flow of data and communication between the drive electronics and the host computer.

complaint as to UMC.

Oak alleges that the sales and importation activities complained of in the present investigation are outside the provisions of the settlement agreement. Specifically, Oak alleges that MediaTek² imports and sells infringing devices and that UMC has made sales of CD-ROM controllers to MediaTek not authorized by the settlement agreement.

On August 28, 1998, the presiding administrative law judge ("ALJ") issued an initial determination ("ID") (Order No. 7) terminating the investigation as to UMC for failure to state a section 337 claim. Complainant Oak and the Commission investigative attorney ("IA") filed petitions for review of the ID, and UMC responded to those petitions. On October 7, 1998, the Commission reviewed and reversed Order No. 7.

In its opinion, the Commission noted that a motion for summary determination was pending, and stated that if the disposition of that motion came before the Commission, the Commission would "address the matter as necessary and appropriate." On December 23, 1998, the ALJ issued an ID (Order No. 9) granting UMC's motion for summary determination. On December 31, 1998, complainant Oak filed a timely petition for review of the ID. On January 8, 1999, the IA filed a response to the petition.³ UMC's response was filed on January 11, 1999.⁴

² UMC spun off its former CD-ROM technology group into a separate business entity known as MediaTek.

³ In this response, the IA stated that the ALJ's interpretation of the effect of the liquidated damages clause was legally erroneous and should be reviewed and vacated.

⁴ Since Oak's petition was faxed to counsel for UMC, the three day mailing allowance did not apply, and UMC's response was untimely filed. On January 13, 1999, Oak filed a motion to strike
(continued...)

On January 8, 1999, the Commission determined to extend the deadline for deciding whether to review the subject ID from January 27, 1999 to February 3, 1999.

B. The Settlement Agreement

The settlement agreement creates two categories of licensed activity. First, certain UMC semiconductor devices for which manufacturing commenced before the date of the agreement are licensed for [[]] per unit.⁵ Second, the agreement licenses these same devices in production lots of no more than [[]] as "*Limited Basis*" products for a period of [[]] after the date of the agreement.⁶ These limited basis units are licensed at a [[]] per unit.⁷

The agreement includes [[]]⁸ and UMC's agreement to [[]]⁸ manufacture of the designated products except for those licensed under the limited basis provision.⁹ The agreement further states that [[]] either directly or by implication.¹⁰ Finally, the agreement contains a liquidated damages provision,

⁴ (...continued)

UMC's response as untimely. The Chairman extended the deadline for filing UMC's response, however, and that response was reviewed and considered.

⁵ ¶2.0.

⁶ ¶1.3.

⁷ ¶2.2.

⁸ The [[]] ¶3.2.

⁹ ¶3.1.

¹⁰ ¶3.4.

whereby UMC agrees, in the event it engages in unlicensed manufacturing and/or importing activity, to pay Oak liquidated damages of [[]]¹¹

II. ANALYSIS

It is well established that “[a]ny use beyond the valid terms of a license is, of course, an infringement of the patent.” *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124, 126 (1938). This principle requires the Commission to assess whether the complained of activities of UMC and MediaTek are within the provisions of the settlement agreement between Oak and UMC.

The ALJ concluded that “the agreement universally authorizes production of all products which may become subject to the ‘715 patent without limitation.”¹² In this regard, the ALJ made the following statement:

In any event, even if Oak were to prove that the chips were started after the date of the agreement, the settlement/licensing agreement provides a remedy of either [[]] Accordingly, the dispute is merely over the proper royalty rate, or whether liquidated damages is appropriate.

(ID at 16). Thus, the ALJ reasoned that “none of the alleged disputes raised by Oak, even if resolved in Oak’s favor, would prove a case of patent infringement by UMC, either they are authorized under the settlement/licensing agreement or because they are in fact actions on the contract and not under the patent laws [footnote omitted].” (ID at 18).

We find that the remedy of [[]] per chip under the liquidated damages provision of

¹¹ ¶3.6.

¹² ID at 15.

the settlement agreement does not constitute a license to UMC. Federal courts have indicated a clear difference between royalties paid under a license and payments made as liquidated damages. *See Kraly v. National Distillers And Chemical Corporation*, 502 F.2d 1366, 1369 (7th Cir. 1974) (contrasting payments for past infringements, characterized as liquidated damages, with license to practice patent in future); *United States v. Youngstown Sheet & Tube Co.*, 171 F.2d 103, 111 (6th Cir. 1948) (“The word ‘royalty’ commonly imports payment for permissive use of a property right, and not damages for a pirated or illegal appropriation of such property right A release for wrongs done in the past is not the equivalent of a license to do rightfully the same thing in the future.”); *International Telemeter Corp. v. Teleprompter Corp.*, 1978 U.S. Dist. LEXIS 19474 at *23 (S.D.N.Y. 1978) (“The court also finds that the payments are liquidated damages for past infringement and are not royalty payments.”).¹³

A license is an authorization to practice a patent within the restrictions set forth in the license agreement. Liquidated damages, by contrast, are intended to obviate the necessity of proving damages for unauthorized conduct.¹⁴ Therefore, UMC may have made infringing product sales that are unlicensed under the settlement agreement (*i.e.*, do not fall within ¶¶ 1.3 or 2.0) even though they activate the liquidated damages clause. The question of the existence or

¹³ Contract law also allows both liquidated damages and other forms of relief, including injunctive relief. *See, e.g.*, RESTATEMENT OF CONTRACTS § 361 (injunction may be granted even though there is a provision for liquidated damages).

¹⁴ Absent such a liquidated damages provision, the damages portion of a patent infringement case would require the patentee to introduce evidence of such factors as reasonable royalties, the infringer’s profits from infringing activity, market share, and the non-existence of economic substitutes for the patented device.

non-existence of such infringing unlicensed product sales is for the ALJ to decide in the first instance.

The IA suggests that by making certain *de novo* findings of fact and construing certain terms of the agreement¹⁵ the Commission may nevertheless uphold the grant of summary determination.¹⁶ While the Commission has the statutory authority to engage in such fact finding activity, it has generally been reluctant to do so. The Commission prefers to rely on the accumulated expertise of the ALJ in these matters.

¹⁵ Essentially, the IA urges that the Commission should interpret the “production lots” term of the agreement in such a way that the facts of the investigation would lead to a conclusion that the complained of manufacturing activity is authorized. The Commission would also need to resolve Oak’s contention that sales to MediaTek are unauthorized if the agreement is read in the light of the parties’ original intent.

¹⁶ Summary determination is proper when the moving party demonstrates the absence of any genuine issue of material fact. *Certain Integrated Circuit Telecommunications Chips and Products Containing Same, Including Dialing Apparatus*, Inv. No. 337-TA-337, Order No. 44 at 31-32 (July 22, 1992). In response to a properly supported motion, the nonmoving party is required to proffer evidence contradicting the movant’s showing and proving the existence of a genuine issue of material fact. *Catrett v. Johns-Manville Corp.*, 756 F.2d 181, 184 (D.C. Cir. 1985).

III. CONCLUSION

For the foregoing reasons, we find that the ID is legally erroneous in its conclusion that “the agreement universally authorizes production of all products which may become subject to the ‘715 patent without limitation.”¹⁷ Accordingly, we have determined to review the ID. Since the ID makes no findings of fact with respect to the interpretation of the settlement agreement, or with respect to UMC’s production activities, there is no alternative basis on the face of the ID to affirm the ALJ’s result. We have therefore vacated the ID’s grant of summary determination and remanded the investigation with respect to UMC to the ALJ.

¹⁷ ID at 15.