

1 Jennifer Milici, D.C. Bar No. 987096
 2 Geoffrey M. Green, D.C. Bar No. 428392
 3 Mark J. Woodward, D.C. Bar. No. 479537
 4 J. Alexander Ansaldo, Va. Bar No. 75870
 5 Dana F. Abrahamsen, D.C. Bar No. 357934
 6 Joseph R. Baker, D.C. Bar No. 490802
 7 Wesley G. Carson, D.C. Bar No. 1009899
 8 Kent E. Cox, Ill. Bar No. 6188944
 9 Rajesh S. James, N.Y. Bar No. 4209367
 10 Philip J. Kehl, D.C. Bar No. 1010284
 11 Federal Trade Commission
 12 600 Pennsylvania Avenue, N.W.
 13 Washington, D.C. 20580
 14 (202) 326-3695; (202) 326-3496 (fax)
 15 *jmilici@ftc.gov; ggreen@ftc.gov;*
 16 *mwoodward@ftc.gov; jansaldo@ftc.gov;*
 17 *dabrahamsen@ftc.gov; jbaker1@ftc.gov;*
 18 *wcarson@ftc.gov; kcox@ftc.gov;*
 19 *rjames@ftc.gov; pkehl@ftc.gov*

20 Lin W. Kahn, Cal. Bar No. 261387
 21 Federal Trade Commission
 22 901 Market Street, Suite 570
 23 San Francisco, CA 94103
 24 (415) 848-5115; (415) 848-5184 (fax)
 25 *lkahn@ftc.gov*

Attorneys for Plaintiff Federal Trade Commission

**UNITED STATES DISTRICT COURT
 NORTHERN DISTRICT OF CALIFORNIA
 SAN JOSE DIVISION**

<p>FEDERAL TRADE COMMISSION, Plaintiff, v. QUALCOMM INCORPORATED, a Delaware corporation, Defendant.</p>	<p>Case No. 5:17-cv-00220-LHK</p> <p>FEDERAL TRADE COMMISSION’S COMPLAINT FOR EQUITABLE RELIEF</p> <p>REDACTED VERSION OF DOCUMENT SEALED PER COURT ORDER</p>
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1 Plaintiff, the Federal Trade Commission, by its designated attorneys, petitions this Court,
2 pursuant to Section 13(b) of the Federal Trade Commission Act (“FTC Act”), 15 U.S.C. § 53(b),
3 for a permanent injunction against defendant Qualcomm Incorporated to undo and prevent its
4 unfair methods of competition in or affecting commerce in violation of Section 5(a) of the
5 Federal Trade Commission Act, 15 U.S.C. § 45(a).

6 **I. NATURE OF THE CASE**

7 1. This enforcement action challenges Qualcomm’s unlawful maintenance of a
8 monopoly in baseband processors, semiconductor devices that enable cellular communications in
9 cell phones and other products. Qualcomm has engaged in exclusionary conduct that taxes its
10 competitors’ baseband processor sales, reduces competitors’ ability and incentive to innovate,
11 and raises prices paid by consumers for cell phones and tablets.

12 2. Qualcomm is both a dominant supplier of baseband processors and a licensor of
13 patents that Qualcomm has declared essential to widely adopted cellular standards. Cell phones
14 and tablets sold by Qualcomm’s customers must comply with these standards, even when they
15 incorporate baseband processors supplied by Qualcomm’s competitors. Qualcomm has
16 committed to standard-setting organizations to license standard-essential patents to all applicants
17 on fair, reasonable, and non-discriminatory (“FRAND”) terms.

18 3. Qualcomm has excluded competitors and harmed competition through a set of
19 interrelated policies and practices:

20 a. Qualcomm withholds its baseband processors unless a customer accepts a
21 license to standard-essential patents on terms preferred by Qualcomm, including elevated
22 royalties that the customer must pay when using competitors’ processors (“no license-no
23 chips”).

24 b. In some instances, Qualcomm has offered customers incentive payments
25 (often tied to their purchase of Qualcomm’s processors) to induce those customers to
26 accept Qualcomm’s preferred license terms.

1 c. Qualcomm has consistently refused to license its cellular standard-
2 essential patents to its competitors, in violation of Qualcomm’s FRAND commitments.

3 d. Qualcomm entered into exclusive dealing arrangements with Apple Inc., a
4 particularly important cell phone manufacturer.

5 4. Qualcomm’s “no license-no chips” policy dramatically increases customers’ costs
6 of challenging Qualcomm’s preferred license terms before a court or other neutral arbiter—
7 including on the basis that those terms are non-FRAND—or to negotiate royalties in the shadow
8 of such a challenge. This leaves Qualcomm’s customers in a markedly different position than
9 they would be in a typical patent licensing negotiation. As a result, Qualcomm’s customers have
10 accepted elevated royalties and other license terms that do not reflect an assessment of terms that
11 a court or other neutral arbiter would determine to be fair and reasonable.

12 5. Qualcomm’s use of incentive payments helps Qualcomm “close the gap” with
13 customers that resist license terms that they regard as unreasonable.

14 6. Qualcomm’s refusal to license its competitors bolsters its ability to maintain
15 elevated royalties and other unreasonable license terms. Qualcomm’s competitors, unlike its
16 customers, do not depend on Qualcomm for baseband processor supply, and would be better
17 positioned than customers to negotiate licenses on FRAND terms.

18 7. By using its monopoly power to obtain elevated royalties that apply to baseband
19 processors supplied by its competitors, Qualcomm in effect collects a “tax” on cell phone
20 manufacturers when they use non-Qualcomm processors. This tax weakens Qualcomm’s
21 competitors, including by reducing demand for their processors, and serves to maintain
22 Qualcomm’s monopoly in baseband processor markets.

23 8. When Apple sought relief from Qualcomm’s excessive royalty burden,
24 Qualcomm conditioned partial relief on Apple’s exclusive use of Qualcomm baseband
25 processors from 2011 to 2016. Qualcomm’s exclusive supply arrangement with Apple denied
26

1 other baseband processor suppliers the benefits of working with a particularly important cell
2 phone manufacturer and hampered their development into effective competitors.

3 9. Qualcomm's conduct has harmed competition and the competitive process. At a
4 time when cellular technologies are expanding to new and varied applications, Qualcomm's
5 practices threaten further consumer harm in an industry in which competition and innovation are
6 vitally important.

7 **II. JURISDICTIONAL STATEMENT**

8 **A. Jurisdiction**

9 10. This Court has subject matter jurisdiction over this action pursuant to
10 Sections 5(a) and 13(b) of the FTC Act, 15 U.S.C. §§ 45(a) and 53(b), and 28 U.S.C. §§ 1331,
11 1337(a), and 1345. This is a civil action arising under Acts of Congress protecting trade and
12 commerce against restraints and monopolies, and is brought by an agency of the United States
13 authorized by an Act of Congress to bring this action.

14 11. This Court has personal jurisdiction over Qualcomm because Qualcomm has the
15 requisite constitutional contacts with the United States of America.

16 12. Qualcomm's general business practices, and the unfair methods of competition
17 alleged herein, are activities in or affecting "commerce" within the meaning of Section 4 of the
18 FTC Act, 15 U.S.C. § 44.

19 13. Qualcomm is, and at all times relevant herein has been, a corporation, as
20 "corporation" is defined in Section 4 of the FTC Act, 15 U.S.C. § 44.

21 **B. Venue**

22 14. Venue in the Northern District of California is proper under 15 U.S.C. § 22;
23 Section 13(b) of the FTC Act, 15 U.S.C. § 53(b); and 28 U.S.C. §§ 1391(b), (c) and (d).
24 Qualcomm is found, resides, transacts business, and has agents in this state and district, and a
25 substantial portion of the affected commerce described herein has been carried out in this state
26 and district.

1 **IV. INDUSTRY BACKGROUND**

2 **A. Cellular Technology**

3 18. Cellular communications depend on widely distributed networks implementing
4 standardized protocols. Network operators such as Verizon, AT&T, T-Mobile, and Sprint make
5 substantial investments to build networks that comply with these standardized protocols.

6 19. Since the introduction of commercial cellular handsets, there have been four
7 “generations” of cellular communication standards.

8 a. First-generation (“1G”) standards, introduced in the 1980s, support analog
9 transmission of voice calls.

10 b. Second-generation (“2G”) standards, first deployed in the early 1990s,
11 support digital transmission of voice calls. The leading 2G standards families are the
12 Global System for Mobile communications (“GSM”) and second-generation Code
13 Division Multiple Access (“2G-CDMA”). In the United States, AT&T and T-Mobile
14 operate legacy GSM networks, while Verizon and Sprint operate legacy 2G-CDMA
15 networks.

16 c. Third-generation (“3G”) standards, first deployed in the late 1990s and
17 early 2000s, support higher data-transmission speeds. The leading 3G standards families
18 are the Universal Mobile Telecommunications System (“UMTS”) and third-generation
19 CDMA (“3G-CDMA”). UMTS allowed GSM-network operators to transition
20 economically to a 3G standard. 3G-CDMA did the same for 2G-CDMA-network
21 operators.

22 d. Fourth-generation (“4G”) standards, first deployed in late 2009 and the
23 early 2010s, support substantially higher data-transmission speeds than 3G standards can
24 support. The leading 4G standard is Long-Term Evolution (“LTE”). Most major network
25 operators worldwide have deployed LTE.
26

1 **B. Baseband Processors**

2 20. Baseband processors are semiconductor devices (sometimes referred to as
3 “chips,” “chipsets,” or “modems”) within handsets. Baseband processors allow handsets to
4 communicate with an operator’s cellular network by performing functions such as signal
5 generation, modulation, and encoding.

6 21. To communicate with an operator’s network, a handset must contain a baseband
7 processor that complies with cellular communications standards that the network supports. A
8 handset containing a baseband processor that complies only with UMTS standards cannot
9 communicate with a 3G-CDMA network.

10 22. Baseband processors that comply with more than one standard are known as
11 “multi-mode” processors. A handset that contains a multi-mode baseband processor is capable
12 of communicating with networks that deploy more than one standard or with multiple networks
13 deploying different standards.

14 23. To be used on a network deploying LTE, a handset must ordinarily contain a
15 multi-mode baseband processor that complies with both LTE and older 2G and 3G standards, for
16 two reasons. First, LTE network infrastructure generally supports data, rather than voice, traffic.
17 Therefore, to transmit voice calls, a baseband processor must comply with 2G and 3G standards.
18 Second, because the process of upgrading and replacing network infrastructure takes years, a
19 baseband processor must comply with 2G and 3G standards to communicate with the network in
20 areas where the operator has not yet replaced or upgraded infrastructure equipment.

21 24. Thus, to be sold for use on a given carrier’s network, a multi-mode processor
22 must comply with the legacy 2G and 3G standards deployed by that network. A handset that
23 contains a baseband processor that complies with GSM, UMTS, and LTE standards, but not
24 CDMA standards, for example, cannot be sold for use on a CDMA network such as Verizon’s.

1 **C. Cellular Handsets**

2 25. In the late 2000s, smartphones that provide advanced computing capability began
3 to emerge as alternatives to simple feature phones with voice and text-messaging capability. The
4 launch of Apple’s iPhone in 2007 marked an important point in this transition, as did the release
5 by HTC of the first phone using Google’s Android operating system in 2008.

6 26. Smartphones include many features in addition to the cellular connectivity and
7 associated voice and text capabilities provided by early feature phones. Smartphones offer
8 cameras, high-resolution touch-screen displays, powerful applications and graphics processors,
9 and enhanced memory and storage, among other features. Many consumers today use their
10 smartphone as their principal camera, for example. Smartphones typically offer consumers
11 connectivity over both cellular networks, such as 4G-LTE or 3G-CDMA, and WiFi networks.

12 27. Over time, competition among OEMs has developed across several handset tiers,
13 including premium (sometimes further divided into “premium” and “high”), mid, and low tiers.
14 Premium-tier smartphones, including flagship brands like Apple’s iPhone and Samsung’s
15 Galaxy-S line, typically include advanced features and technologies.

16 28. Premium smartphones have become increasingly important for OEMs. Premium
17 smartphones tend to have higher prices and margins than lower-tier products and are important
18 for branding.

19 29. The United States, where average selling prices for handsets are significantly
20 higher than the global average, is a particularly important market for a number of leading OEMs.

21 30. Among cellular standards, LTE functionality is particularly important for modern
22 smartphones, as consumers increasingly use smartphones to transmit large volumes of data.
23 Cellular data traffic has grown exponentially in recent years, while the volume of cellular voice
24 traffic has remained nearly flat.

1 36. Qualcomm recognizes its dominant position in CDMA processor sales. [REDACTED]

2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 37. OEMs have had limited practical alternatives to Qualcomm for the supply of
7 CDMA processors. Qualcomm has used its dominant position to obtain onerous and
8 anticompetitive supply and licensing terms from OEMs.

9 **Premium LTE Processors**

10 38. Most major network operators worldwide have deployed LTE networks, including
11 U.S. operators Verizon, AT&T, T-Mobile, and Sprint.

12 39. Since the introduction of the first LTE networks around 2010, LTE functionality
13 has continually advanced, and the relevant standard-setting organizations have released a series
14 of updated standards. Advances have included progressively faster data speeds to allow for data-
15 intensive uses. For example, an early LTE release, Category 1, supported download speeds of 10
16 megabits per second (Mbps); a later LTE release, Category 6, supported download speeds of 300
17 Mbps; and a more recent LTE release, Category 12, supports download speeds of 600 Mbps.

18 40. As LTE technology has progressed, baseband processor manufacturers have had
19 to add features to keep up. Today, baseband processors that comply with advanced LTE
20 standards support advanced data download and upload speeds; advanced carrier aggregation and
21 multiple-input multiple-output (“MIMO”) capabilities; and advanced power-saving features,
22 among other functions.

23 41. OEMs typically require baseband processors with advanced LTE functionality for
24 premium-tier handsets. For an OEM designing and manufacturing a premium-tier handset, a
25 baseband processor that only supports earlier LTE features is not a reasonable substitute for a
26 baseband processor that supports advanced LTE standards and features.

1 42. Competition among manufacturers of LTE baseband processors thus occurs in
2 tiers, including premium (sometimes further divided into “premium” and “high”), mid, and low
3 tiers. A premium LTE baseband processor supports advanced LTE functionality—the “latest
4 features,” in the words of a senior Qualcomm executive.

5 43. Qualcomm recognizes that handsets and baseband processors compete in various
6 tiers. Qualcomm’s 2016 annual report, for example, refers to both “premium-tier smartphones”
7 and Qualcomm’s “premium-tier integrated circuit products.” In internal reporting, Qualcomm
8 tracks its share of baseband processor sales by handset tier, including sales of baseband
9 processors for use in premium-tier handsets.

10 44. Qualcomm has consistently been the dominant supplier of premium LTE
11 processors. From at least 2012 through September 2015, Qualcomm’s annual worldwide share of
12 premium LTE baseband processor sales exceeded 80%.

13 45. Qualcomm has faced limited competition for the supply of premium LTE
14 processors. Other manufacturers have offered baseband processors that support LTE
15 functionality, but have offered only limited competition to Qualcomm in premium offerings.
16 MediaTek, for instance, has lagged behind Qualcomm in LTE baseband processor sales, and has
17 not supplied premium LTE processors for flagship handsets. Intel has had even more limited
18 LTE baseband processor sales and achieved modest success in premium LTE baseband processor
19 supply only recently, when it began to supply a portion of Apple’s baseband processor
20 requirements for the iPhone 7. Samsung and Huawei have recently self-supplied some premium
21 LTE baseband processors for Samsung and Huawei handsets, respectively, but this has not
22 provided Qualcomm with meaningful competition in the merchant market.

23 46. Qualcomm recognizes its dominant position in premium LTE processor sales. In a
24 2011 internal e-mail exchange about a leading OEM’s requirements for premium LTE
25 processors, a Qualcomm executive asked: [REDACTED] Another Qualcomm
26 executive responded, [REDACTED] Discussing another leading OEM’s premium

1 LTE processor requirements, a senior Qualcomm executive stated, in a 2012 internal e-mail,

2 [REDACTED]
3 [REDACTED]
4 47. OEMs have had limited practical alternatives to Qualcomm for the supply of
5 premium LTE processors. Qualcomm has used its dominant position to obtain onerous and
6 anticompetitive supply and licensing terms from OEMs.

7 **V. QUALCOMM'S FRAND-ENCUMBERED CELLULAR STANDARD-**
8 **ESSENTIAL PATENTS**

9 48. Standard-setting organizations ("SSOs") adopt cellular communications
10 standards, including CDMA and LTE standards. Through SSOs, industry participants that may
11 otherwise compete with each other collaborate on evaluating and selecting technologies for
12 standardization. These collaborations can provide important benefits by resolving
13 interoperability problems.

14 49. Standardization can also present competitive risks. Standard-setting participants
15 often hold patents covering technologies that are incorporated into a standard. Once a standard
16 incorporating proprietary technology is adopted, the potential exists for opportunistic patent
17 holders to insist on patent licensing terms that capture not just the value of the underlying
18 technology, but also the value of standardization itself. To address this "hold-up" risk, SSOs
19 often require patent holders to disclose their patents and commit to license standard-essential
20 patents ("SEPs") on fair, reasonable, and non-discriminatory ("FRAND") terms. Absent such
21 requirements, a patent holder might be able to parlay the standardization of its technology into a
22 monopoly in standard-compliant products.

23 50. By making a FRAND commitment, a patent holder accepts the benefits of
24 participating in standards development and of seeking incorporation of its patented technologies
25 into a standard, but agrees in exchange not to exercise any market power resulting from its
26 patents' incorporation into that standard.

1 51. Most SSOs neither prescribe FRAND license terms nor offer a centralized
2 dispute-resolution mechanism in the event that a patent holder and standard implementer cannot
3 agree on such terms. Instead, most SSOs rely on the outcome of bilateral negotiations between
4 the parties, with resort to remedies available from courts in the event of disagreement. Bilateral
5 negotiations conducted in the shadow of a judicial determination of FRAND terms are therefore
6 essential to the efficacy of the FRAND commitment.

7 52. SSOs that adopt cellular telecommunications standards include the European
8 Telecommunication Standards Institute (“ETSI”), the Telecommunications Industry Association
9 (“TIA”), and the Alliance for Telecommunications Industry Solutions (“ATIS”). In some
10 instances, telecommunications standards have been developed through partnerships among
11 SSOs. For example, the Third Generation Partnership Project (“3GPP”) focuses on the evolution
12 of GSM, UMTS, and LTE technology, and the Third Generation Partnership Project 2
13 (“3GPP2”) focuses on the development of CDMA technology.

14 53. ETSI, TIA, and ATIS require each party that participates in the standards-
15 development process to commit to license its SEPs to firms that implement the standard on
16 FRAND terms.

17 54. Qualcomm has participated in cellular standard setting processes through ETSI,
18 TIA, and ATIS, and has participated in 3GPP and 3GPP2. Qualcomm was a leading developer
19 and proponent of 2G-CDMA standards and held a correspondingly high share of all patents
20 declared essential to 2G-CDMA standards.

21 55. Qualcomm also participated in 3G-standard setting, though its share of all patents
22 declared essential to 3G-UMTS and 3G-CDMA standards is smaller than its share of 2G-CDMA
23 SEPs.

24 56. Qualcomm initially advocated a 4G standard known as Ultra-Mobile Broadband,
25 but its advocacy was unsuccessful. Qualcomm later supported LTE standards, which other
26 industry participants had initially proposed. Qualcomm’s share of patents declared essential to

1 LTE standards is much lower than its share of CDMA SEPs, and is roughly equal to the shares of
2 other industry participants. One study of declared LTE SEPs found that Qualcomm had a 13%
3 share of “highly novel” essential LTE patents, compared to 19% for Nokia and 12% for each of
4 Ericsson and Samsung.

5 57. Qualcomm has committed to ETSI, TIA, ATIS, and other SSOs that it will license
6 its cellular SEPs covering 2G, 3G, and 4G technologies on FRAND terms.

7 58. Qualcomm has licensed its cellular SEPs to many OEMs. Qualcomm has
8 historically offered licenses to OEMs at a base royalty rate of about 5% of the net selling price of
9 a handset. This rate is significantly higher than those of other licensors of cellular SEPs.

10 59. Qualcomm refuses to license FRAND-encumbered cellular SEPs to competing
11 suppliers of baseband processors, despite its FRAND commitments.

12 60. Among SEP holders, Qualcomm garners an outsized share of licensing revenues
13 paid by OEMs. OEMs pay Qualcomm far more in royalties than they pay other SEP licensors,
14 even those with comparable portfolios of cellular SEPs. [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 **VI. QUALCOMM USES ITS DOMINANT POSITION IN BASEBAND PROCESSORS**
19 **TO PRECLUDE OEMS FROM CHALLENGING ITS PREFERRED LICENSE**

20 **TERMS**

21 61. Qualcomm conditions OEMs’ access to its baseband processors on OEMs’
22 acceptance of a license to Qualcomm’s cellular SEPs on Qualcomm’s preferred terms (“no
23 license-no chips”)—including the payment of substantial royalties to Qualcomm on sales of
24 handsets using a baseband processor purchased from Qualcomm’s competitors.

25 62. Qualcomm’s baseband processor supply agreements with OEMs implement its
26 “no license-no chips” policy. [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 63. As alleged below, Qualcomm’s “no license-no chips” policy is exclusionary. The
5 policy skews Qualcomm’s license negotiations with OEMs toward outcomes that raise the all-in
6 prices that OEMs must pay on both Qualcomm baseband processors and those supplied by
7 Qualcomm’s competitors. These higher all-in prices reduce demand for competitors’ processors
8 and raise handset prices paid by consumers.

9 **A. Qualcomm’s “No License-No Chips” Policy Is Anomalous Among**
10 **Component Suppliers**

11 64. Qualcomm’s “no license-no chips” policy sets Qualcomm apart from other
12 suppliers of semiconductor and cellular-equipment components.

13 65. Other component suppliers rely on component sales, rather than separate patent
14 licenses, to convey to their OEM customers the intellectual property rights that those customers
15 need in order to use or resell the components they have purchased.

16 66. When a supplier sells a component, such as a baseband processor, to an OEM,
17 that sale, under the doctrine of patent exhaustion, ordinarily terminates any right of the supplier
18 under patent law to control any further use or sale of the component.

19 67. Thus, when one of Qualcomm’s competitors sells a baseband processor to an
20 OEM, the OEM can use or resell the processor without obtaining a separate patent license from
21 the competitor—just as a consumer buying a smartphone does not have to obtain a separate
22 patent license from the seller of the smartphone.

23 68. More generally, OEMs purchase components from hundreds of suppliers. Among
24 these suppliers, Qualcomm is unique in requiring an OEM, as a condition of sale, to secure a
25 separate patent license requiring royalty payments for handsets that use a competitor’s
26 components.

1 **B. Qualcomm’s “No License-No Chips” Policy Is Anomalous Among SEP**
2 **Licensors**

3 69. Qualcomm’s “no license-no chips” policy also sets Qualcomm apart from other
4 licensors of SEPs.

5 70. Ordinarily, if a SEP holder and a potential licensee can neither agree on license
6 terms nor agree to submit those terms to binding arbitration, the SEP holder initiates a patent-
7 infringement suit in which a court resolves issues of patent validity and infringement and, if the
8 court deems a patent valid and infringed, determines and awards reasonable royalties. In some
9 instances, a potential licensee may seek a declaratory judgment addressing the same issues.

10 71. These suits, when litigated to judgment, have resulted in royalties well below
11 those that SEP holders offered prior to litigation. In one leading case, a SEP holder demanded
12 royalties of between \$6 and \$8 per gaming console. The district court ultimately determined that
13 the FRAND rate for the SEPs was \$0.04 per console. (*Microsoft Corp. v. Motorola, Inc.*, No.
14 C10-1823, 2013 WL 2111217, at *99–101 (W.D. Wash. Apr. 25, 2013).) In another case, a SEP
15 holder demanded royalties that exceeded the selling price of the standard-compliant products.
16 The district court ultimately determined that the cumulative FRAND royalty for the patents at
17 issue was 0.19% of the selling price. (*Realtek Semiconductor Corp. v. LSI Corp.*, No. C-12-3451,
18 2014 WL 2738226, at *6 (N.D. Cal. June 16, 2014).)

19 72. A potential licensee’s ability to secure a FRAND determination from a court
20 affects SEP-license negotiations. If the potential licensee’s costs of going to court are low
21 relative to the value of the royalties and other terms that the parties are negotiating, both parties
22 to the negotiation know that the potential licensee, if offered unreasonable terms, can choose to
23 decline the offer and go to court to seek better terms.

24 73. Thus, the parties’ expectations about the probable outcome of litigation determine
25 the negotiated terms. In this sense, bargaining over royalties and other licensing terms occurs “in
26 the shadow of the law.”

1 74. Negotiated royalties will approximate judicially determined reasonable royalties,
2 however, only if the costs to the prospective licensee of challenging the licensor’s royalty
3 demands are low relative to the royalties demanded.

4 75. As the costs to the potential licensee of going to court rise, this becomes a less
5 attractive option, and thus provides less protection to the potential licensee against unreasonable
6 royalty demands.

7 **C. Qualcomm’s “No License-No Chips” Policy Denies OEMs the Opportunity to**
8 **Challenge Qualcomm’s License Terms in Court or to Negotiate Royalties**
9 **Against the Backdrop of a Potential Challenge**

10 76. Many OEMs regard Qualcomm’s royalties as non-FRAND, and absent
11 Qualcomm’s “no license-no chips” policy, OEMs would have the ability and incentive to
12 challenge Qualcomm’s royalty demands in court.

13 77. Before a court, OEMs could challenge Qualcomm’s royalty demands on several
14 grounds, including by citing evidence that:

15 a. Qualcomm’s royalties are disproportionately high relative to the value
16 contributed by its patented inventions, and often are several times higher than the
17 royalties of other SEP licensors that have made similar technical contributions;

18 b. Qualcomm has continued to calculate royalties as a percentage of a
19 handset’s price, even though handsets today offer a number of features—including
20 cameras, high-resolution touch-screen displays, powerful applications and graphics
21 processors—other than cellular connectivity;

22 c. Qualcomm’s standard royalty rate has not fallen, even though many of
23 Qualcomm’s patents related to CDMA technology have expired; and

24 d. Qualcomm has required OEMs to grant Qualcomm cross-licenses (in
25 some cases, to both SEPs and non-SEPs), often with pass-through rights to other OEMs,
26

1 and has failed to adjust its royalty rate to account for the value of OEMs' cross-licensed
2 patents.

3 78. Qualcomm's "no license-no chips" policy effectively denies OEMs the
4 opportunity to challenge Qualcomm's royalty demands on these and other grounds by
5 dramatically increasing OEMs' costs of going to court.

6 79. As a result of Qualcomm's policy, the costs that an OEM must incur to challenge
7 Qualcomm's royalties are not simply attorney's fees and other litigation costs, but also include
8 loss of access to Qualcomm's baseband processors.

9 80. Loss of access to Qualcomm's processors imposes substantial costs on OEMs.
10 Given the dominant position that Qualcomm has had in the supply of CDMA and premium LTE
11 processors, an OEM unable to purchase such processors from Qualcomm would be severely
12 hampered in efforts to design and sell critically important premium-tier phones and phones for
13 use on CDMA networks.

14 81. Qualcomm has also used its dominant position to negotiate supply terms that
15 leave OEMs vulnerable to a supply disruption in the event of a license dispute. Once an OEM
16 begins testing a handset with a Qualcomm baseband processor, the OEM is effectively "locked
17 in" to that processor, and remains so over the commercial life of the handset.

18 82. Absent Qualcomm's dominance in CDMA and premium LTE baseband
19 processors, an OEM could protect itself against a supply disruption either (i) by substituting non-
20 Qualcomm processors in new handset designs or (ii) by using the prospect of substitution to
21 negotiate supply terms with Qualcomm that protect the OEM from such a disruption. Qualcomm
22 has used its dominance, however, to obtain [REDACTED]

23 [REDACTED]

24 83. These supply terms leave an OEM vulnerable to supply disruptions with serious
25 consequences for its business. To avoid these consequences, OEMs have acceded to royalties
26

1 and other licensing terms that Qualcomm demanded even when they believed those terms to be
2 non-FRAND.

3 **D. Qualcomm’s “No License-No Chips” Policy Compels OEMs to Accept**
4 **Qualcomm’s Preferred License Terms**

5 84. Qualcomm’s “no license-no chips” policy has significantly influenced the course
6 of license negotiations with a number of OEMs over the last decade.

7 85. [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]

13 86. To maintain access to Qualcomm’s baseband processors, OEMs have accepted
14 royalty and other license terms that they would not otherwise accept. Specifically, as a result of
15 Qualcomm’s “no license-no chips” policy, the royalties that OEMs pay Qualcomm on handsets
16 using non-Qualcomm baseband processors do not reflect OEMs’ assessments of patent royalties
17 that a court or neutral arbiter would deem reasonable, including in light of Qualcomm’s FRAND
18 commitments. Instead, the royalties that OEMs pay also reflect Qualcomm’s dominant position
19 in baseband processors, and include an added increment that OEMs pay Qualcomm to avoid
20 disruption of processor supply.

21 **E. Qualcomm’s “No License-No Chips” Policy Has Harmed Competition**

22 87. The incremental royalty that OEMs pay to Qualcomm operates as a “tax” that
23 raises OEMs’ costs of using baseband processors supplied by Qualcomm’s competitors, reduces
24 demand for competitors’ processors, and reduces the ability and incentive of competitors to
25 invest and innovate. The tax thereby maintains Qualcomm’s monopoly power and raises handset
26 prices paid by consumers.

1 88. When evaluating handset designs, OEMs consider the all-in cost of a baseband
2 processor, consisting of both (i) the nominal price of the processor; and (ii) any patent royalties
3 that the OEM must pay to use that processor in a handset.

4 89. Qualcomm’s tax, by raising the latter cost component, increases the all-in cost to
5 an OEM of using a competitor’s baseband processor, and thus weakens the competitive
6 constraint on Qualcomm’s own all-in baseband processor price.

7 90. By raising OEMs’ all-in costs of using competitors’ baseband processors, the tax
8 diminishes OEMs’ demand for those processors and reduces competitors’ sales and margins.

9 91. A supplier of CDMA and premium LTE baseband processors must ship
10 substantial volumes of processors and earn significant margins on those shipments to sustain the
11 research and development required to maintain a viable business. Reduced sales and margins
12 resulting from Qualcomm’s tax diminish competitors’ abilities and incentives to invest and
13 innovate.

14 92. [REDACTED]

15 [REDACTED]
16 [REDACTED] Thus, even a modest reduction in Qualcomm’s royalties would have a
17 substantial impact on competitors’ margins and abilities and incentives to invest and innovate.

18 93. Qualcomm’s “no license-no chips” policy thereby entrenches Qualcomm’s
19 monopoly power in the sale of CDMA and premium LTE baseband processors. The policy also
20 reduces competitors’ abilities to invest and innovate in next-generation technologies.

21 94. By using its baseband processor dominance to tax its competitors, Qualcomm has
22 also limited competitors’ ability to discipline the all-in prices that Qualcomm charges for
23 baseband processors. If Qualcomm used its dominance solely to raise the nominal prices of its
24 own processors, those price increases would spur OEMs to seek substitutes and would attract
25 entry and competitive pricing from baseband processor competitors. By contrast, imposing a
26 tax—which OEMs must pay regardless of whether they use baseband processors supplied by

1 Qualcomm or a Qualcomm competitor—enables Qualcomm to raise the all-in prices of
2 processors without spurring substitution or attracting entry.

3 95. OEMs likely pass some portion of these higher prices on to consumers in the form
4 of higher handset prices or reduced handset features.

5 **F. Qualcomm Recognizes That Its “No License-No Chips” Policy Distorts OEM**
6 **Negotiations**

7 96. Qualcomm executives recognize that its “no license-no chips” policy requires
8 OEMs to accept higher royalties than OEMs would otherwise accept.

9 97. [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 98. [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 99. Separately, in 2015, Qualcomm engaged in an intensive, high-level review of
18 whether to divide Qualcomm’s chip and licensing divisions into separate companies, as activist
19 investors wanted.

20 100. [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]

24 [REDACTED]

25 [REDACTED]

26

1 [REDACTED]

2 [REDACTED]

3 101. In December 2015, Qualcomm’s board decided not to break up the company.

4 **G. Qualcomm Has Paid Certain OEMs to Accept Its Preferred Patent License**
5 **Terms**

6 102. On some occasions, Qualcomm has induced certain OEMs to accept its preferred
7 license terms using both the “stick” of threatened supply disruption and the “carrot” of funds
8 conditioned on the OEM’s acceptance of Qualcomm’s preferred terms.

9 103. [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 104. Conditioning such funds on OEMs’ acceptance of license terms has helped
13 Qualcomm “close the gap” with OEMs that resist license terms that they regard as unfair, and to
14 maintain high royalties on handsets that use competitors’ baseband processors.

15 105. [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 106. [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 **VII. QUALCOMM REFUSES TO LICENSE FRAND-ENCUMBERED SEPS TO ITS**
24 **COMPETITORS**

25 107. The intellectual property rights policies of relevant SSOs do not restrict who is
26 eligible to receive a FRAND license from a holder of a FRAND-encumbered patent. For

1 instance, the ETSI intellectual property rights (“IPR”) policy requires standard-setting
2 participants to commit to provide “irrevocable licenses on fair, reasonable and non-
3 discriminatory (‘FRAND’) terms and conditions.” The TIA policy requires any SEP holder that
4 wishes to monetize its essential patents to commit to license SEPs “to all applicants under terms
5 and conditions that are reasonable and non-discriminatory . . . to the extent necessary for the
6 practice of . . . the Standard.” The ATIS policy requires SEP holders to license SEPs “under
7 reasonable terms and conditions that are demonstrably free of any unfair discrimination” to
8 “applicants desiring to utilize the license for the purpose of implementing the standard.”

9 108. Qualcomm’s FRAND commitments require it to license its competitors to make
10 and sell baseband processors using Qualcomm’s SEPs.

11 109. Qualcomm itself recognizes that FRAND commitments are designed to ensure
12 open access to standardized technologies. It argued in a past litigation filing that FRAND
13 commitments “ensure[] that all industry participants will be able to develop, manufacture and
14 sell products compliant with the relevant standard without incurring the risk that patent holders
15 will be able to shut down those operations.”

16 110. Similarly, in its 2016 annual report, Qualcomm stated: “The mobile
17 communications industry generally recognizes that a company seeking to develop, manufacture
18 and/or sell products that use CDMA- and/or LTE-based standards will require a patent license
19 from us.”

20 111. Qualcomm has also insisted on cross-licenses to its licensees’ SEPs, for the
21 benefit of Qualcomm’s baseband processor business and the customers of that business.

22 112. In breach of its FRAND commitments, at odds with its recognition that other
23 industry participants “will require” a license to its FRAND-encumbered SEPs, and in tension
24 with its practice of securing patent licenses for the benefit of its own customers, Qualcomm has
25 consistently refused to license its SEPs to competing suppliers of baseband processors. Several
26 of Qualcomm’s former and current competitors, including Intel, MediaTek, and Samsung, have

1 sought SEP licenses from Qualcomm. In each instance, Qualcomm refused to grant a SEP
2 license.

3 113. A license to Qualcomm's cellular SEPs would provide substantial benefits to
4 other baseband processor suppliers and to their customers. Because Qualcomm refuses to license
5 FRAND-encumbered SEPs to its competitors, these competitors cannot offer OEMs baseband
6 processors that convey the rights to Qualcomm's cellular SEPs.

7 114. Qualcomm's ability to tax its competitors' sales via patent license terms with
8 OEMs would be limited if it licensed cellular SEPs to its competitors. Qualcomm's competitors,
9 unlike its OEM customers, do not depend on Qualcomm for baseband processor supply. As a
10 result, Qualcomm could not use a threatened disruption of baseband processor supply to skew
11 SEP-license negotiations with its competitors, and the royalties that would emerge from those
12 negotiations would reflect the royalties that a court would deem reasonable.

13 115. Qualcomm's refusal to license competing manufacturers of baseband processors,
14 in contravention of its FRAND commitments, contributes to its ability to tax its competitors'
15 sales and maintain its monopoly.

16 **VIII. QUALCOMM EXTRACTED BASEBAND PROCESSOR EXCLUSIVITY FROM**
17 **APPLE IN EXCHANGE FOR PARTIAL ROYALTY RELIEF**

18 116. Like other OEMs, Apple's leverage in negotiations with Qualcomm has been
19 constrained by Apple's need for access to a supply of Qualcomm's CDMA and premium LTE
20 baseband processors.

21 117. Unlike other OEMs, however, Apple is not a direct Qualcomm licensee. Instead,
22 Apple employs contract manufacturers that are licensed by Qualcomm, and the contract
23 manufacturers pass on the costs of the Qualcomm royalties they pay to Apple.

24 118. Despite these differences, Apple, like other OEMs, regards Qualcomm's license
25 terms, including the effective royalties charged by Qualcomm under its licenses with Apple's
26 contract manufacturers, as inconsistent with Qualcomm's FRAND commitments.

1 119. Apple has negotiated with Qualcomm in an effort to reduce the royalty burden
2 that Apple bears through its contract manufacturers. As a result of these negotiations, Apple
3 entered into agreements with Qualcomm in 2007, 2011, and 2013.

4 120. Under a 2007 agreement, Qualcomm agreed to rebate to Apple royalties that
5 Qualcomm received from Apple's contract manufacturers in excess of a specified per-handset
6 cap. Qualcomm's payment obligations were conditioned upon, among other things, Apple not
7 selling or licensing a handset implementing the WiMax standard, a prospective fourth-generation
8 cellular standard championed by Intel and opposed by Qualcomm.

9 121. Qualcomm and Apple entered into additional agreements in 2011 and 2013.
10 Under these agreements, Qualcomm provided Apple large lump sum payments that constituted
11 partial relief from Qualcomm royalties. Qualcomm conditioned this relief on Apple's exclusive
12 use of Qualcomm baseband processors in new iPhone and iPad models.

13 122. Under Qualcomm's 2011 agreement with Apple, Qualcomm agreed to make
14 substantial incentive payments from 2011 through 2016, explicitly conditioned upon Apple using
15 Qualcomm baseband processors exclusively in all new iPhone and iPad models. If, during this
16 period, Apple launched a new handset with a non-Qualcomm baseband processor, it would
17 forfeit all future payments and, depending on when a handset launched, could be required to
18 refund past payments.

19 123. Qualcomm's 2013 agreements with Apple modified and extended the exclusivity
20 arrangement set forth in the companies' 2011 agreement. Under the 2013 agreements,
21 Qualcomm agreed to rebate to Apple royalties that Qualcomm collected from Apple's contract
22 manufacturers in excess of modified per-handset caps. Qualcomm's obligation to make these
23 rebate payments was subject to, among other terms, a new condition—that Apple neither initiate
24 nor induce others to initiate litigation claiming that Qualcomm had failed to offer a license on
25 FRAND terms. Qualcomm also agreed to make substantial incentive payments in 2013, 2014,
26 2015, and 2016, explicitly conditioned on Apple sourcing baseband processors for new iPad and

1 iPhone models exclusively from Qualcomm. If, during this period, Apple launched a new
2 handset with a non-Qualcomm baseband processor, it would forfeit all future incentive payments
3 and, depending on when a handset launched, could be required to refund past incentive
4 payments.

5 124. In all, Qualcomm's 2011 and 2013 agreements with Apple provided for billions
6 of dollars in conditional rebates from Qualcomm to Apple for baseband processor sales from
7 2011 to 2016. These conditional rebates effectively penalized Apple's use of any baseband
8 processors supplied by Qualcomm's competitors.

9 125. Qualcomm's 2011 and 2013 agreements with Apple were, and were intended by
10 Qualcomm to be, *de facto* exclusive deals that were as effective as express purchase
11 requirements and that effectively foreclosed Qualcomm's competitors from gaining baseband
12 processor business at Apple.

13 a. Apple had at all relevant times an interest in developing and working with
14 additional suppliers of baseband processors.

15 b. The large penalties that Apple would face under its agreements with
16 Qualcomm if it sourced baseband processors from another baseband supplier prevented
17 Apple from using alternative suppliers during the effective exclusivity period under these
18 agreements.

19 c. Although a price-cost test is not required to assess the competitive effects
20 of Qualcomm's agreements with Apple, the penalties under these agreements are
21 sufficiently large that, if they were attributed as discounts to the price of Qualcomm
22 baseband processors reasonably contestable by a Qualcomm competitor, the resulting
23 price of Qualcomm processors would be below Qualcomm's cost.

24 126. As a result of the exclusivity terms in its agreements with Qualcomm, Apple
25 sourced baseband processors exclusively from Qualcomm for all new iPad and iPhone products
26 that it launched over the five-year period from October 2011 until September 2016.

1 127. [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 128. Qualcomm's exclusive deal with Apple excluded competition from other
6 baseband processor suppliers and harmed competition.

7 129. Apple is a particularly important OEM from the perspective of a nascent baseband
8 processor supplier and confers benefits on a nascent supplier that make the supplier a stronger
9 contender for other OEMs' business.

10 a. Apple sells large volumes of premium handsets that require premium LTE
11 baseband processors. These processors ordinarily command higher prices and margins
12 than lower-tier baseband processors. Supplying Apple helps a nascent supplier to achieve
13 a scale of business that confers research-and-development flexibility, among other things.

14 b. A nascent supplier learns directly from engagement with Apple's
15 engineering teams and this engagement improves the supplier's baseband processor
16 offerings.

17 c. A nascent supplier achieves technical validation by demonstrating its
18 ability to meet Apple's demanding technical requirements.

19 d. A nascent supplier engaged by Apple can field-test its processors through
20 global launches that require real-world work with network operators and infrastructure
21 vendors.

22 e. A nascent supplier obtains a reputational halo effect from selling to Apple.
23 This reputational boost may help a supplier win sales at other OEMs.

24 130. Qualcomm's exclusive agreements with Apple prevented Qualcomm's
25 competitors from attaining these benefits during the term of the exclusivity period. These
26 agreements also foreclosed a substantial share of the market for premium LTE baseband

1 processors. The agreements significantly impeded the development of other baseband processor
2 suppliers into effective competitors to Qualcomm.

3 **IX. QUALCOMM'S MONOPOLY AND MARKET POWER**

4 131. Qualcomm has monopoly and market power with respect to CDMA baseband
5 processors and premium LTE baseband processors. Direct evidence of this power includes
6 evidence of Qualcomm's ability to use threatened loss of access to baseband processors to raise
7 the all-in prices of baseband processors, prices that include both nominal processor prices and
8 license fees.

9 132. Qualcomm's monopoly and market power is also established through
10 circumstantial evidence, including dominant shares of relevant markets with substantial barriers
11 to entry. The relevant markets for the purposes of assessing Qualcomm's monopoly and market
12 power are no broader than the worldwide markets for (i) CDMA baseband processors; and
13 (ii) premium LTE baseband processors. Baseband processors without CDMA functionality are
14 not close enough substitutes to prevent Qualcomm from raising all-in prices for CDMA
15 processors. Similarly, baseband processors without premium LTE functionality are not close
16 enough substitutes to prevent Qualcomm from raising all-in prices for premium LTE processors.

17 133. Qualcomm has maintained dominant shares of the CDMA and premium LTE
18 baseband processor markets. Each year from at least 2006 through September 2015, Qualcomm's
19 worldwide share of CDMA baseband processor sales exceeded 80%. From at least 2012 through
20 September 2015, Qualcomm's annual share of worldwide premium LTE baseband processor
21 sales has also exceeded 80%.

22 134. Entry into the markets for CDMA and premium LTE baseband processors is
23 difficult, costly, and time-consuming. Barriers to entry include the need to make substantial,
24 costly, and time-consuming investments in technology research and development; the need to
25 develop ongoing customer relationships with leading OEMs; and certification requirements
26 imposed by network operators. Qualcomm's conduct—including (i) the effective tax that

1 Qualcomm imposes on the baseband processor sales of competitors and potential competitors,
2 and (ii) Qualcomm's refusal to license to its competitors FRAND-encumbered patents essential
3 to CDMA and LTE standards—is another significant barrier to entry.

4 135. The relevant geographic market is worldwide. There are no material geographic
5 barriers to competition for baseband processor sales.

6 **X. HARM TO COMPETITION CAUSED BY QUALCOMM'S PRACTICES**

7 136. Qualcomm's anticompetitive practices have excluded competitors, increased
8 consumer prices, and suppressed innovation.

9 137. Qualcomm's anticompetitive conduct has relaxed the constraints that competitors'
10 entry and expansion would otherwise impose on all-in prices in baseband processor markets.

11 138. By raising OEMs' all-in costs of using competitors' baseband processors,
12 Qualcomm's conduct has also diminished OEMs' demand for those processors, reduced
13 competitors' sales and margins, and diminished competitors' ability and incentive to invest and
14 innovate.

15 139. Developments in the cellular baseband processor industry reflect the natural
16 consequences of Qualcomm's conduct. Several former competitors of Qualcomm have sold off
17 or shuttered their baseband processor businesses, unable to achieve the sales volumes and
18 margins needed to sustain a viable business. While Intel and MediaTek have remained in the
19 business, these firms have felt significant pressures, including on baseband processor margins.

20 140. If Qualcomm's remaining competitors were to exit the business as a result of
21 Qualcomm's anticompetitive conduct, this would have a significant adverse impact on
22 competition in baseband processor markets and on innovation.

23 141. Competition often drives firms to innovate in next-generation technologies and
24 products. Competing firms often approach research and development efforts differently,
25 increasing the likelihood of successful innovation.

26

1 142. Enhanced innovation in mobile technologies would offer substantial consumer
2 benefits, especially as these technologies expand to new applications, including extending
3 mobile connectivity to consumer appliances, vehicles, buildings, and other products (the
4 “Internet of Things”). By suppressing innovation, Qualcomm’s anticompetitive practices
5 threaten these benefits.

6 143. Qualcomm is entitled to compensation when others practice its patented
7 inventions. The prospect of fair compensation induces risk taking that produces innovation and
8 economic growth. Qualcomm’s anticompetitive conduct, however, skews its patent licensing
9 negotiations toward outcomes that reflect not only the value of its patents, but also its monopoly
10 power in baseband processors. Absent Qualcomm’s unlawful conduct, Qualcomm’s patent
11 licenses would include fair, reasonable, and non-discriminatory terms, and would not include
12 elevated royalties that tax Qualcomm’s competitors. Absent Qualcomm’s unlawful conduct,
13 Qualcomm could obtain fair compensation for its intellectual property, while its competitors
14 could compete based on the merits of their respective offerings.

15 144. Qualcomm’s practices have harmed competition and consumers both within the
16 markets for CDMA and premium LTE baseband processors and in other baseband processor
17 markets in which OEMs pay Qualcomm inflated royalties. These include markets for UMTS-
18 compliant baseband processors and lower-tier LTE baseband processors.

19 145. Qualcomm’s practices are not reasonably necessary to accomplish any significant
20 procompetitive benefits. The anticompetitive harm from those practices outweighs any
21 procompetitive benefits, and Qualcomm could reasonably achieve any procompetitive goals
22 through less restrictive alternatives.

23 **XI. VIOLATION OF THE FTC ACT**

24 146. The FTC re-alleges and incorporates by reference the allegations in all of the
25 paragraphs above.

26

1 147. Qualcomm’s course of conduct—including (i) conditioning the supply of
2 baseband processors on licenses to FRAND-encumbered patents on Qualcomm’s preferred
3 terms; (ii) paying OEMs to accept license terms that impose added costs on OEMs’ use of non-
4 Qualcomm baseband processors; (iii) refusing to license FRAND-encumbered patents to
5 baseband processor competitors; and (iv) exclusive dealing with Apple—is anticompetitive and
6 constitutes an unfair method of competition, in violation of Section 5(a) of the FTC Act, 15
7 U.S.C. § 45(a).

8 a. Qualcomm has monopolized markets for both CDMA baseband
9 processors and premium LTE baseband processors. At all times relevant to this
10 complaint, Qualcomm has had monopoly power with respect to CDMA baseband
11 processors and premium LTE baseband processors. Qualcomm has maintained its
12 monopoly power through its course of anticompetitive conduct.

13 b. Qualcomm’s license agreements with OEMs, together with terms of its
14 supply and strategic/market-development agreements linked to those license agreements,
15 result from an exercise of Qualcomm’s monopoly and market power and are
16 unreasonable restraints of trade.

17 c. Qualcomm’s practices, regardless of whether they constitute
18 monopolization or unreasonable restraints of trade, harm competition and the competitive
19 process and therefore constitute unfair methods of competition in violation of
20 Section 5(a) of the FTC Act.

21 **XII. THE COURT’S POWER TO GRANT RELIEF**

22 148. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), empowers this Court to issue a
23 permanent injunction against violations of the FTC Act and, in the exercise of its equitable
24 jurisdiction, to order ancillary equitable relief to remedy the injury caused by Qualcomm’s
25 violations.
26

XIII. PRAYER FOR RELIEF

WHEREFORE, the FTC requests that this Court, as authorized by Section 13(b) of the FTC Act, 15 U.S.C. § 53(b) and 15 U.S.C. § 26, and pursuant to its own equitable powers, enter final judgment against Qualcomm, declaring, ordering, and adjudging:

1. That Qualcomm’s course of conduct violates Section 5(a) of the FTC Act, 15 U.S.C. § 45(a);

2. That Qualcomm is permanently enjoined from engaging in its unlawful conduct;

3. That Qualcomm is permanently enjoined from engaging in similar and related conduct in the future; and

4. That the Court grant such other equitable relief as the Court finds necessary to redress and prevent recurrence of Qualcomm’s violations of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), as alleged herein.

Dated: January 17, 2017

Respectfully submitted,


GEOFFREY M. GREEN
Assistant Director

Of counsel:

DEBORAH FEINSTEIN
Director
Bureau of Competition

MARK J. WOODWARD
Deputy Assistant Director

DAVID C. SHONKA
Acting General Counsel

J. ALEXANDER ANSALDO
DANA F. ABRAHAMSEN
JOSEPH R. BAKER
WESLEY G. CARSON
KENT E. COX
RAJESH S. JAMES
LIN W. KAHN
PHILIP J. KEHL
JENNIFER MILICI
Attorneys

Bureau of Competition

Attorneys for Plaintiff Federal Trade Commission