

No. 19-1269

In The
Supreme Court of the United States

TCL COMMUNICATION TECHNOLOGY HOLDINGS
LIMITED, ET AL.,

Petitioners,

v.

TELEFONAKTIEBOLAGET LM ERICSSON, ET AL.,

Respondents.

*On Petition for Writ of Certiorari to the
United States Court of Appeals
for the Federal Circuit*

**BRIEF OF *AMICUS CURIAE* U-BLOX
IN SUPPORT OF PETITIONERS**

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INTEREST OF *AMICUS CURIAE*¹

u-blox Holding AG (u-blox) is a leading innovator of positioning and wireless semiconductors and modules connecting people and devices in the consumer, automotive, industrial, and infrastructure markets.

Like the mobile handsets manufactured by the petitioner, u-blox's products rely on the 2G, 3G, and 4G cellular standards involved in this case. But unlike the petitioner, u-blox's customers are not the end consumers. Rather, they are parts and systems suppliers to the end-product manufacturers, such as the auto companies. To this end, u-blox combines the standardized building blocks with its own innovation. To take one example, simply providing a car with 3G or 4G connectivity without doing more adds no functionality to the rider's own cell phone. Tomorrow's autonomous cars will be able to avoid accidents, report mechanical failures, and access vital security information. These and other "smart" uses require much more than cellular connectivity. u-blox's products add intelligence and control to enable tracking, diagnostics, and other meaningful functionalities. In these and other applications, u-blox uses its own innovation to combine cellular connectivity, Wi-Fi, short range radio communication,

¹ Pursuant to Rule 37.6, amicus affirms that no counsel for a party authored this brief in whole or in part and that no person other than amicus or its counsel have made any monetary contributions intended to fund the preparation or submission of this brief. Pursuant to Rule 37.2, counsel of record for all parties received notice of amicus' intent to file this brief at least ten days before the due date. Counsel for the parties have provided written consent to the filing of this brief.

and satellite positioning – all of which rely on established technology standards – in a low-power, highly secure telematics control unit for vehicles. u-blox also sits at the heart of the Internet of Things (IoT), providing the circuitries and modules that permit machines to reliably and securely communicate with other machines.

u-blox's success ultimately depends upon reliable access to standardized technologies and the ability to practice the underlying standards-essential patents (SEPs). The Federal Circuit's decision would substantially impair that access.

INTRODUCTION AND SUMMARY OF ARGUMENT

As TCL's petition aptly describes, the modern world depends on technical standards. Petition at 5-7. The cellular standards at issue in this case have not only enabled mobile phones, but also a necessary piece of the puzzle for bridging some 30 billion connected physical and digital components in today's IoT. *The IoT Rundown For 2020: Stats, Risks, and Solutions*, Security Today (Jan. 13, 2020), SECURITY TODAY, <https://tinyurl.com/ycq7dogr>. The emerging 5G standard will in turn fuel further innovations like fully autonomous vehicles, smart cities, wearable healthcare devices, and much more.

Companies that contribute their technologies to the formation of standards often avow that they will grant licenses to their underlying SEPs on fair, reasonable, and non-discriminatory (FRAND) terms. The number of declared SEPs is staggering. By one account, the 4G standard alone has over 43,000

declared SEPs. Jason R. Bartlett & Jorge L. Contreras, *Rationalizing Frand Royalties: Can Interpleader Save the Internet of Things?*, 36 REV. LITIG. 285, 288 (2017). The 5G standard has even more, with over 87,000 SEPs distributed amongst 22,600 patent families.² Tim Pohlman, *Who is leading the 5G patent race?*, IPlytics (Nov. 2019), at 3, <https://tinyurl.com/y5pakhvd>. And the number is expected to increase. *Id.* For 5G, at least seven companies, one of which is Ericsson, have declared more than 1,000 patent families, i.e., at least 1,000 distinct inventions. *Id.* at 4.

Never has a jury been tasked with assessing patent damages for the infringement of hundreds of domestic *and foreign* patents, let alone charged to do so without any prior liability determination. Yet the Federal Circuit rested its decision on a supposed likeness to patent damages, and left it to the jury to craft contractual release payments that avoid the likelihood of liability on a myriad of untested and unadjudicated domestic and *foreign* patents. That was error.

The practical consequences of that error go far beyond the dispute between the parties in this case. Reasoned judicial opinions are vital to a well-functioning FRAND ecosystem because they set down the guideposts that parties need to navigate negotiating the FRAND terms and conditions of SEP licenses. These guideposts, in turn, are critical to parties seeking to understand what license terms are

² A patent family in the context of these studies is a group of patent applications or patents, typically filed in more than one country, that cover the same or very similar invention.

“reasonable” and what negotiating positions bespeak “good faith.” By contrast, jury verdicts offer little to this conversation because they produce only conclusory pronouncements and naked monetary amounts with none of the context or reasoning.

Unless this Court intervenes, the decision below – which binds all district courts in all patent cases across the country – will thus stunt the development of FRAND jurisprudence, make good-faith FRAND negotiations more difficult, and increase costly litigation. This is so because commercially important jurisdictions like the United States, Europe and China look at parties’ failure to exchange reasoned FRAND offers or otherwise engage in good-faith negotiation as factors when considering injunctive remedies requested by SEP owners. Increased injunctions would upset the ecosystem, enabling SEP owners to seek supra-FRAND royalties far exceeding the incremental value of the SEPs. These higher, unpredictable costs will in turn deter the widespread adoption of important standards, prevent innovation on top of those standards, and raise prices for businesses and consumers. The Court should therefore grant the petition.

ARGUMENT

I. THE FEDERAL CIRCUIT INCORRECTLY EQUATED THE GLOBAL RELEASE PAYMENT WITH PATENT DAMAGES

The crux of the Federal Circuit’s decision was its determination that the release payment is “in substance” not “materially different from damages for past patent infringement.” App. 24a. In fact, there are

material differences between U.S. patent law damages and contractual licensing clauses like the release payment at issue, and the Federal Circuit’s analogy is wrong.

First, the release payment is global in scope, covering a “worldwide portfolio of alleged standard-essential patents.” Petition at 19. As the petition ably explains, global standards are the lifeblood of the modern interconnected world. *Id.* at 5-7. Companies that implement the standards manufacture and sell their products across the globe. And, as discussed in the introduction above, global SEP portfolios include hundreds of inventions that are patented and practiced abroad. Evidenced by the parties’ expressed agreement to a worldwide SEP agreement, common business sense therefore dictates that SEP licenses are global in scope and coverage to address these commercial realities. U.S. patent law, by contrast, is fundamentally domestic in scope, with only carefully prescribed extraterritorial reach. Indeed, “[t]he presumption that United States law governs domestically but does not rule the world applies with particular force in patent law.” *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454–55 (2007). Although patent damages “can include lost foreign profits when the patent owner proves infringement under § 271(f)(2),” *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129, 2139 (2018), the infringed patent must still be a U.S. patent. Thus, by its nature, U.S. patent law cannot measure the damages due for any of the foreign patents covered by a global release payment.

Second, the release payment is not dependent upon whether TCL is actually liable for the infringement of any valid U.S. or foreign patent in Ericsson's worldwide portfolio. In fact, the central purpose of the release payment in this case was to settle a dispute *without* any finding of liability. This again stands in stark contrast to U.S. patent damages law, which only comes into consideration after a finding of liability for infringement of a valid patent. 35 U.S.C. § 284 ("Upon finding for the claimant the court shall award the claimant damages. . . ."). No finding or stipulation of liability has been entered in this case, and the act of taking a license alone is not an admission that any valid patent is infringed. *See MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 137 (2007) (holding that a licensee may challenge the validity and infringement of licensed patents). And, contrary to the implication of the Federal Circuit's decision below, liability cannot be assumed merely because TCL did not contest that its products practiced the standard. TCL did not waive its right to contest the validity of any of the Ericsson patents. In fact, the parties disputed throughout their litigation which of Ericsson's declared patents were actually essential to the standards at issue.³ *TCL Comm'n Tech. Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson*, No. 15-2370, 2018 WL 4488286, at *18 (C.D.

³ Patent owners "have a strong incentive to disclose all patents that have even a remote possibility of being relevant to a standard." Jason R. Bartlett & Jorge L. Contreras, *Rationalizing Frand Royalties: Can Interpleader Save the Internet of Things?*, 36 Rev. Litig. 285, 301 (2017). Recent studies have found that less than half of patent families declared "essential" to the 2G, 3G and 4G standards were actually essential to implementation of those standards. *Id.*

Cal. Sept. 14, 2018), rev'd in part, vacated in part, 943 F.3d 1360 (Fed. Cir. 2019). And no determination was made as to the validity of any such patents. "To be sure, if . . . an act that would have been an infringement . . . pertains to a patent that is shown to be invalid, there is no patent to be infringed." *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1929 (2015). Thus, "if the patent is indeed invalid, and shown to be so under proper procedures, there is no liability." *Id.*

In sum, the substance of the release payment is not founded upon an adjudicated or admitted liability and, accordingly, it cannot be legal in substance or in form. It is rather an equitable determination under the umbrella of Ericsson's global contractual commitment to grant a license to its worldwide SEP portfolio on FRAND terms and conditions.

II. THE DECISION BELOW IS DETRIMENTAL TO THE FRAND ECOSYSTEM

If left undisturbed, the Federal Circuit's erroneous decision will frustrate the objectives of the FRAND system in several ways.

First, eliminating judicial guidance as to acceptable FRAND methodologies will make it more difficult for parties to engage in good-faith negotiations. While many standard-setting organizations require SEP owners to commit to offer licenses on FRAND terms, they have stopped short of articulating methods or principles to determine such terms. *See, e.g., Intellectual Property Rights (IPRs)*, ETSI, <https://www.etsi.org/intellectual-property-rights> (last visited June 3, 2020). Well-reasoned and

precedent-setting judicial opinions therefore provide much needed guideposts for patent holders and implementers alike in negotiating their FRAND licenses. Jury verdicts cannot perform this function because they provide only a brute monetary amount or rate with no insight into the underlying methodologies that help guide the negotiations. And when considering the non-discrimination portion of the FRAND commitment, a jury verdict has at best a limited value given the size, complexity, and constantly evolving composition of modern SEP portfolios. Without the ability to understand why and how the jury made its valuation, patent owners and implementers cannot meaningfully make use of a naked jury verdict in their invariably different circumstances. Thus, unlike judicial opinions, jury verdicts cannot provide the guideposts that are vital to a healthy FRAND ecosystem that rewards patent owners for their technical contributions and permits implementers and innovators to access the standard on terms that are truly fair, reasonable and nondiscriminatory.

Second, the FRAND framework undergirds the standardization that is necessary for the interconnected economy to function and is thus of fundamental importance to consumers. Over the past decade, U.S. and foreign courts have continued developing the principles for determining what FRAND means and requires. The district court's opinion in this case was one such contribution, and the appellate review was expected to provide valuable guidance for future negotiations. Quinn, *Ericsson Wins, But CAFC Dodges Whether Offers Were FRAND*, IPWATCHDOG (Dec. 5, 2019),

<https://tinyurl.com/uhjgtat>. Should it stand, the Federal Circuit's decision will greatly limit the ability of U.S. courts to influence global FRAND jurisprudence.

Third, assessing whether the parties have engaged in good-faith negotiations, including making meaningful royalty offers and counteroffers, has become an important factor in several jurisdictions when reviewing requests for injunctive relief to preclude implementers from practicing the standardized technology. Therefore, eliminating the judicial guidance that enables the parties to engage in good-faith negotiations only increases the likelihood of such injunctions.

The Antitrust Division of the U.S. Department of Justice, along with the U.S. Patent & Trademark Office and the National Institute of Standards and Technology, have recently stated that while they “encourage both standards-essential patent owners and potential licensees of standards-essential patents to engage in good-faith negotiations to reach F/RAND license terms,” injunctive remedies remain available for SEPs “if the facts of a given case warrant them.” *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments*, (Dec. 19, 2019), at 4-5, <https://www.justice.gov/atr/page/file/1228016/download>. In that regard, the agencies stressed the importance of transparency for both the patent holders and implementers alike when they noted that “good faith in negotiations involving F/RAND commitments, supported by availability of data and application of

best practices, can promote licensing efficiency.” *Id.* at 5.

The negotiating parties’ conduct, particularly with respect to the underlying rationale for their royalty offers, is also strongly emphasized in other jurisdictions. The European Court of Justice (ECJ) has determined that the availability of an injunction precluding an implementer from practicing the standard in Europe depends on the mechanics of the parties’ licensing negotiations. Case C-170/13, *Huawei Techs. Co. v. ZTE Corp.*, 2015 E.C.R. 477. Under this approach, it is not sufficient to merely offer a royalty rate multiplied by the number of royalty-bearing devices. Rather, key European courts have interpreted the ECJ’s decision to require that a party must also explain the underlying methodology and reasoning behind its offer. *See Sisvel v. Haier*, Higher Regional Court Düsseldorf, 4a O 93/4, 4a O 144/14 (2015); *Philips v. Archos*, Regional Court Mannheim, 7 O 209/15, 7 O 19/16 (2016). Similarly, Chinese courts seem to have adopted a “fault-based’ conduct-evaluation framework” whereby the SEP owner may be granted an injunction if the implementer was at fault, or more at fault than the patent owner, for the failure of negotiations. *See China IPR, Across the Fault Lines: Chinese Judicial Approaches to Injunctions and SEP’s* (June 5, 2018), <https://tinyurl.com/ycz2qunh>.

The possibility of exclusion from these important markets provides significant leverage to SEP owners that invariably leads to hold-up and royalties far exceeding the incremental value of the patented technologies. This hurts consumers not only

by raising prices, but also by making it too expensive for companies like u-blox to innovate on top of the standardized technology. Stymieing innovation is contrary to the purpose of the FRAND system, which has as one of its fundamental goals the wide adoption and proliferation of technical standards.

Finally, determining a FRAND rate is a highly technical and complex endeavor, and appellate review of jury verdicts is complicated by the absence of articulated reasons for the verdicts. Here, for example, Ericsson argued on appeal that valuing the royalties due for SEPs, including its own, must be based “on the incremental value that each patent added to the standard,” and that the district court erred when it allocated equal value to all SEPs by employing a “simple [patent-]counting method.” App. 17a, n.7. Ericsson could only have made this appeal because the district court clearly articulated its reasons and methods in its opinion. A jury verdict would not have afforded Ericsson the same opportunity. Undetected jury errors affect not only the parties but the FRAND ecosystem as a whole. And, accordingly, increased uncertainty and variability in FRAND judgments jeopardizes the commercial predictability of accessing the standards, and in turn, the massive investments and innovations across multiple industries.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,



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